

*Final Evaluation
of the EU/ACP Microfinance Programme*

Final Report

January 2012

Evaluation for the European Commission



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Final Evaluation of the EU/ACP Microfinance Programme

Final Report

This report has been prepared by

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This report has been prepared by ADE.

The author accepts sole responsibility for this report drawn up on behalf of the European Commission.

The report does not necessarily reflect the views of the Commission.

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List of Acronyms

€m	Euro Millions
AIDCO	EuropeAid Cooperation Office
ACP	Africa, Caribbean and Pacific
ACEP	Agence de Crédit Pour l'Entreprise Privée
ADA	Appui au Développement Autonome (NGO)
AFD	Agence Française de Développement
AMFIU	Association of Microfinance Institutions of Uganda
AMIR	Association of Microfinance Institutions in Rwanda
ATM	Automated teller machine
BCEAO	Banque Centrale des Etats d'Afrique de l'Ouest
BDS	Business Development Service
BEAC	Banque des Etats de l'Afrique Centrale
Commission	European Commission
CAPAF	Programme de renforcement des capacités en Afrique francophone
Carib-Cap	Caribbean Microfinance Capacity Building Project
CBP	Capacity Building Plan
CDB	Caribbean Development Bank
CEMAC	Commission de la Communauté Economique et Monétaire de l'Afrique centrale
CGAP	Consultative Group to Assist the Poor
CIDR	Centre International de Développement et de Recherche
CMFA	Caribbean Microfinance Alliance
CMN	Caribbean Microfinance Network
COBAC	Commission Bancaire de l'Afrique Centrale
CSP	Country Strategy Paper
CVECA	Caisse Villageoise d'Epargne et de Crédit Autogérée (Village savings and credit banks)
DEVCO	EuropeAid Development and Cooperation DG
DfID	UK Department for International Development
DG	Directorate-General of the European Commission
DID	Développement International Desjardins
DRC	Democratic Republic of Congo
EC	European Commission
EDF	European Development Fund
EIB	European Investment Bank
EPA	Economic Partnership Agreement

EQ	Evaluation Question
EU	European Union
EUD	European Union Delegation
FA	Financing Agreement
FMO	Entrepreneurial Development Bank of the Netherlands
FSA	Financial Services Associations
FSS	Financial Self-Sufficiency
FTE	Full Time Equivalent
GDP	Gross Domestic Product
HQ	Headquarter
I	Indicator
IADB	Inter-American Development Bank
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFI	International Financial Institutions
IL	Intervention Logic
ILO	International Labour Organisation
IPO	Initial Public Offering
IS	Information System
IT	Information Technology
ITCILO	International Training Centre of the International Labour Organisation
JC	Judgement Criteria
KfW	Kreditanstalt Für Wiederaufbau (German Development Bank)
LSP	Local Service Provider
MBB	Microbanking Bulletin
MF	Microfinance
MFI	Microfinance Institution
MIF	Multilateral Investment Fund
MIFED	Microfinance et Développement
MinFi	Ministère des Finances
MIS	Management Information System
MIV	Microfinance Investment Vehicle
MIX	Microfinance Information eXchange
MMW	Making Microfinance Work
MS	Member State
NGO	Non-governmental organisation
OECD-DAC	Organization for Economic Cooperation and Development- Development Assistance Committee
ODA	Official development assistance
OSS	Operational Self-Sufficiency

PA	Performance Assessment
PAR	Portfolio at Risk
PFIP	Pacific Financial Inclusion Programme
PMU	Project Management Unit
PSD	Private Sector Development
RG	Reference Group
ROA	Return on Assets
RSP	Regional Strategy Paper
SIDI	Solidarité Internationale pour le Développement et l'Investissement
SME	Small or Medium Enterprise
SSA	Sub-Saharan Africa
TA	Technical Assistance
ToR	Terms of Reference
TIM	Triodos Investment Management BV
UNCDF	United Nations Capital Development Fund
UNIDO	United Nations Industrial Development Organisation
UNDP	United Nations Development Programme
UOB	Urwego Opportunity Bank of Rwanda
USAID	United States Government Development and Humanitarian Assistance Agency
WOR	Write-Off Ratio

Glossary

This glossary includes a non-exhaustive list of microfinance-related terms used throughout this report. Definitions were collated from a variety of sources, including the CGAP Microfinance Gateway Social Performance Glossary¹; the Mix Market online glossary², ACCION's Microfinance Glossary³ and the glossary in the Programme's Final Report.

Credit bureau

An agency (either public or private) that contains information on the credit history of consumers so that creditors can make decisions about granting of loans.

Depth of Outreach

Degree to which an organisation reaches poor people with financial services.

Financial self-sufficiency (FSS)

Total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses and funds.

Governance

Process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects its assets.

Greenfield

A greenfield refers to a new microfinance organisation established where none existed before.

Local Service Provider

Individual or company providing services (e.g. training, consulting, MIS support) to MFIs and other MF stakeholders locally, i.e. in a specific country.

Microfinance

Banking and/or financial services targeted to low income businesses or households, including the provision of credit, insurance and saving services.

Microfinance Institutions (MFI)

A financial institution - can be a non-profit organisation, cooperative, non-banking financial institution, or commercial bank - that provides microfinance products and services to low-income clients.

¹ <http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48260/1.26.9230>

² <http://www.mixmarket.org/about/faqs/glossary>

³ <http://www.accion.org/page.aspx?pid=257#g>

Management Information System (MIS)

A management information system (MIS) is a system or process that provides the information necessary to manage an organisation effectively. MIS and the information it generates are generally considered essential components of prudent and reasonable business decisions.

Operational Self-Sufficiency (OSS)

A measure of financial efficiency equal to total operating revenues divided by total administrative and financial expenses. If the resulting figure is greater than 100, the organisation under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues.

Outreach

A measure of a microfinance institution's client coverage within selected populations or geographical catchment areas.

Portfolio at risk (PAR)

Measurement of the overall quality of a microfinance institution's loan portfolio. PAR is calculated by assessing the portion of an organisation's loan portfolio that is deemed at risk because repayments are late. This is equal to the total outstanding balance of loans past due - not late payments or payments not yet due - divided by the active portfolio. The "PAR > X days" refers to the outstanding principal balance of all loans past due more than x days divided by the outstanding principal balance of all loans.

Rating

A measurement of the quality of a microfinance institution, including key dimensions such as credit risk, financial performance, management and risk management. Ratings are conducted by rating agencies upon request from the microfinance institution in question.

Return on Assets (ROA)

Measurement of how profitable a microfinance institution is compared to its assets. ROA is calculated by dividing net operating income (minus taxes) by total assets held.

Social Performance

The effective translation of an organisation's social mission into practice. Social performance is not just about measuring the outcomes, but also about the actions and corrective measures that are being taken to bring about those outcomes.

Social Rating

An independent assessment of an organisation's social performance using a standardized rating scale. The social rating process and rating scale may parallel those used for financial rating. A comprehensive social rating includes client-level information to assess outreach and quality of services, and collects this information as part of the rating exercise if it is not available with the MFI. A basic social rating relies on available information which may consist of outputs, for example the number of products or average loan size.

Write-Offs

Total amount of loans written off during a given period. A write-off is an accounting procedure that removes the outstanding balance of the loan from the Loan Portfolio and from the Impairment Loss Allowance when these loans are recognized as uncollectable.

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).

1. Objectives and scope

This study is the final evaluation of the EU/ACP Microfinance Programme, as scheduled in the original Programme Financial Agreement, signed on 10 March 2004. This final evaluation follows the mid-term evaluation conducted in April-May 2008. It was commissioned by the European Commission (EC). It has been managed by the EuropeAid Development and Cooperation Directorate-General (DEVCO), more specifically by the unit which is now Unit E5 in charge of Regional Programmes Sub-Saharan Africa and ACP wide.⁴

The **subject** of this evaluation is the (first)⁵ EU/ACP Microfinance Programme (hereafter referred to as the Programme) over its entire duration.

The **objectives** of this final evaluation can be summarised as follows:

- to provide an **overall independent assessment** of the performance of the Programme; *and*
- to identify **key lessons learned** and recommendations for follow-up action.

The Final Report has the following structure:

- Chapter 2 provides a concise overview of the **context** of EC support in the field of microfinance, the **Programme overview** and the **intervention logic**;
- Chapter 3 presents the **methodology used** during the evaluation;
- Chapter 4 provides the **answers to the Evaluation Questions**;
- Chapter 5 presents the **Conclusions** and **Lessons Learned**; *and*
- Chapter 6 presents the **Recommendations**.

⁴ Specifically, this final evaluation has been commissioned under the EC Framework Contract for “Multi-country thematic and regional/country-level strategy evaluation studies and synthesis in the area of external co-operation” (FWC EVA 2007- Lot 1). It differs in this sense from most short-term final project/programme evaluations of EC external co-operation, as those are issued under the Framework Contract Beneficiaries (FWC BENE).

⁵ A second EU/ACP Microfinance Programme for the period 2011-2014 has been launch in early 2011 - it is not the object of the present evaluation.

2. Concise Context and Programme overview

This chapter provides a descriptive overview of the Programme objectives and activities, and presents the reconstructed intervention logic of the Programme. It is structured as follows:

- Section 2.1 presents a concise overview of the **context** of EC support in the field of microfinance;
- Section 2.2 gives a general overview of the Programme objectives and **activities**;
- Section 2.3 presents the Programme **intervention logic** structuring its different levels of objectives.

2.1 Context of EC support to the Microfinance Sector

The overall landscape of the microfinance sector has changed considerably over the previous decade. The last ten years have seen strong growth across the sector, including an average yearly growth of 21% in borrower numbers over the period 2003-2008⁶ and a rise in the total number of known and recognised microfinance institutions (MFIs), as evidenced by the growth in MFIs reporting to the Microfinance Information eXchange from 60 in 2002 to over 1,900 in 2011.

Expansion has been assisted by technological advances, the emergence of new models of microfinance beyond microcredit, and the arrival of new players in the industry.⁷ Increased uptake of communications technology, for example, has led to progress in mobile microfinance, with services such as Kenya's M-PESA attracting 10 million customers to a broad range of microfinancial services including savings and money transfers.⁸ New players in the industry include several major US and European banks which now see opportunities in a sector previously dominated by not-for-profit lenders. The successful issue of common shares to the public by two large microfinance institutions, Compartamos (Mexico) in 2007 and SKS (India) in 2010, speak of the growth of interest in commercially viable microfinance institutions.

Moreover, several new concerns have emerged in the last few years, recently highlighted in different studies including CGAP (Consultative Group to Assist the Poor) documents. These include (i) growth crises in many countries such as India - including a case covered by international mass media - but also in ACP countries such as Uganda; (ii) rising competition between microfinance providers on some client segments (e.g. urban micro-entrepreneurs); (iii) customer protection issues (over-indebtedness, bad collection practices), leading to a need to promote social performance management and tools; and (iv) the global financial and economic crisis of 2008-09, which revealed weaknesses in the microfinance sector.

⁶ 'Microfinance at a Glance', *the Microfinance Information eXchange* (2009)

⁷ 'Guidelines for EC Support to Microfinance', *EC EuropeAid Co-operation Office* (2008), p.4

⁸ 'Global Microscope on the Microfinance Business Environment 2010', *Economist Intelligence Unit* (2010), p. 4

This changing context has significant implications for the role of donor organisations involved in microfinance. CGAP has helped several official development assistance (ODA) providers, including the European Commission, make sense of the developing microfinance landscape and has helped them define appropriate policy responses. As part of this process CGAP helped a number of ODA donors with the conduct of Donor Peer Reviews during 2002-2003, which assessed the level of policy adaptation to changes in the field.

A key result of the Peer Reviews was the consensus that lack of liquidity is a major obstacle for reaching the poor *only in specific cases*, such as rural and remote service provision. Aside from these cases, **the primary challenge is making use of the available liquidity in a manner attractive to commercial investors.**⁹ Consequently, donor organisations have been encouraged to focus on areas of competitive advantage, for example capacity-building for microfinance stakeholders, rather than direct financing of credit lines which can equally be provided by international and local financial institutions.

The European Commission's support to microfinance in developing countries was assessed by Peer Review in 2003. That Review covered 270 microfinance operations across 17 EuropeAid services.¹⁰ But this pervasiveness was not matched, in the opinion of the Peer Review team, by a coherent vision of the role of microfinance in development or of the role of the EC in microfinance. Moreover, while many EuropeAid operations were found to include a micro-credit component, microfinance as such was not found to be a priority area of the EC's development policy, whether in the Country Strategy Papers or in the various budget lines and project monitoring systems reviewed.

The Peer Review made several recommendations to the Commission to help it overcome these challenges and adapt to the changing microfinance landscape. The recommendations included (i) commitment to a clear vision of the EC's role in microfinance, (ii) identification and forging of strategic partnerships in its microfinance activities, (iii) improving quality control and accountability via *inter alia* publishing visible guidelines and clear performance indicators, and (iv) enhancing staff technical capacity in microfinance across EuropeAid.

Since the publication of the Peer Review, the Commission has altered its approach to microfinance by, *inter alia*:

- In March 2004 the Commission announced the phasing-out of direct financing of credit lines for microfinance so as to focus instead on capacity-building of microfinance actors (with the exception of financing for microfinance institutions supported by NGO interventions).¹¹
- In January 2005 the Commission and the ACP Secretariat launched the EU/ACP Microfinance Framework Programme, so as to focus on capacity-building of microfinance institutions and industry stakeholders as well as dissemination of good practices in the field.

⁹ 'Guidelines for EC Support to Microfinance', *EC EuropeAid Co-operation Office* (2008), p.5

¹⁰ European Commission (EC), EC Letter to Management – Edited Version, 30 June 200.

¹¹ EuropeAid's Director-General Instruction Note 3959 (4 March 2004)

- In 2008 EuropeAid published official Guidelines for EC Support to Microfinance, providing its personnel with performance indicators and best practices in respect of support to microfinance activities.

The EU/ACP Microfinance Programme is, therefore, one part of the EC's broader support package to the microfinance sector. Indeed, the estimated total EC contribution to microfinance reached a level of around €200 million over the last years – more than ten times the budget of the Programme itself.

Nevertheless the Programme was the first EC programme dedicated entirely to microfinance; it has since been followed by a few specific programmes such as in Niger or Asia.

The 2008 Mid-Term Review found that the Programme had successfully achieved its objective of improving the overall effectiveness of microfinance operations in ACP countries through institutional strengthening, microfinance rating and enhanced efficiency and transparency. At the time of the review many of the Programme's five-year targets had already been achieved. Those targets still to be reached were recorded as 'on track', to be achieved by the end of the Programme.

In the remainder of this chapter the Programme's interventions made over its full duration are considered in further detail and the programme intervention logic is presented.

2.2 General Programme overview

This section provides a general overview of the Programme objectives, structure and activities.

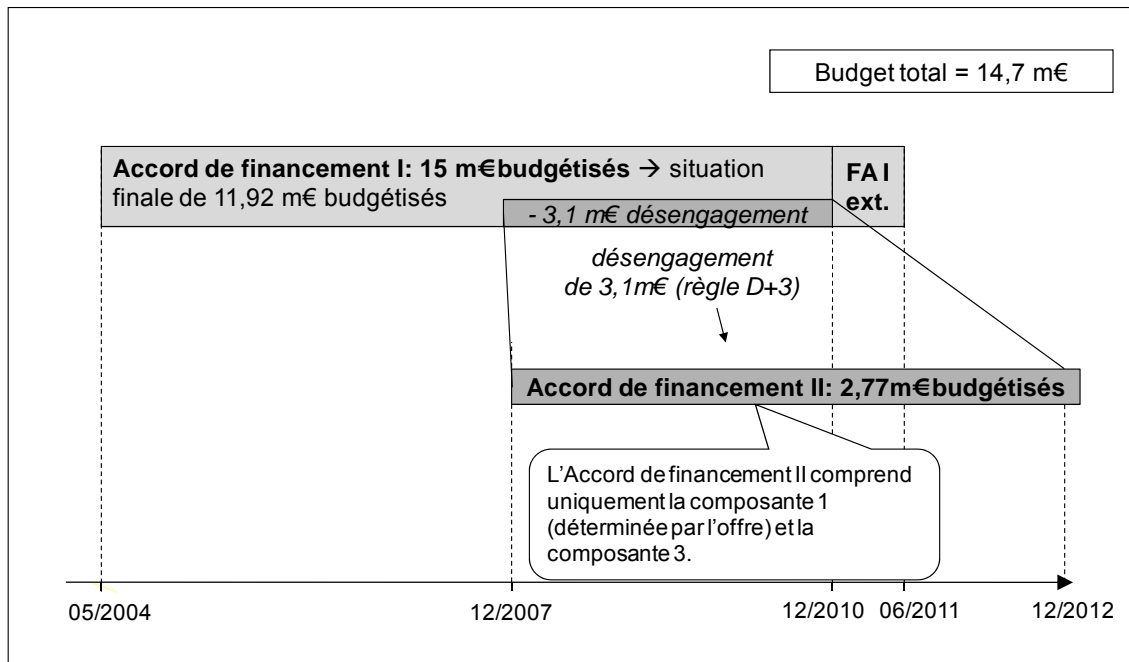
The EU/ACP Microfinance Programme was the first EC programme entirely dedicated to microfinance. It was launched in 2005 with a **budget of €15 million** for the period 2005-2010, all of which came from the 9th European Development Fund. The aim of the programme was to provide a sustainable contribution to poverty reduction and development via the provision of a range of financial services responding to poor people's needs in the ACP countries.

The Programme did not provide capital to individual microfinance institutions for on-lending to clients. Instead it provided grants and funding for activities aimed at the professionalization of a range of microfinance actors, including microfinance institutions and their networks, ratings agencies, supervisors, regulators, policymakers and financial journalists. **The Programme interventions were made at three levels:**

- **direct strengthening of microfinance actors** via the launching of a Call for Proposals and an additional component of supply-driven agreements;
- **support to the Rating Fund and the CGAP Information Systems (IS) Program;**
- **contribution to the CGAP Work Program** over the duration of Programme execution.

The final budget of the Programme was €14.7 million. This figure was distributed across two financing agreements between the EC and the ACP States: Financing Agreement I (Agreement No9111/REG) signed on 17/05/2004; and Financing Agreement II (Agreement No9868/REG) signed on 21 December 2007. The distribution of finances between these two agreements, and the start and end-dates of each, are presented in the figure below:

Figure 1: Programme's Financing Agreements - Timeline



As explained in the above figure, the initial Financing Agreement (FA I) was extended by six months to encompass closure phase activities, to end on June 2011¹². However, following the de-commitment of €3.1 million set aside by the EC in 2007, under the D+3 rule, a second Financing Agreement (FAII) was signed, to run from December 2007 until December 2012, with a portion of de-committed funds. Because of the difference between the total de-committed funds and the sum allocated to FA II, the final budget for the Programme in its entirety was €14.7 million, €300,000 less than originally budgeted.

The Programme was run by a Programme Coordinator on full secondment to the EC from CGAP. The Coordinator was also in charge of the secretariat of the Steering Committee, which was composed of the ACP Secretariat, the EC and CGAP with the EIB as a non-voting member. The Steering Committee met on an annual basis and received regular monitoring reports (on a quarterly basis for the first three years and three times a year for fourth to sixth year) from the Coordinator.

The Programme had three main components:

¹² The additional execution period January 2011 - June 2011 included only closure phase activities (i.e. evaluation, audit and contract closure), with all operational phase activities (i.e. principal Programme activities) finalised by 30 June 2009. Operational and closure phases are defined in full in Financing Agreement I, Annex 1, Article 4.

- *Component 1:* build capacities and strengthen microfinance actors, including (a) a demand driven component and (b) a supply driven component;
- *Component 2:* support ratings and information systems for microfinance and stimulate their improvement; *and*
- *Component 3:* enhance transparency and efficiency in the microfinance market.

In addition a few further activities were undertaken, including a Peer Learning event, studies and dissemination, evaluation and audit of the Programme.

A full summary of each intervention, including objectives, activities and results, is provided in Annex 3.

The allocation of funds per activity and Programme component is presented in Table 1 below. This includes activities falling under both Financing Agreements I and II.

Table 1: Programme commitments and disbursements per activity

Activities	Contracting Partners	Total Budgeted (€)	Budget committed (€)	Budget disbursed (€)
Component 1: Capacity-building component		8,417,734	8,422,513	7,267,266
Component 1(a): Demand-driven capacity-building		6,580,092	6,584,871	5,855,186
Diversify financial products and services				
	Urwego		276,766	221,413
	Opportunity International UK		825,318	760,250
Apply new technologies				
	Procredit		470,000	127,159
Expand to rural and remote areas				
	Aquadev		503,149	398,696
	MIFED		845,731	830,055
	KDA		295,000	256,757
	SIDI		788,789	788,789
Enhance transparency				
	Triodos International and Facet		394,000	348,371
	AMFIU		295,986	270,200
Create microfinance banks				
	LFS Financial Systems		1,000,000	967,366
	Horus Development Finance		890,132	886,130
Component 1(b): Supply-driven capacity-building		1,889,270	1,837,642	1,412,080
Carib-Cap	IDB		420,000	380,000
PFIP	UNDP		500,000	458,691
Africa Policy Forums	Mostra		69,295	55,436
Training of Microfinance Actors	ITC-ILO		648,387	397,977
Training on financial journalism	Transtec		199,960	119,976

Activities	Contracting Partners	Total Budgeted (€)	Budget committed (€)	Budget disbursed (€)
Component 2: Support and promote the use of ratings and strengthen information systems of ACP MFIs		1,875,000	1,875,000	1,875,000
Rating Fund	CGAP		1,075,000	1,075,000
IS Program	CGAP		800,000	800,000
Component 3: Enhance transparency and efficiency in the microfinance market		3,000,000	3,000,000	3,000,000
Contribution to the CGAP Work Program	CGAP		3,000,000	3,000,000
Coordination		740,000	740,000	740,000
Others (Mid-term review, peer learning event, communication assignment, evaluation, audit, contingencies)		599,212	293,764	209,901
GRAND TOTAL		14,683,574	14,331,277	13,092,167

Source: ADE, based on Programme Final Report

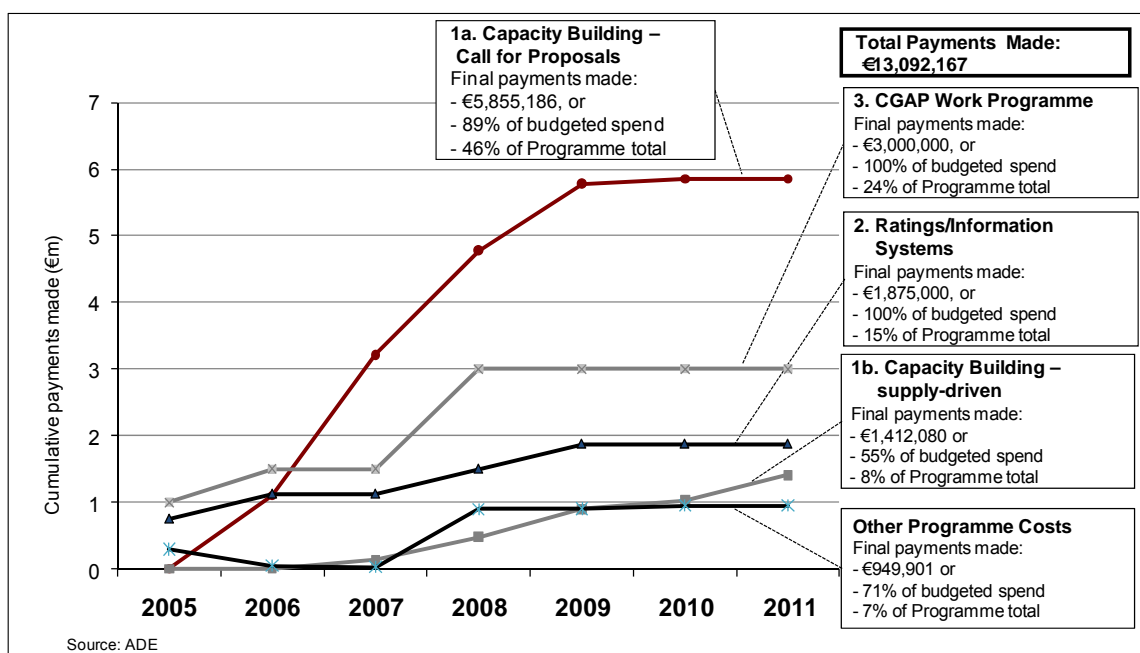
As the table shows, the total amount budgeted for the Programme was €14.7m, as per Figure 1, above. This corresponds to the amount of funds foreseen for the EU/ACP Microfinance Programme. Of this budget, a total of €14,331,277 was actually committed to contracts, contribution agreements and direct grants. Finally, of the committed funds, €13,092,167 was disbursed to beneficiaries and contractees. The difference between disbursed amounts and committed amounts (amounting to 9% of the latter) is due to the fact that final disbursements are determined by the eligible expenses reported by grantees.

As the table describes, **Component 1 was by far the largest component, accounting for 59% of the total Programme commitment.** The Call for Proposals accounted for 78% of the Component 1 total, with 22% committed via the supply-driven sub-component.

The contribution to the CGAP Work Program was 21% of the total Programme commitment, while the ratings and information systems support accounted for 13%. Coordination costs made up 6% of total Programme expenditure (budget disbursed) whilst other costs made up 2% of expenditure.

As regards the progression of funding disbursed over the duration of the Programme execution period, a steady build-up during the period 2005-2009 can be seen, as illustrated in the following figure:

Figure 2: Cumulative payments made per Programme component (€m)¹³



The graph clearly demonstrates the steady progression of payments made to the Component 1a grantees. This progression reflects the use of performance-based contracts and disbursed payment tranches throughout the Programme execution period. In contrast, the majority of the funding disbursed to the Component 1b activities occurred during the Financing Agreement II period, i.e. 2008-2010.

The three Programme components are described in the overview below:

Component 1

Component 1 “Build capacities and strengthen microfinance actors” in fact consisted of (1a) a demand-driven component and (1b) a supply-driven component.

C 1a – Demand-driven component: call for proposals in 2005; grants amounting to €6.58m

The Programme launched a Call for Proposals in 2005 and subsequently awarded **11 grants** to microfinance institutions and intermediary organisations with the aim of building financial sustainability and technical and operational capacity within microfinance institutions and technical service providers. The final selection of grant recipients is presented in Table 1 above.

¹³ The graph is derived from the Programme Final Report and the Programme Achievements and Draft Work Plans 2005-2010. All figures describe cumulative payments made as of 31 December of the year in question with the exception of 2009 and 2010, where the figures apply from 22 February 2010 and 10 February 2011 respectively.

In terms of geographical breakdown, three of the 11 grants made under this sub-component included interventions in multiple countries and regions, whilst the remaining eight were conducted in one country only. Counting all countries of intervention for each grant yields the following distribution between ACP sub-regions:

- 6 interventions in Central Africa,
- 6 in East and Southern Africa and Indian Ocean,
- 4 in Western Africa,
- 4 in the Southern African Development Community (SADC),
- 1 in the Caribbean, *and*
- none in the Pacific Islands region.

Grants ranged in size from €250,000 to €1,000,000 and covered anywhere between 48% and 80% of total eligible costs for the beneficiaries. The majority of grants awarded covered 70%-80% of total eligible costs, with the exception of the grants to LFS Financial Systems and the K-REP Development Agency.

Most of the grants awarded under the call for proposals went to existing MFIs, although two grants supported the creation of new microfinance banks: AccèsBanque Madagascar (through the LFS Financial Systems grant) and Advans Cameroun (through the grant to Horus).

Performance-based contracts were used with grantees. Under this system implementing partners set out a number (between 7 and 12) of performance targets for the planned activities. The Programme then selected a subset of these targets and assigns minimum performance thresholds for each. Partner achievement of the minimum performance thresholds influences payment of the next tranche of funding.

C 1b – Supply-driven component: *ad hoc*, total commitment €1.84m

In addition to the Call for Proposals the Programme implemented an *ad hoc* component. The initiatives supported encompass network support and capacity-building for Caribbean and Pacific MFIs, and training for ACP microfinance stakeholders including policymakers, practitioners and the specialised media.

The supply-driven component included five interventions, three targeting specific ACP sub-regions and two targeting the ACP microfinance industry as a whole. A summary description of each intervention is presented in the following table:

Table 2: Component 1b – Supply driven: Intervention Overviews

Intervention	Region	EC Commitment	Summary Overview
Carib-Cap	Caribbean	€420,000 ¹⁴	Capacity-building project for Caribbean MFIS, including performance assessment and training.
Pacific Financial Inclusion Programme	Pacific Islands	€500,000 ¹⁵	Support to meso-level interventions to expand outreach and reduce costs of financial services for the poor.
Africa Policy Forums	Central Africa	€69,295	Platform for key policymakers to learn about policy issues relating to increasing access to financial services.
Training of Microfinance Actors	Global ACP	€648,387	Training programmes implemented with ITC-ILO, in support of training activities for ACP policymakers to create an enabling environment for improved access to microfinance, and to help microfinance managers better understand their jobs and obtain additional resources for strengthening the performance of their unit, branch or institution.
Financial Journalists Training	Global ACP	€199,960	Training courses for financial journalists held in Burkina Faso and Mozambique, to increase knowledge of financial services among the general public.

Source: EU/ACP Microfinance Programme Final Report

Component 2

Component 2 “Support ratings and information systems of microfinance and stimulate improvement” was composed of two sub-components: (i) support to the Rating Fund (January 2005 - December 2007) and (ii) the Information Systems program (January 2008 - December 2010). An overview of each is provided below:

(i) Support to the Rating Fund:

Between 2005 and 2007 the Programme contributed, via CGAP, to the Rating Fund. Programme support was leveraged by the IADB and CGAP and later by the Luxembourg Ministry of Foreign Affairs. The objectives of the Rating Fund, which was managed by ADA, were (i) to contribute to increased transparency and identification of performance benchmarks whilst (ii) increasing awareness and information on rating practices and methodology.¹⁶ The Programme supported increased ratings for ACP microfinance institutions in particular, as well as awareness-raising activities in the ACP microfinance market. In total the Programme supported 110 ratings for ACP MFIs via the Rating Fund.

A key objective of the Programme’s intervention was the creation of demand for ratings among ACP microfinance institutions, which had previously exhibited lower demand than MFIs in other regions. In addition the support to the Rating Fund was intended to

¹⁴ Carib-Cap is co-funded with the Inter-American Development Bank and Multilateral Investment Fund and the Caribbean Development Bank.

¹⁵ PFIP is co-funded with UNCDF and UNDP Pacific Centre and Ausaid.

¹⁶ European Commission, Rating Fund Intervention Fiche, 2005

promote an increase in and diversification of funds available to ACP MFIs, including funds from private sector sources.

(ii) Information systems program:

Following the closure of the Rating Fund in 2007, the Programme diverted resources to an Information Systems (IS) Programme, a joint initiative of CGAP and the EU/ACP Microfinance Programme. The IS Program provided information on advanced IS for ACP microfinance institutions, through support for individual consultancy contracts within specific ACP MFIs as well as through funding IS reviews (both by experts and users) made available online to all MFIs. Consultancy contracts were tailored to the needs of the MFIs in question, and included a range of activities from needs analyses to software selection and upgrades of existing IS packages.

Component 3

With its third component, “Enhance transparency and efficiency in the microfinance market”, the Programme directly supported CGAP’s Work Program 2008-2013. The Programme aimed to work together with CGAP in the following areas:

- *Building Transparency* by creating financial standards and good-quality information, thereby increasing transparency in financial and social performance;
- *Promoting institutional and product diversity* to improve efficiency of the delivery of financial services, thereby bringing costs down and expanding outreach; *and*
- *Enhancing regulatory and policy frameworks* to help governments design and implement policies conducive to sustainable microfinance.

2.3 Programme Intervention Logic

The Intervention Logic (IL) describes in a schematic way the **hierarchy of objectives pursued by the Programme**. It was a cornerstone for this evaluation since it delineates the set of objectives against which the Programme’s support was assessed. It constituted the basis for formulating the set of Evaluation Questions (EQs) that guided the data collection process (see Annex 2 for the full list of EQs).

The initial Financing Agreement from 2004 includes the logical framework for the Programme, which in methodological terms can be considered as the ‘faithful’ intervention logic. Its main components are presented in the table below:

Table 3: Programme Logical Framework

	Logical Framework
OVERALL OBJECTIVE	To contribute in a sustainable way to poverty reduction through the development of more performing financial services for the poor (including microenterprises).
PROJECT PURPOSE	Enhance the role and the capacities of those actors like microfinance institutions and their networks, rating agencies, professional organisations, regulators, supervisors and consultants in the aim to ensure the provision of a broader range of effective financial services for the majority in a sustainable way.
RESULTS	<p>A. Contribute to the development of a more effective and transparent microfinance market.</p> <p>B. Enhancement of the market for rating activities in microfinance through the setting up of a rating fund and the organisation of awareness raising activities.</p> <p>C. Institutional strengthening of microfinance actors (MFIs and their networks, banks, regulators, supervisors, raters).</p>
ACTIVITIES	<ul style="list-style-type: none"> • Implementation of CGAP Work Plan • Enhancement of the market for rating • Providing capacity building activities to microfinance actors – call for proposals • Providing capacity building activities to microfinance actors – supply driven • Evaluation, studies, monitoring, audit • Ensuring programme follow-up and an improved internal and external coordination • Contingencies

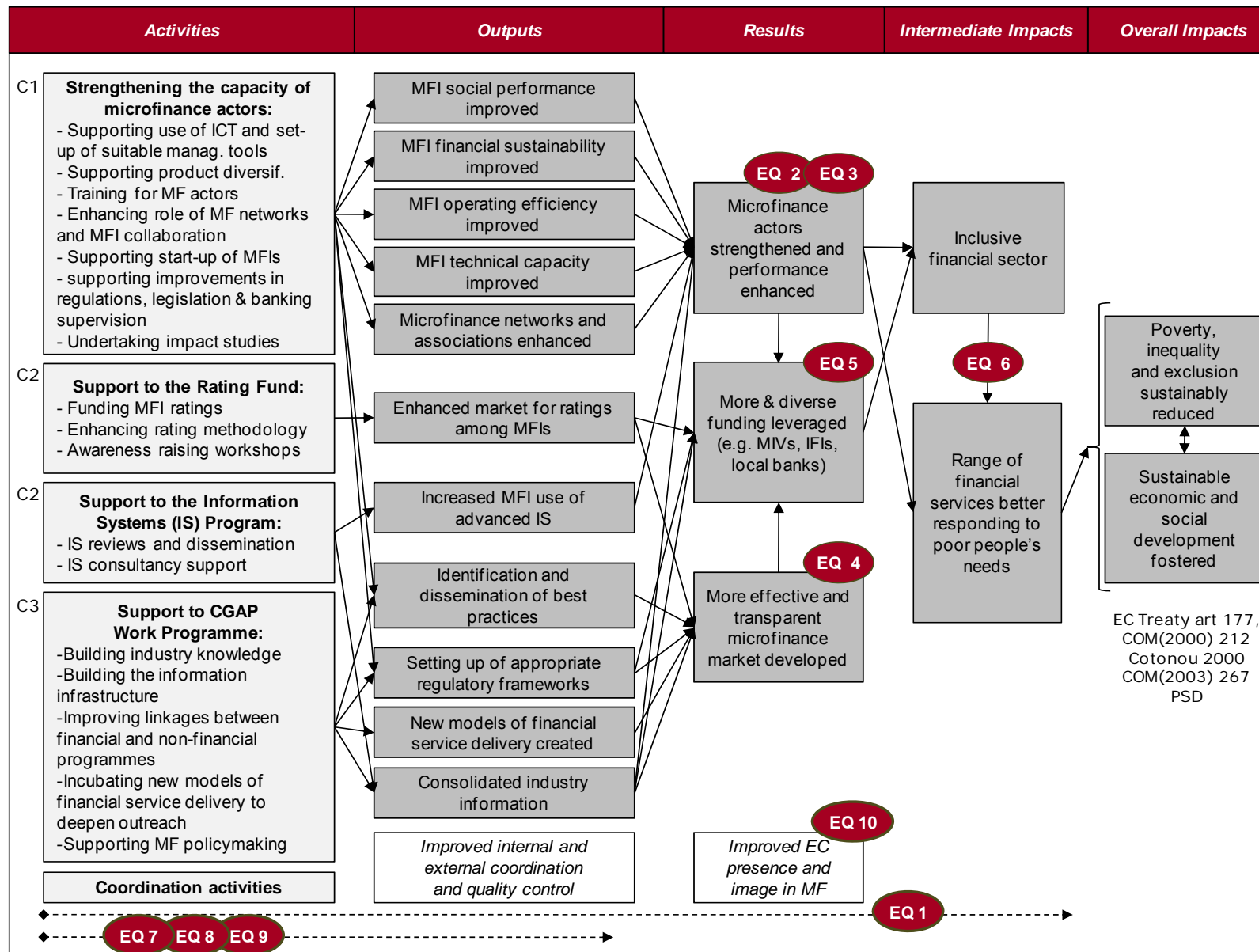
Source: Programme's Framework Agreement I, Annex 3

Nevertheless it was necessary to reconstruct a more detailed and somewhat adapted hierarchy of objectives in order to reflect the complete logical chain between the Programme's activities and objectives. Whereas the evaluators had to reconstruct the overall intervention logic, most elements can be found in the Programme's Financing Agreements. This follows the methodology provided by the EC's Joint Evaluation Unit for External Relations.

The reconstructed intervention logic differentiates between four levels of expected impacts which correspond to four levels of objectives, and the intended activities for attaining the outputs and results:

- Global impact (corresponding to global objectives, in the long term);
- Intermediate impacts (corresponding to intermediate objectives, in the medium term);
- Results (corresponding to specific objectives);
- Outputs (corresponding to operational objectives).

The reconstructed intervention logic of the Programme is presented in the figure below. Its different elements are described thereafter. The figure also shows the Evaluation Questions which cover key areas of the intervention logic (*see Chapter 3*).

Figure 3: Reconstructed intervention logic – Expected impact diagram

Activities

The activities presented in the intervention logic are grouped into the three Programme components described in section 2.2 above:

- *Component 1:* Build capacities and strengthen microfinance actors, including (a) a demand-driven component and (b) a supply-driven component;
- *Component 2:* Support ratings and information systems for microfinance and stimulate their improvement; *and*
- *Component 3:* Enhance transparency and efficiency in the microfinance market.

Component 2, however, was broken down into two separate areas of activity during the implementation period: the Rating Fund and the Information Systems Program. These two activities relate specifically to separate outputs, with consequently different results and contributions to the Programme's overall impact. For this reason the evaluation team consider it necessary to separate these elements of Component 2 in the reconstructed intervention logic.

In addition to these components the intervention logic includes the following activities intended to enhance internal and external coordination, quality control and improve the EC and ACP presence and image in microfinance:

- the coordination activities carried out under the Programme, which account for €740,000 of the total Programme budget (see Table 2.1 above); *and*
- other activities including evaluation, the peer learning event, communication assignment, audit and contingencies.

Outputs

Each Programme component has a set of outputs related to the set of activities carried out therein. The outputs include:

- improved MFI social performance, financial sustainability, operating efficiency and technical capacity for those MFIs supported directly or indirectly by the Programme Component 1 activities;
- an enhanced market for credit and social impact ratings among ACP MFIs;
- increased MFI use of advanced information systems (IS);
- dissemination of best practice in the microfinance field among ACP MFIs, intermediary organisations, policymakers and other microfinance actors;
- adaptation of regulatory frameworks conducive to the microfinance sector's needs in ACP countries;
- development of new models of financial service delivery; *and*
- consolidation of industry information available to ACPs MFIs.

Results

The results listed in the intervention logic constitute the expected state of affairs which the aggregated outputs listed above were expected to generate. The results are grouped into three areas:

- microfinance actors strengthened and performance enhanced;

- more and diversified funding leveraged; *and*
- a more effective and transparent market developed.

While the first and last of these results relate directly to the Programme Logical Framework, the second was altered somewhat from that described therein. The rationale for this change was as follows: the original Programme logical framework described “the enhancement of the market for ratings” as an intended result, which needed to be adapted given that (i) it did not take into account the Information Systems Program added in 2007, and (ii) by describing the immediate effect of a particular Programme activity, it is closer to the output level listed above in the reconstructed intervention logic. The current result, “more and diversified funding leveraged”, is an expected outcome of the ratings, while also being an outcome of the other Programme results.

Intermediate impacts

The intermediate impacts listed in the intervention logic correspond broadly to key elements in the ‘project purpose’ and ‘overall objectives’ as listed in the logical framework of the Programme. After careful analysis and consultation with the Reference Group, the following two key areas of intermediate impact can be retained:

- an inclusive financial sector: in particular a financial sector that serves clients from poor backgrounds and remote areas, who would otherwise not have access to financial services;
- a range of financial services better responding to poor people’s needs: that is, an improved range of products beyond microcredit (e.g. micro-insurance and savings) tailored to the needs of poor people in ACP countries.

Both of these elements are considered core impacts of the Programme activities, via the outputs and results. Achievement of the first impact in fact contributes to achievement of the second, as indicated by the figure.

Overall impact

The overall impacts pursued by the Programme correspond broadly to the overall objective of the logical framework presented above, notably poverty alleviation. The reconstructed intervention logic includes the following overall objectives:

- sustainable reductions in poverty, exclusion and inequality
- fostering of sustainable economic and social development

These objectives are directly tied to the objectives stated in the EU Treaty, the two related Commission communications COM(2000) 212¹⁷ (emphasizing the reduction and gradual eradication of poverty as the primary focus) and COM(2003) 267¹⁸ (EC’s strategy for private sector development), and the Cotonou Agreement between the EU and ACP States. There is a chain of results reaching from the Programme’s achievement of improving the range of financial services on offer to the poorest right through to these two overall objectives.

¹⁷ Communication from the Commission to the Council and the European Parliament: The European Community’s Development Policy, 26.4.2000

¹⁸ Communication from the Commission to the Council and the European Parliament. European Community Co operation with Third Countries: The Commission’s approach to future support for the development of the Business sector. 19.5.2003

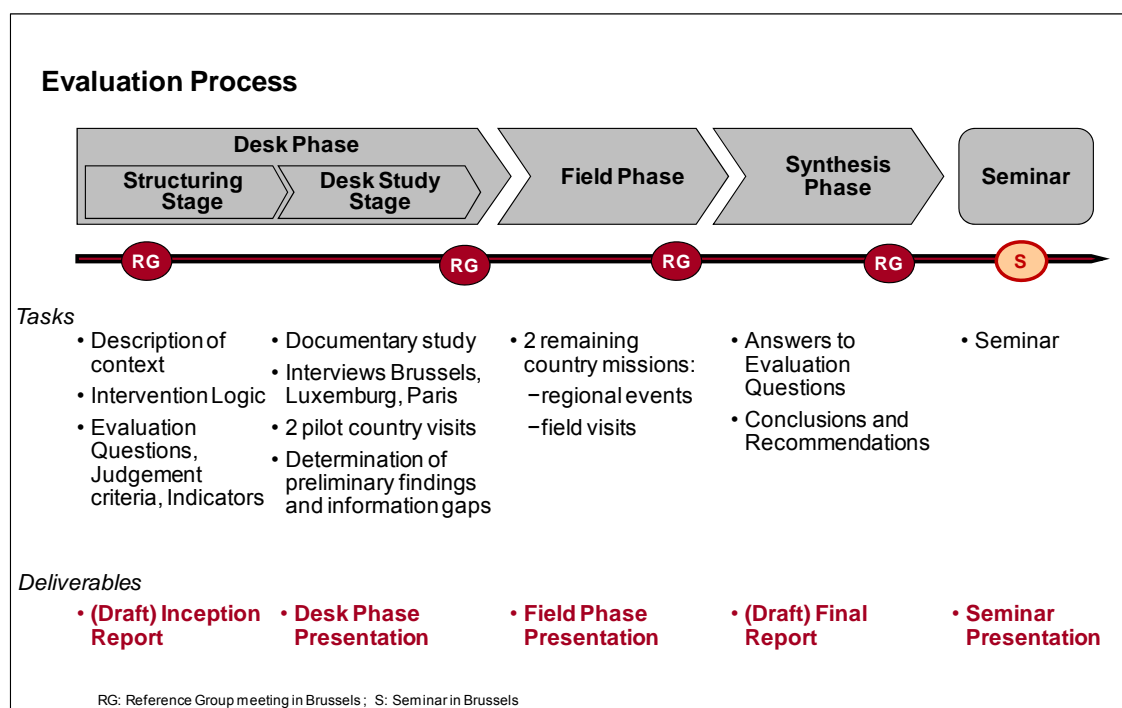
3. Methodology

This section presents the main features of the methodological approach to the evaluation, in particular (i) the evaluation process and (ii) the data collection method.

3.1 Evaluation process

The evaluation was based on a structured process consisting of a sequence of distinct and well-defined phases. The figure below provides an overview of this process, specifying for each phase the activities carried out and the deliverables produced. It also specifies the meetings with the Reference Group (RG) and the dissemination seminar.

Figure 4: Evaluation process



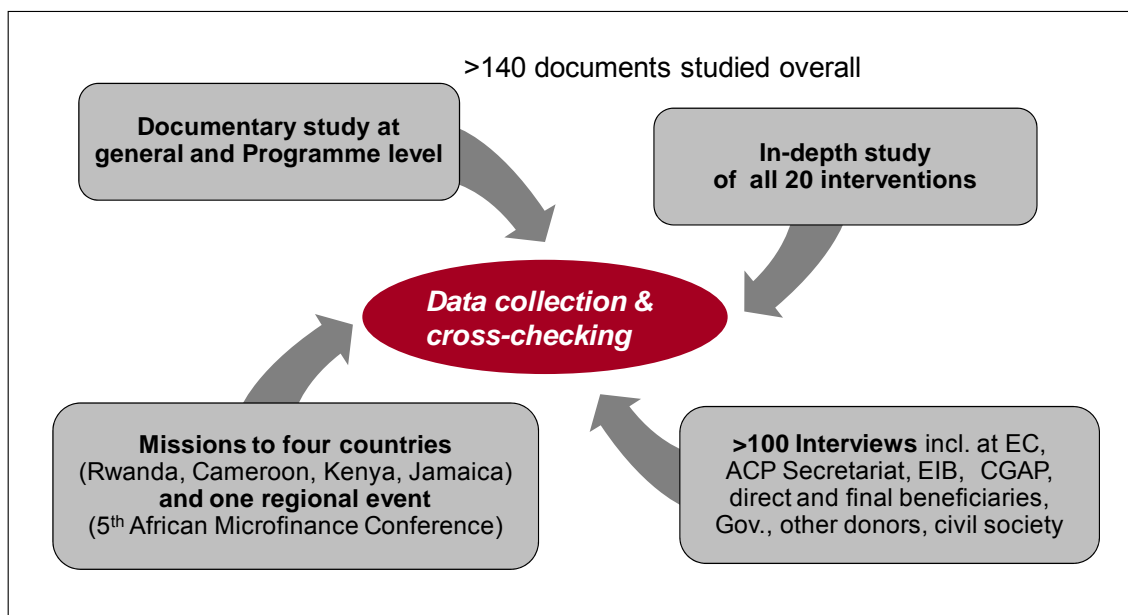
3.2 Data collection

Data collection and analysis followed a **structured process**, also shown in the figure above. During the **Structuring Stage** information on the microfinance sector and the context of EC activities in microfinance - and of the EU/ACP Microfinance Programme in particular - were collected and studied. During the **Desk Study Stage** the evaluation team reviewed **documentary sources** available on a desk basis on the Programme performance and conducted **interviews** in Brussels, Luxemburg and Paris with Programme management; EC, EIB, ACP Secretariat and CGAP staff members; and direct grantees and other relevant actors in the European microfinance community (e.g. e-MFP, ADA, CIDR, SIDI, Horus, AFD).

During the **Field Phase** the team undertook visits to selected grantees and Programme partners in addition to a large number of interviews with microfinance actors in the ACP countries. **Missions were conducted to Cameroon, Rwanda, Kenya, Jamaica (on the regional Carib-Cap project) and to the 5th Africa Microfinance Conference in Addis Ababa (Ethiopia).** The missions allowed the evaluation team to meet both direct Programme grantees and other beneficiary MFIs under the capacity-building component (e.g. through grants to Sidi, Aquadev or Triodos Facet), as well as indirect grantees, such as MFIs that received support via the Rating Fund, the IS Program or the CGAP Work Programme. It also allowed on-site visits to different branches and to end clients of those MFIs, and to meet participants to Programme-funded events (e.g. Africa Policy Forums, ITCILO's training-for-trainers, Boulder Microfinance training). It further enabled to meet representatives from the EU Delegations, other donors in the countries, Ministries of Finance, local networks, etc. By attending the 5th African Microfinance Conference, the team were able to further broaden the interview basis with a broad range of stakeholders, such as representatives from rating agencies, investment funds, microfinance networks, organisations not selected in the call for proposals, etc.

The mix of evaluation tools enabled the team to complement the policy and Programme overview gained from documentary analysis and interviews at headquarters with the more concrete and tangible feedback and observations gathered from on-site visits. All information collected was hence triangulated as far as possible, as described in the following Figure:

Figure 5: Main Information Sources and Tools



Three main categories of information were collected and analysed:

- **Context information** on the microfinance sector as a whole; in the context of the ACP countries; and the EU's approach and activities in the field of microfinance prior to and during the evaluation period. This information is necessary for an understanding of the relevance of the programme design and implementation, both at the point of programme design and throughout the evaluation period.
- **General information on the EU/ACP Microfinance Programme**, such as Programme documents, its mid-term review and final report; the views of EC and ACP staff members and other stakeholders on the programme; etc.
- **Information on individual Programme interventions**. The documentation on these interventions was screened and studied in detail, through both desk and field study, at the level of each relevant Judgement Criterion and Indicator.

The data collection and analysis were based on a **structured framework** consisting of ten Evaluation Questions and, relating to them, 36 Judgement Criteria and 167 Indicators (*see Annex 2*), in accordance with the methodological framework defined at the start of the evaluation. The findings of this evaluation are presented by Evaluation Question at the level of the Judgement Criteria (*see Chapter 4*), based on data collected at the level of the Indicators and presented in a so-called "Data Collection Grid" (*provided in Annex 4*).

The **bibliography** for this evaluation presents the list of 140 documents that provided information for it (*see Annex 6*). A **list of 100 persons met** is also detailed (*see Annex 5*).

The full set of **Programme interventions** is presented in summary in *Annex 3*.

4. Answers to the Evaluation Questions

This chapter presents the answers to the ten Evaluation Questions. The full responses are presented at three levels:

- Answers to each Evaluation Question provided in the form of **summary boxes**.
- Findings and analysis on which each answer is based, as provided in the remainder of the **text** with indications of the Judgement Criteria on which they are based.
- Facts on which the findings are based, as provided in the Data Collection Grid in **Annex 4**, with systematic indications of the information sources. These facts consist of specific information for assessment at the level of those Indicators relating to the Evaluation Questions and Judgement Criteria to which the different sections of this chapter refer.

The table below presents an overview of the Evaluation Questions (EQs) and the evaluation criteria that they cover. The EQs were derived from the intervention logic (see section 2.3) and formed the backbone of the evaluation. They represent and address the fundamental issues with respect to Programme support in ACP countries and its implementation and results, whilst covering the main EC criteria for evaluative questioning (relevance, efficiency, effectiveness, impact, sustainability, coherence and EC added-value), and additionally cross-cutting issues and the key issues of coherence, coordination and complementarity (*see the table below*). Full details of each EQ, including their related Judgement Criteria (JCs), Indicators (Is), coverage and rationale can be found in Annex 2.

Table 4: Overview of the Evaluation Questions¹⁹

EQ 1	Relevance	To what extent did the Programme design and implementation address needs of the ACP microfinance sector?	<ul style="list-style-type: none"> • <i>Relevance</i> • <i>EC value-added</i> • <i>Coordination</i>
EQ 2	MFI Capacity-building	To what extent did the Programme contribute to strengthening MFIs' social and financial performance, efficiency and technical capacity?	<ul style="list-style-type: none"> • <i>Effectiveness</i> • <i>Sustainability</i>
EQ 3	Other actors' Capacity-Building	To what extent did the Programme contribute to strengthening the capacities of microfinance actors (other than MFIs)?	<ul style="list-style-type: none"> • <i>Effectiveness</i> • <i>Sustainability</i>
EQ 4	Microfinance sector	To what extent has the Programme contributed to a more effective and transparent microfinance sector in ACP countries?	<ul style="list-style-type: none"> • <i>Effectiveness</i>
EQ 5	Leverage	To what extent has the Programme leveraged and diversified financing sources for microfinance actors?	<ul style="list-style-type: none"> • <i>Effectiveness</i>
EQ 6	Financial services	To what extent has the Programme contributed to increasing the range and use of microfinance services?	<ul style="list-style-type: none"> • <i>Impact</i>
EQ 7	Beneficiary²⁰ Selection	To what extent did the criteria and process for selecting grantees/partners suit the Programme objectives?	<ul style="list-style-type: none"> • <i>Efficiency</i> • <i>Relevance</i>
EQ 8	Cross-fertilisation	To what extent has there been a cross-fertilisation of ideas and lessons learned between beneficiaries?	<ul style="list-style-type: none"> • <i>Effectiveness</i> • <i>Coherence</i>
EQ 9	Institutional set-up	To what extent did the Programme's institutional set-up and configuration facilitate achievement of the Programme goals?	<ul style="list-style-type: none"> • <i>Efficiency</i> • <i>3Cs, Coherence</i> • <i>EC added-value</i>
EQ 10	EC/ACP capacity	To what extent did the establishment of a microfinance-dedicated programme enhance the EC and ACP Secretariat's capacity and visibility in this field?	<ul style="list-style-type: none"> • <i>Coherence</i> • <i>Visibility</i>

¹⁹ The table columns present (i) the Evaluation Question number, (ii) its key theme, (iii) its full text, and (iv) the evaluation criteria it covers

²⁰ The term 'beneficiaries' as used in this report refers to Programme grantees and partners. References to 'end-clients' are referred to as such.

4.1 EQ 1 on Relevance

EQ1: To what extent did the Programme design and implementation address needs of the ACP microfinance sector?

The present question assesses the relevance of the Programme for addressing microfinance sector needs in ACP countries. The response is structured around (i) the underlying needs analyses; (ii) the adequacy of the Programme to those needs; (iii) coordination with other donors/actors; and (iv) the Programme's added-value vs. other donors/actors in responding to those needs.

EQ 1 on Relevance – Answer Summary Box

The Programme can be considered to have been globally relevant to the needs of the ACP microfinance sector over the evaluation period. At the time of Programme design institutional capacity-building and market transparency were important sector needs, in particular in ACP countries. In any case, by providing grant funding the Programme drew on the main comparative advantage of the EC in the microfinance sector. During implementation some concerns arose regarding the relevance of particular Programme activities, which were not picked up during initial diagnosis. The Programme nevertheless responded to these challenges and implemented alternative activities where necessary. Coordination with other donors was also embedded across the Programme at global level throughout design and implementation. Observations on coordination during implementation of particular Programme activities are mixed, with both strong and weak cases.

4.1.1 Assessment of ACP microfinance sector needs (JC 1.1)

Significant stakeholder consultations were held to determine the Programme's focus, with a view to identifying the priority development needs of the ACP microfinance sector and EC value-added in this field (*see JC 1.1 in Annex 4 for details*). Key needs identified related to higher institutional capacity, increased market transparency, and the necessity to expand outreach. It was decided on this basis to concentrate Programme activities in the field of institutional capacity-building and transparency of the microfinance market with a broader objective of increasing the range of financial services.

Several grants lacked a sound initial diagnosis, which impacted on the relevance of their (initial) objectives. This was the case with interventions under both the demand-driven and supply-based components, such as grants to Aquadev, MIFED or Carib-Cap. Relevance issues with Carib-Cap were quite strong actually, in particular on the type of support to be provided in a fragmented and emerging microfinance market (*see JC 1.1 in Annex 4 for details*).

4.1.2 Programme adequacy to meet ACP microfinance sector needs (JC 1.2)

Judging the adequacy of the Programme design requires consideration of three temporal perspectives: at the time of design, during implementation, and *ex post*:

- **At the time of design: focusing the Programme overall on institutional capacity-building and market transparency was in line with the (leading) paradigm of the time**, as reflected for instance in the 2003 Peer Review and CGAP recommendations. The scope nevertheless remained wide, given in particular the budget available (€15m) and the wide geographic coverage (78 ACP States), providing an opportunity to fund relatively diverse activities ranging from macro- via meso- to micro-level, but also involving fragmentation of the available funding. This also led to unclear identification and visibility of the Programme and of the EC support (*see EQ 10*). The overall timeframe of the Programme and its grants (2005-2010) was also relatively short for the medium-term nature of capacity-building. At intervention level, many grants clearly responded to priority needs at ACP or country levels (e.g. Rating Fund, IS Program, CGAP analyses, support to Greenfield MFIs).
- **During implementation a few changes in approach were required**, owing to lack of sound diagnosis (cf. examples above) or interruption in funding of interventions (Procredit funding that was no longer needed was redirected to training for journalists in Mozambique and Burkina Faso; amounts not disbursed at the close of the Rating Fund were used to fund a second phase of the IS Program). The full Steering Committee (incl. CGAP) then followed CGAP's recommendations for reallocation of funds – in this regard some commentators questioned whether the Programme would have made the same choice had it not been coordinated by a CGAP staff member, but nonetheless acknowledged that the proposed reallocations also made sense.
- ***Ex post*, the Programme can also be considered as having been globally relevant over the evaluation period**. Nevertheless, with hindsight, the Programme missed to a certain degree an opportunity to develop a specific focus on social performance after 2008 (and to gain visibility on this subject), as detailed in the box that follows.

Box 1 – Social Performance

Social performance, understood as the effective translation of an organisation's social mission into practice, is a relatively recent concern in microfinance. The first groups of practitioners reflecting on this subject (such as Cerise or Imp-Act) started publishing preliminary studies in 2002-2003. The first SPI (Social Performance Indicators) tool was tested by Cerise starting in 2004; the SPTF (Social Performance Task-Force), created in 2005 to define common international standards, proposed SP indicators for the international community in 2008, and the same year MIX Market included SP indicators in its international database.

Since the financial crisis of 2008, customer protection issues (over-indebtedness, bad collection practices, etc.) have led to an increasingly active promotion of social performance management and tools, with international funders progressively integrating social performance in their own indicators and procedures.

At the time of Programme design – in 2003-2004 - social performance was hence a new subject. Accordingly, although the Programme mostly selected socially-oriented MFIs and included several interventions aimed at increasing MFI depth and breadth of outreach, in most interventions there was little reference to concrete goals related to social performance, for instance related to poverty, though poverty reduction was an explicit goal of the project. Targets defined at grantee level mostly focused on financial results and sustainability; the Programme included specific social performance targets in only a few cases (e.g. SIDI) and little social performance monitoring was undertaken.

In several cases, there is nonetheless evidence that the Programme contributed to increased social performance of the MFIs supported. Some grantees of the demand-based component improved their depth of outreach rurally (e.g. SIDI, MIFED, UOB, KDA), and more generally, through the provision of new products, thanks to the Programme (e.g. UOB, Microensure). In two cases (SIDI and MIFED), grantees also helped their partners set up and use social performance management tools.

Social performance was emphasized as a key subject by the Programme's mid-term review in 2008 and had progressively become a major issue in the microfinance sector by that time. The Programme however missed an opportunity to develop a specific focus on the subject after 2008, and therefore to gain visibility on this subject. The absence of a second call for proposals, as had been initially planned, made it difficult to catch up significantly on market evolutions related to social performance. Nevertheless, the Programme supported the Social Performance Task Force (SPTF) through its contribution to CGAP and the involvement of the Programme Coordinator in the task force. But it did not directly support the emergence of social performance management in the microfinance sector through other actions in its reach. Possible complementary actions could for instance have been to use remaining funds to actively promote social performance tools for grantee MFIs, to encourage exchanges and debates with grantees which already had used such tools, or even to test internal SP indicators for possible inclusion in future (EC) MF programmes or projects.

More broadly, there is nowadays a general on-going debate concerning the conditions for contribution of microfinance to poverty reduction. One should accordingly be cautious with firm judgements on the design of the Programme, as with other microfinance programmes explicitly pursuing poverty reduction. Microfinance has long been praised based on anecdotal evidence or on the basis of one major impact survey done by Pitt and Khandker in Bangladesh (Armendàriz and Morduch, 2005). The methodology used in these surveys has been frequently contested mainly because of endogeneity problems and some biases related to eligibility criteria of MFIs (Armendàriz and Morduch, 2005). A review of the evidence has been commissioned by the UK Aid agency DfID and published in August 2011. It concludes that “it is still unclear under what circumstances, and for whom, microfinance has been and could be of real rather than imagined benefit to the poor” (Duvendack et al., 2011)²¹. Moreover, it highlights that none of the two randomised control trials (RCTs), a new and more robust methodology to measure impact, finds convincing impacts on well-being. The most famous paper using RCT is the one by Banerjee et al. (2010)²² who finds “no effect of access to microcredit on average monthly expenditure per capita, but expenditure on durable goods increased in treated areas and the number of new businesses increased by one third”. They also find that mainly “existing business owners appear to use microcredit to expand their businesses: durables spending (i.e. investment) increases”. This result is in line with other (non RCT) surveys, such as Holvoet (2005)²³, which finds that decision-making processes, one key dimension of empowerment, only shift in favour of the woman when financial services are combined with social group intermediation and more particularly with long-term group membership and intensive training and group meetings.

4.1.3 Coordination with other donors/actors (JC 1.3)

A judgment on Programme coordination with other donors or actors also merits inclusion of consideration of two temporal perspectives:

- **At the time of design a significant effort was made to have an exemplary and coordinated programme** in the aftermath of the 2003 Peer Review (which was itself a form of coordination exercise). First and foremost the Programme had been designed in close partnership with other organisations, in particular the multi-donor-funded CGAP, the leading reference in microfinance. Second the EC partnered actively with CGAP for Programme implementation, entrusting the Programme coordinator role to a permanent CGAP staff member and contributing financially to its annual work programme (and Rating Fund and IS Program). Third, the Programme also explicitly recognised the value of coordination with the EIB, as it could provide financial services complementary to EC’s grants. Both CGAP and the EIB were part of the Programme’s Steering Committee. Fourth, the Programme provided, through its supply-driven component, grants for a few of the activities of international partners such as the

²¹ Duvendack M, Palmer-Jones R, Copestake JG, Hooper I, Loke Y, Rao N (2011), What is the evidence of the impact of microfinance on the well-being of poor people? London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

²² Banerjee, A., Duflo, E., Glennerster, R. and C. Kinnan (2010), The Miracle of Microfinance: Evidence from a Randomized Evaluation, MIT Working Paper, Boston.

²³ Holvoet, N. (2005), ‘The Impact of Microfinance on Decision-Making Agency: Evidence from South India’, Development & Change, 36(1): 75-102.

ITCILO and UNDP/UNCDF²⁴, while through its demand-based component (C1a) it provided grants to a number of other large microfinance actors (mostly international NGOs and networks).

- **During implementation observations were mixed in terms of coordination at operational level.** There are examples of coordinated action at operational level such as the fact that Programme grantees under the demand-based component had to report to the MIX Market global initiative, the IS Program's software reviews were transferred to the same MIX Market, and coordination between PFIP and UNCDF was good. There are also examples of co-funded actions such as LFS or the Africa Policy Forums. In other cases it is rather a matter of complementarity of action, such as with DfID's Financial Sector Deepening Programme in Kenya (KDA), with IADB's institutional strengthening of credit unions in the Caribbean (Carib-Cap), or with existing training material from other interventions (in both KDA and MFW4A's journalist training). Nonetheless coordination did not reach its full potential in some other interventions such as in the multi-donor Carib-Cap initiative, the design of which was coordinated between the EC, IADB and the Caribbean Development Bank but for which there was little analysis and coordination with other actors or donors, or with other programmes funded by the EU and IADB which encompassed capacity-building grants to MFIs and potentially competed with the Carib-Cap project.²⁵ With regard to the EIB a few joint activities were undertaken, to a certain extent: in the PFIP programme²⁶, LFS and Horus²⁷. There were however few major opportunities, owing mainly to the fact that the EIB provides typically longer-term support to larger organisations, including through funds. A commentator also mentioned in this regard that a common strategy for the EC and the EIB had been designed by staff from both organisations but had never been endorsed by the EC.

4.1.4 Programme's added-value vs. other donors/actors in responding to the needs identified in the ACP microfinance sector (JC 1.4)

The main reasons for setting up the Programme were (i) the demand from the ACP Group of States for EC (EDF) funding in microfinance and (ii) the EC's willingness to demonstrate its capacity to be a donor that counts in microfinance. The 2003 Peer Review had provided a rather critical assessment of the EC's microfinance operations along with five key recommendations. The first recommendation was to "make a choice on EC level of involvement in microfinance"; many persons involved at that time noted that the message, reading between the lines, was that the EC should actually consider stepping out of microfinance. But the ACP Group of States was interested in continuing to benefit from

²⁴ Funding through DfID was also envisaged but did not materialise: the initial intention was reportedly to channel the decommitted ProCredit funds into a DfID-run financial education programme, but, DfID did not satisfy the EC's three-pillar test for partnership, and therefore the journalist training programme was chosen as an alternative.

²⁵ Although it should be noted that Carib-Cap was the first effort to coordinate actors in the English-speaking Caribbean microfinance community.

²⁶ Use of resources from the EC's Stabex finance scheme and EIB loans in support of a pre-established microfinance bank (PNG Microfinance Ltd.) and use of an EC-funded credit line as part of a tourism project in Vanuatu.

²⁷ In addition two Programme grantees (LFS Holdings and Horus Cameroon) also received support from the EIB's technical assistance for microfinance. The EIB is also capital shareholder of Advans SA (which in turn owns 72% of Advans Cameroon), which enabled the Programme to benefit from EIB expertise for this Greenfield operation, according to a stakeholder.

EDF funding in the field of microfinance and the EC in being active in this high visibility sector while improving its image in the aftermath of the Peer Review²⁸. This led to the set up of the EU/ACP Microfinance Programme. Most commentators acknowledged that these were key reasons for setting up the Programme, rather than a particular value-added of the EC in the field.

Nevertheless, the Programme brought comparative advantage in the field of microfinance, mainly by provision of grant funding. Grant funding was clearly valuable in this field, compared to (and indeed in complementarity with) most donors whose support consisted more of loans or other financial services. It mainly allowed the Programme to fund institutional capacity-building and activities for improving overall market transparency and effectiveness. It also permitted testing of innovative approaches and funding of unbankable projects (e.g. Greenfield MFIs and the Pacific Financial Inclusion Programme). While the opportune character of grant funding in microfinance *vis-à-vis* a more commercial approach has been debated in the microfinance community, there is nonetheless a widely-shared consensus that grant funding is useful for certain purposes (such as the above-mentioned). The Programme had also a number of other specific characteristics which have demonstrated comparative advantage *vis-à-vis* other donors or programmes to varying degrees: for example wide EC geographical presence and experience (mainly for Carib-Cap and PFIP); the Programme coordinator's access to strong microfinance expertise (appreciated by many stakeholders); an external view and counterweight in multi-donor projects (mainly in Carib-Cap); and the relationship with the EIB (mainly in PFIP).

²⁸ The Programme's financing agreement specifies explicitly in terms of expected results that "A further result that can be expected, as a by-product, is the improved presence and image of the European Commission in the microfinance field and the improved internal and external coordination and quality control on on-going activities."

4.2 EQ 2 on MFI Capacity-building

EQ2: To what extent did the Programme contribute to strengthening MFIs' social and financial performance, efficiency and technical capacity?

*This question will address the **effectiveness** of the Programme in achieving its expected results in terms of its contribution to capacity development in selected MFIs. Development of their capacity was one of the three central expected results of the Programme, and as such of central importance to the evaluation. The question will assess the **performance of MFIs**, first in terms of social performance and then their financial performance and efficiency. It will then address **the technical capacity** of MFIs and finally the quality of their **information systems**. In this way it will provide evidence on the **sustainability** of the MFIs supported.*

EQ 2 on MFI Capacity-Building– Answer Summary Box

The Programme contributed to increased financial performance, efficiency, and to a lesser extent social performance, of the MFIs supported, with 1st tier MFIs performing better than 2nd and 3rd tier organisations across all three areas. Some grantees of the demand-based component improved their depth of outreach rurally, and more generally, through the provision of new products, thanks to the Programme. As was usual at the time, however, the Programme included social performance targets in only a few cases and little social performance monitoring was undertaken. Improved governance and management were achieved by many beneficiaries, with key success factors including the experience, good diagnostics and competence of implementing partners and their MFIs. Furthermore, ratings were a relatively cost-effective strategy for helping MFIs pinpoint their main weaknesses. Information systems support achieved variable results regarding MFI capacity improvements. The effect of global capitalisation efforts on information systems (undertaken relatively recently) on microfinance actors' knowledge of the information systems market could not be established in the framework of this evaluation.

4.2.1 Social performance of MFIs (JC 2.1)

The Programme mostly selected socially-oriented MFIs and included several interventions aimed at increasing MFIs' depth and breadth of outreach. Nevertheless – as was usual at the time – it had few other social performance targets. The (leading) industry paradigm when launching the Programme and the Call for Proposals was indeed centred on MFI financial sustainability and efficiency. In most interventions there was little reference to concrete goals related to social performance (*see Box 1 on Social Performance under section 4.1.2*).

There was also limited monitoring of social performance by grantees in the Programme. Monitoring was conducted of grantee targets on outreach (the number of clients served), which was the main indicator used relating to social performance. But for instance depth of outreach (e.g. inclusion of rural or hard to reach customers) was not monitored systematically.

Nevertheless, most grantees (or their partner institutions) grew rapidly during the duration of the Programme and therefore met their outreach targets. A major exception was the MicroEnsure insurance programme which expanded during the Programme but did not meet the performance target, partly because of an overestimate of market demand and some problems with the payment of insurance claims, which hampered the growth of the insurance programme.

Moreover, a few grantees increased their depth of outreach by providing smaller loans, extending their rural outreach, or innovating through provision of new products, thanks to the Programme. A relevant example is Urwego Opportunity Bank (UOB) opening three new branches in rural areas in Rwanda, which can be associated with a performance target relating to the share of rural depositors. Moreover, these new rural branches also helped UOB to strengthen its image as a bank committed to the underprivileged. Similarly, the FSA programme of the K-REP Development Agency (KDA) focused on remote sparsely populated areas in Kenya and contributed to strengthening the capacities of rural associations. In both case, these activities had a “demonstration effect” since they demonstrated that there was a market for microfinance products and services and; by doing they paved the way for new actors entering these areas afterwards. Other grantees, such as SIDI or A3C in Cameroon, had an original rural focus and targeted lower-end segments of the population. Finally, depth of outreach increased somewhat through savings products that have been developed by a few grantees or the emergence of micro-insurance products with MicroEnsure.

4.2.2 Financial performance and efficiency of MFIs (JC 2.2 & JC 2.3)

Financial performance of MFIs increased mainly for larger MFIs. Results differ according to the indicators used for the analysis, such as operational self-sufficiency (OSS), financial self-sufficiency (FSS) or portfolio at risk (PAR)²⁹.

On the one hand **the operational self-sufficiency (measuring the capacity of MFIs to cover their costs) has globally improved for the MFIs supported** in the demand-based component of the Programme³⁰. The few exceptions were mainly due to exogenous factors outside their control, such as instability followed by the political crisis and severe drought in Kenya or Madagascar. Larger institutions seem to perform better than smaller ones. This result is in line with some recent empirical evidence suggesting that size matters in terms of financial performance and efficiency³¹. On the other hand, **several MFIs covered by the SIDI, Aquadev and MIFED grants did not manage to reach OSS targets**. Some of the MFIs in question were probably too small to achieve strong financial performance, such as in the case of Aquadev’s partners. Other institutions already had severe delinquency issues at the start of the Programme, such as the CVECA networks supported by MIFED. For some of these institutions, the problems may have been underestimated in the proposal, for instance by Opportunity International Kenya or Aquadev. Moreover **the**

²⁹ Definitions of key terms used in this and other sections are provided in the Glossary at the beginning of the report.

³⁰ The Programme collected MFI level data in the FRAME reporting.

³¹ For instance, Caudill et al. (2009) found that especially large MFIs were becoming more efficient over time. The 2009 MicroBanking Bulletin, which incorporated 1,084 MFIs, suggested that large MFIs have better financial self-sufficiency, profit margin, or return on equity but also better efficiency ratios, for instance in terms of staff productivity or personnel and operating expense ratios.

amount of the Programme intervention was probably too limited, and its length too short, for correct addressing of the issues at stake, particularly for 2nd tier MFIs. Indeed the sustainability of many of the 2nd tier MFIs supported could not be ensured within the timeframe of the grants (e.g. SIDI, Aquadev, Carib-Cap, MIFED's Northern Cameroon CVECA).

Profitability has been globally disappointing for beneficiaries, as witnessed by the low returns on assets (ROA) seen for the MFIs using this indicator. Nevertheless, ROA has been less used than OSS in the monitoring of the Programme, in line with common practice in the microfinance sector. In the few cases where it has been used in monitoring, low ROA shows the impact of delinquency and non-performing loans on profitability, such as in the grant to Carib-Cap. In the case of the two institutions with ROA-related targets, ProCredit and SIDI, the targets were not reached (*see I-2.2.2 in Annex 4*). In most cases no specific performance indicator was included in the monitoring for an analysis of capacity to cover indirect costs such as adjustments related to subsidies or inflation or to maintain and expand services without continued injections of subsidies, something addressed by the financial-self-sufficiency (FSS) indicator. It could have provided additional information on the dependence of MFIs on donor funding. One exception concerns Opportunity International partners: five of seven OI partners reached (the 100% level of) operational self-sufficiency; but even so only two of the seven became independent of donor funds and reached (the 100% level of) financial self-sufficiency.

Portfolio quality was also disappointing, with Portfolio at Risk (PAR) data showing that smaller or rural MFIs, facing long-lasting difficulties, had more difficulty reaching PAR than OSS targets. Moreover, high PAR often reflected institutional weaknesses. These could be lack of control, lack of strong MIS, or governance and staffing issues (*see I-2.2.3 in Annex 4*). Hence many grantees mainly working with 2nd tier MFIs besides Carib-Cap did not reach their PAR targets (Aquadev, MIFED, KDA, SIDI). Nevertheless, portfolio quality remained very good for the two greenfield institutions, which had stronger institutional capacity (LFS for AccèsBanque Madagascar and Advans in Cameroun). These institutions therefore reached their PAR targets. Some substantial international technical assistance helped with development of tools for internal control.

Operating efficiency improved during the Programme's duration for a few grantees such as for UOB and Advans Cameroun but were globally mixed. Other grantees exhibited negative efficiency performance (A3C in Cameroun and AccèsBanque). These two institutions were however performing well in terms of PAR, suggesting that they invested during the period, improving their portfolio. This shows that **performance of grantees differed according to the indicators used.**

Nevertheless for some interventions it was sometimes difficult to attribute performance change to the Programme. This was of particular concern for grants made to Opportunity International's capacity-building and SIDI. In SIDI's case the grant was somewhat too fragmented to allow attribution of results, except for OMIPA. Moreover, few of their partners were originally in a very difficult situation. Hence the funding was both too small for each partner and too short to have clear and detectable effects. For ProCredit the benefits were attributable to internal investment, not (potential)

Programme support. Finally, Opportunity International UK benefited from much support from various donors. Except for the micro-insurance component, largely financed by the Programme, it is therefore difficult to detect clearly what could be attributed to the Programme.

4.2.3 Technical capacity of MFIs (JC 2.3)

Technical Capacity-building was more effective for large and 1st tier MFIs, such as K-Rep/KDA, but less so for 2nd tier MFIs. For the latter in particular, the amount of the Programme intervention was probably too limited, and its length too short, for correct addressing of the issues at stake. As noted in section 4.2.2. above, the KDA grant helped the FSAs to improve the quality of their internal governance. This was achieved through training at various levels, including training for individual shareholders and boards of directors. These training activities achieved their goal as FSAs strongly improved their performance during the Programme. However, some of the smaller MFIs involved in grants to SIDI, Aquadev and MIFED, were probably too small to achieve strong financial performance, or had severe delinquency issues at the start of the Programme.

The experience and the competences of implementing partners and their MFI diagnostic were important for successfully increasing the technical capacity of MFIs. For instance Advans Cameroun strengthened their governance and management thanks to the Programme. Advans Cameroon received strong technical assistance from Horus with international staff, enabling them to diversify their range of products and adapt them regularly, and build up a viable structure. DID & Development Options' capacity-building activities in Carib-Cap (e.g. training or technical assistance) was of very high quality and made MFIs aware of their weaknesses whilst encouraging them to develop better products, although final results regarding technical capacity development are not clear. Finally, the Programme also financed many training modules as a core activity of several grants to partners or beneficiaries (e.g. Aquadev, Triodos, KDA, UOB).

The Rating Fund helped MFIs pinpoint their main weaknesses. The Programme contributed to this fund which was set up by the CGAP and IDB to finance ratings in microfinance. Interviews with MFIs in the field suggested that many organisations see the real benefit of ratings in terms of the potential for improved governance and management, rather than attraction of additional budget. Most MFI managers met were particularly pleased at the depth of information provided during the rating process or in the final rating reports. As a matter of example, it stimulated them to improve their products or address unresolved governance issues. In this way ratings were relatively cost-effective.

4.2.4 Management Information Systems for MFIs (JC 2.5)

The Programme supported improvements in management information systems (MIS), an important issue for MFIs in ACP countries, through (i) direct grants under the demand-based component and (ii) a USD 800,000 financial contribution to the IS Program which was originally launched by the CGAP.

The Programme achieved mixed results on information systems by the grants in the demand-based component (through the Call for Proposals). Deficient MIS are a clear weakness in many African MFIs, resulting in poor reporting and low-quality follow-up. 2nd tier MFIs frequently lacked adequate MIS for proper management of their institutions. Some grantees did not provide as extensive MIS as envisaged in the Programme support (e.g. Aquadev which did not reach its minimum MIS performance target because of the lack of adequate infrastructure in some local MFIs). The quality of some MIS implemented with Programme support was also debatable. Finally, for some grantees, such as for KDA or MIFED, which did not benefit directly from support in terms of MIS, their information systems remained a key bottleneck.

The Programme contributed through the IS Program to direct MFI support for improving their MIS and to overall capitalisation on information systems in the microfinance sector. The IS Program benefited many small MFIs by providing beneficiaries with funding for local IS consultancy. It also published (25) software reviews online on the CGAP website, which were subsequently transferred to the MIX Market website. Along with a survey on technology use at MFIs and the recent publication of a technical guide on information systems, it created an opportunity for a wider audience to utilise the Program's resources. One expected capitalisation output from the grant to the IS Program did not materialise, however, i.e. the 'Focus Note on Back Office Outsourcing'. Besides, the present evaluation could not establish whether these (sometimes recent) capitalisation efforts on information systems in the ACP microfinance sector as a whole have been used and had an impact on MFIs.

4.3 EQ 3 on other actors' capacity-building

EQ3: To what extent did the Programme contribute to strengthening the capacities of microfinance actors (other than MFIs)?

This question assesses the impact of the Programme on actors of the microfinance sector others than MFIs, at the meso- and macro-levels. We distinguish three main types of actor: (i) networks and associations; (ii) other organisations such as local service providers (LSPs); (iii) policymakers & journalists.

EQ 3 on Other Actor's Capacity-Building – Answer Summary Box

The Programme contributed to strengthening several local, national or regional microfinance networks and a few LSPs, contributing to their visibility and institutional capacity – although it could not address frequent concerns about the self-sufficiency of such organisations. Activities targeting trainers, policymakers or journalists were considered very relevant and globally useful, but with little evidence yet of long-lasting impact.

The Programme supported a number of microfinance actors of various types (others than MFIs) at national or regional level, either (i) as a direct objective of the grant (their strengthening being a clear objective of the grant; e.g. Carib-Cap, Africa Policy Forums); or (ii) as a side effect of a grant (although it was not an objective, it was recognised as an output of the project; e.g. MIFED, MAIN)³². Those actors belong to three categories:

- (Mostly) microfinance associations/networks: whether national (AMFIU, Aquadev), or regional (CMFA - CaribCap, MAIN, KNFP, MPN - PFIP)
- “Meso-level” organisations: local service providers (LSPs, e.g. MIFED, Triodos)
- Policymakers, regulators and journalists (Africa Policy Forums, PFIP, Journalist training).

4.3.1 Programme contributions to sustainable improvement of microfinance networks (incl. regional networks and national MICROFINANCE associations) (JC 3.1)

The Programme supported several (local, national or regional) MFI networks:

Table 5: Programme support to MFI networks

Direct support	Indirect support
AMFIU (microfinance association in Uganda) - grantee of Component 1	Aquadev – launch of a local MFI network in Saint-Louis region, Senegal.
Microfinance Pasifika Network (MPN) supported by PFIP (Pacific) – Component 2.	SIDI's partners: MAIN (Africa) and KNPF in Haiti
Caribbean Microfinance Alliance (CMFA) in the Anglophone Caribbean funded by Carib-Cap – Component 2	AMIR (Rwanda), through collaboration with CGAP

³² Since reinforcing those organisations often was a side-effect or secondary objective of a Programme grant, the information available is often limited, therefore constraining the conclusions on some issues (impact and sustainability).

The Programme improved the credibility of the networks and their ability to attract new members (their representativeness). This proved as true for newly-created networks (except Aquadev's network in Saint Louis, too recently created) as for existing networks, albeit at different levels:

- For new networks such as Carib-Cap or MPN in the Pacific, support for a dynamic “core group” of members interested in developing activities provided encouragement; membership increased progressively. In Aquadev's case, however, the weakness and very unequal size or interest of member MFIs raised doubts over the future of the local association.
- Pre-existing networks (AMFIU, MAIN, AMIR) were able to improve their image and visibility through the grant, which contributed to increasing their membership base (e.g. +4.4% in one year for AMFIU, and a more than doubling for AMIR from 2007).

Networks developed a few new services that are appreciated by members, but their capacity to extend their range of services (including training) remained limited.

- CMFA in the Caribbean and MPN in the Pacific are very recent initiatives – therefore their main activities relied mainly on exchanges and events, including fora. In both cases participants widely appreciated the events organised.
- For existing networks - MAIN, KNPF and AMFIU - the Programme grant offered an opportunity to extend the range of services and the thematic issues covered: training activities and University diplomas, workshops for MFIs, seminars (MAIN, KNPF); financial education and consumer protection (AMFIU).
- However several stakeholders in Africa expressed the view that for capacity-building or training activities partnerships with training institutes would have been more relevant than relying only on networks (that have limited training capacity). This is a recurrent issue for networks in general: to increase their financial resources networks often try to extend their range of services, but - owing to budget constraints and scarce local HR - find it difficult to develop the necessary competences to do so.

The Programme contributed to improvements in the institutional capacities of existing networks. It had a positive impact on the capacities and viability of the two regional networks involved in SIDI's project (MAIN and KNFP). The grant also encouraged MAIN to seek additional funding, as a result of which MAIN obtained financial support for AFD which will help build its sustainability. In Haïti the training modules developed by KNFP have been key to ensuring resource availability and to retaining staff within the network.

However, in all cases investigated during field missions, interviews with stakeholders raised questions as to the financial viability of the networks beyond short-term donor support, as many member MFIs did not contribute (enough) to the budget of the network, and networks found it difficult to develop viable commercial services while maintaining their mission to their members. Donor funding still represents the largest component of budgets, even for already established networks (e.g. 99% of AMIR's budget) (*see other examples under JC 3.1 in Annex 4 of this report*). This is however a frequent issue for most networks and associations in the microfinance sector.

4.3.2 Programme contributions to sustainable improvement of other financial infrastructure organisations (JC 3.2)

The Programme directly or indirectly supported two projects which reinforced organisations offering services in microfinance (local service providers - LSPs):

Table 6: Programme support for local service providers

Direct support	Indirect support
Triodos trained a total of 12 local service providers (LSPs) from several African countries.	MIFED, one of the implementing partners, is a NGO aiming at supporting the development of the microfinance sector in Cameroon
ITC/ILO training for trainers	Very indirectly, several studies / publications by CGAP also addressed how to develop viable meso organisations for the sector - examples include a global scan of apexes (wholesale facilities) in 2009.

The evaluation found evidence of positive impact on the two types of support in the short run. The Programme enabled MIFED itself to receive ongoing capacity-building and develop its own business plan. The EU grant improved its visibility and ability to negotiate with donors, and MIFED could diversify both its capacities and funding sources, becoming more independent of Cameroon State funding. As for Triodos' support to LSP, consultant satisfaction seemed high and several MFIs were determined to hire those LSP again.

However, it is difficult at this stage to assess long-term impact. In Triodos' project the potential impact on the sector depends on whether the consultants trained will continue activities in the medium term. MIFED's viability in the long term will depend on the MFIs and projects supported (the need being to diversify and focus on projects with real viability prospects) and MIFED's own institutional strengthening (in particular its ability to train and retain its staff).

4.3.3 Programme contributions to increasing the microfinance knowledge basis of policymakers, regulators, supervisors, and journalists (JC 3.3)

Table 7: Programme contributions to microfinance knowledge base

Activities/projects supported	Description	Nb participants	Countries
Africa Policy Forumss	Three Fora of which two funded by Programme	54 and 60 for the first two fora	19 West and Central African countries
PFIP (Pacific)	Sponsored policymaker attendance at several fora (Pacific Microfinance Week, CGAP/AusAid training on microfinance, Workshop on financial inclusion policy in Vanuatu, etc)		Pacific Islands
ITCLO – Boulder microfinance training & MMW	The Programme funded ITCILO for the provision of scholarships for the renowned Boulder Microfinance Training and for support to other ITCLO activities, notably the “Making Microfinance Work” (MMW) training-for-trainers, a trainer network and a trainer’s guide.	Boulder: 55 policy-makers trained. MMW: 12 training courses developed in five countries + three trainers’ fora; 58 trainers trained and 14 certified	Boulder: ACP countries MMW: Ethiopia, Rwanda, DR Congo
URWEGO (Rwanda)	“Savings Learning and Awareness conference” that targeted mainly MFIs, but also supervisory authorities.	n.a.	Rwanda
AMFIU (Uganda)	One lobby event targeting parliamentarians, preceded by submission of proposals for a draft bill on regulating MFIs.	13 MPs	Uganda
CGAP Work Program	Several CGAP activities, in particular capitalisation and publications (<i>see section 4.4.1</i>), contribution to training programmes (<i>see section 4.4.1</i>), establishment of the Regulation & Supervision Resource Centre (<i>see section 4.4.2</i>); and a donor course held in 2008 for donor staff and policymakers (with 22 participants from African countries).	Policymakers, regulators, supervisors, etc.	ACP
Training project for journalists	Two workshops on financial journalism, each lasting 15 working days, in Mozambique (Portuguese) and Burkina Faso (French)	25-30 participants trained	Mozambique & Burkina Faso

Evidence from the field indicates that all activities are considered by former participants and many external stakeholders as both very relevant and globally useful. Most training for policymakers was widely appreciated (e.g. Boulder – average global scores over 4 out of 5 each year) and complementary to cheaper and more practical local training available (Kenya). There is also field evidence of positive appreciation (average rating by participants over 4 out of 5) and impact of the Africa Policy Fora (from

interviews in Cameroon and Rwanda). The participants from the Central African Banking Commission (COBAC) at all Fora, including the 3rd in Dakar in 2010, are still active in that institution, which is also encouraging for long-term impact.

Box 2: Feedback from the field –Africa Policy Forums

In Cameroon, participants (from supervision & regulatory authorities) to the Africa Policy Forum stated that this event had several positive impacts:

- cross-fertilisation, notably with BCEAO (West Africa) participants;
- opportunity for central bankers who meet annually (at the Groupe des Superviseurs Bancaires d'Afrique Centrale et de l'Ouest) to discuss directly on Microfinance issues and not only on the banking sector;
- new link established between CGAP and COBAC – in following years COBAC submitted several decree proposals to CGAP for advice; and a first training initiative with COBAC was organised in 2011;
- COBAC started reflecting on a number of new issues (consumer protection, mobile banking, etc.).

One person in Rwanda also stated that participation in the African Policy Forum in Yaoundé in 2008 by three Rwandan participants (the Governor, a staff member of the Central Bank, and a staff member of the Ministry of Finance) contributed to raising awareness on policy issues and in consequence to policy improvements in Rwanda.

Training for journalists was also appreciated (although with varying scores in the two countries); however some stakeholders questioned the target audience chosen for this training, suggesting that awareness-raising among the international press could have been a relevant complementary objective. It also proved difficult to evaluate the medium-term impact of this activity (owing to a lack of follow-up indicators).

4.4 EQ 4 on the Microfinance Sector

EQ4: To what extent has the Programme contributed to a more effective and transparent microfinance sector in ACP countries?

This question addresses the effectiveness of the Programme in contributing to a more effective and transparent microfinance sector. The question covers support at the level of the sector as opposed to the level of individual microfinance actors. It includes in particular the support provided through the CGAP Work Programme (Programme Component 3), support provided through the Rating Fund (under Component 2) and good-practice dissemination activities conducted under the Programme Component 1. The answer is structured by the following areas of Programme contribution: (i) contributions to ACP-relevant knowledge-building and knowledge-dissemination; (ii) to improved regulatory and policy frameworks in ACP countries; and (iii) to an enhanced market for MFI ratings.

EQ 4 on the Microfinance Sector – Answer Summary Box

The Programme made three contributions to the effectiveness and transparency of the microfinance sector in ACP countries: (i) generation and dissemination of ACP-relevant market information; (ii) enhancements to the regulatory frameworks and policy dialogue in ACP countries; and (iii) support for ratings among ACP MFIs. Regarding market information, the Programme contributed to the publication of a range of articles on various microfinance issues, sector analyses in the Caribbean and Pacific regions, reviews of information systems for MFIs, and enhanced knowledge dissemination activities of grantee MFIs. On regulatory and policy frameworks, the Programme raised awareness of policymakers to the needs of the microfinance sector in Central Africa and had a notable impact on the policy framework in West Africa. Finally, the Programme contributed to the market for ratings in the ACP, but some concerns remain regarding the financial sustainability of rating agency activities in the ACP region.

4.4.1 Programme contributions to the generation and dissemination of ACP-relevant market information (JCs 4.1 and 4.2)

The Programme made a variety of contributions to the generation and dissemination of ACP-relevant market information.

The Programme's contributions to the CGAP Work Programme 2008-2013 helped to reinforce and increase CGAP's coverage of ACP countries and issues, particularly in Africa. The Programme participated as a major donor and encouraged CGAP to monitor ACP-relevant activities. Several stakeholders mentioned that the Programme's support to CGAP helped to reinforce CGAP's interest in Africa. Over the period 2006-2009, CGAP produced an average of 27 articles per year of particular relevance for microfinance in ACP countries, covering topics including: industry trends; new technologies; product diversification; access to finance for the poor; effectiveness of microfinance funding country-level assessments; and research on specific African MFIs. Many CGAP publications are available in more than one language, including French, Spanish and Portuguese. English, French and Spanish publications are distributed widely upon request through partnerships with national and regional microfinance networks. In addition to online publications, CGAP has established a permanent presence in Africa, with the creation of a representative in Kenya. CGAP also contributed to several training programmes covering ACP regions, including for instance delivery of the policy track at the renowned Boulder Microfinance Training; it also managed the CAPAF, a programme cofounded by the French government (MAE) and USAID which supported the setup of training and advisory services in Francophone Africa and Haiti. CAPAF partners trained over 8,000 people over nine years between 2000 and 2009.

In addition to its work with CGAP, the Programme supported knowledge dissemination through the support to the IS Program, the Pacific Financial Inclusions Programme (PFIP), Carib-Cap, the Africa Policy Forums, and three training programmes targeting ACP microfinance actors, in addition to working with grantees to enhance their knowledge dissemination practices.

The Programme made specific contributions to market information in regions of particular need, namely, the ACP Pacific Islands and the English-speaking Caribbean. Programme support for PFIP and Carib-Cap enhanced the information available to microfinance actors in the Pacific and Caribbean islands, both of which suffered from very low levels of information availability prior to the Programme's intervention. PFIP provided microfinance sector surveys and financial literacy studies in the ACP Pacific Islands to fill sector information gaps, identify market opportunities and support evidence-based policy and technical advice. Over the evaluation period, 9 separate studies were completed and published on the PFIP website, covering a range of topics, including: financial services sector needs; analyses of microfinance provider organisations; women's financial inclusion; microinsurance; financial competency and household wellbeing; mobile money distribution networks; and rural banking. Carib-Cap organised two annual Fora on microfinance for the Caribbean region, and disseminated lessons learned and sector knowledge, including a financial services demand survey, via the Carib-Cap website. In addition, Carib-Cap contributed to the construction of the first database on MFIs in the English-speaking Caribbean. Finally, over the course of the evaluation period, Carib-Cap conducted a series of capacity building efforts for partner MFIs (assessments, training, capacity building plans, etc.).

The support to the Information Systems Program (IS Program) contributed to improved market intelligence on information systems among ACP microfinance institutions. The IS Program produced 25 updated software reviews and listings of software products, a survey on technology use at MFIs and a technical guide on information systems (a focus note on back office outsourcing options for MFIs was not developed in the end, however). All software reviews were made available online at www.cgap.org/softwarelistings and 17 out of the 25 reviews were made available in at least two languages. Following closure of the IS Program in 2010, CGAP, the implementing partner, began efforts to transfer the software listings to the MIX Market website, thereby facilitating further dissemination beyond the life of the IS Program. In addition to the online reviews and surveys, the IS Program conducted individual assignments to improve the information systems of 23 individual microfinance institutions in the ACP, as well as one sector-level assignment to assist the development of an IT strategy in Rwanda in cooperation with the Association of MFIs of Rwanda.

The Programme enhanced knowledge dissemination among policymakers and MFI management in the ACP countries. The Programme's Peer Learning Event brought together 25 participants from 21 Programme beneficiary organisations to share lessons learned and pool knowledge. The event led to the creation and dissemination of an e-booklet, entitled "27 Ideas Worth Talking About for Building Capacity in Microfinance". In addition, the Programme provided scholarships for 52 ACP policymakers to attend the ITCILO Boulder microfinance training, which is widely perceived as *the* leading training course in microfinance for decision-makers, as well as supporting the implementation of training for 136 MFI managers and trainers at the ITCILO Making Microfinance Work workshops conducted throughout the evaluation period.

The Programme encouraged grantees to disseminate information on a leading industry information website. At the time of Programme closure, all 11 grantees were registered on the MIXMarket site at www.mixmarket.org. Moreover, Aquadev, MIFED, Opportunity International and Triodos all contributed to the registration of partner MFIs on the site. In the case of Opportunity International and Triodos, these efforts are attributable to the Programme intervention on the basis that these grantees had minimum performance thresholds pertaining to the number of their partner MFIs subscribed to the MIXMarket by the grant end.

Finally, a few Programme grants made under the Call for Proposals mechanism included performance targets related to information dissemination, though completion rates of the related-work was mixed. AMFIU reported the launch of a consumer education programme across 35 districts of Uganda, including the production of a consumer handbook and code of practice. Triodos targeted the production of risk management and sustainability management tools as part of its training of local service providers. UOB should have established a savings literature library for the benefit of Rwandan MFIs (a performance indicator of the grant), but the field mission found that such library had never been created.

4.4.2 Programme contributions to improved regulatory and policy frameworks in ACP countries (JC 4.3)

The Programme supported the policy work of CGAP in the ACP countries, with clear impact on the regulatory framework in West Africa, in addition to further activities enhancing the resources available for policymakers in the ACP region. In West Africa, CGAP worked with the Swedish cooperation and UNCDF on a three-year project to provide advice to the Regional Central Bank BCEAO and strengthen regional regulation, supervision and information dissemination. This program had a particularly strong impact on the improvement of the legal framework, notably the definition of a new law in 2007 adapted to the needs of the microfinance industry. CGAP also worked with policy makers in Nigeria to build coherent policy and regulatory frameworks enabling new technologies in financial services under the framework of the Branchless Banking Policy Challenge. CGAP has also conducted policy diagnostic analysis in three ACP countries and has worked on legislative reform and policy advice in Sudan, Madagascar, DRC, Benin, Rwanda, Nigeria, Kenya, Ethiopia, Malawi, Mali, and Uganda. Finally, CGAP established the Regulation and Supervision Resource Centre, which hosts policy and regulatory information from 11 ACP countries and information on one PARMEC law³³ (see JC 4.3 in Annex 4 for further information).

The Programme also provided support for communication and coordination between policymakers in Central Africa. The Africa Policy Forums, supported by the Programme in 2008 and 2009, improved communication and coordination between Ministry of Finance staff and regional Central Banks. In 2008, the Forum was held in Cameroon. Ten CEMAC³⁴ countries participated at the Forum, alongside the Central African Central Bank

³³ Projet d'Appui à la Réglementation des Mutuelles d'Epargne et de Crédit (PARMEC)

³⁴ Central African Economic and Monetary Community (CEMAC)

(COBAC). **Some specific policy and regulatory changes can be attributed to the Forum itself** (*see the box in section 4.3.3*). **The Forum was also important in highlighting microfinance sector needs for African policymakers should be noted.** Participants interviewed during the evaluation field mission noted that the Forum provided him with an opportunity to reflect on the most pressing regulatory issues in the sector at the time and encouraged them to undertake reviews of their own microfinance policy frameworks subsequently (*see Section 4.3.3. above and JC 4.3 in Annex 4 for further information*).

However, it should also be noted that, in some instances, taking account of the broader perspective, at the macro-level in particular, could have improved other micro- and meso-level interventions. In the Caribbean, Programme support was targeted only at the meso- and micro-levels (in Carib-Cap's first phase), while support for relieving macro-level difficulties for MFIs would also have made sense.

4.4.3 Programme contributions to an enhanced market for MFI ratings (JC 4.4)

The Programme enhanced the supply-side of the ACP ratings market by contributing to the co-funding of 110 ratings in ACP countries, but mixed results were observed in the field regarding further demand for ratings among microfinance institutions. The Programme support to the Rating Fund contributed to 110 co-funded ratings of ACP microfinance institutions. Demand for ratings in ACP region also increased significantly over the evaluation period, with a growth of 386% in the three years following 2005 across sub-Saharan Africa.³⁵ The Programme made a contribution, though limited, to demand-growth in this region, including 7 awareness-raising seminars in ACP countries during the evaluation period. Nevertheless, the evaluation field missions returned mixed results regarding the demand for ratings. Overall, field visits confirmed a global picture that only a minority of African MFIs engaged in the rating process were actually initiating renewed ratings (as noted in the Rating Initiative's Microfinance Rating Market Review 2011). In Cameroon, MFIs were generally not convinced by the utility of ratings, except regarding increased visibility towards international donors. In contrast, smaller MFIs interviewed in Rwanda and Kenya showed a clear interest in ratings, in part to better understand their own strengths and weaknesses. Smaller MFIs also reported that they viewed ratings as a useful way to attract funds, though little real evidence of such leverage was found during the evaluation. Finally, whilst demand for ratings as a whole continued after the Rating Fund closed, one should distinguish the demand for social ratings (67% increase in social ratings conducted in Africa between 2008-2010) and financial ratings (a 26% drop).

Concerns remain regarding the financial sustainability of rating agency activities within the ACP region. Whilst ratings continued in Africa after the closure of the Rating Fund, the number conducted per year declined. Moreover, ratings remain expensive for ACP MFIs, making it difficult for all but the larger ones to fund ratings through own resources. This dependency on subsidies has also been confirmed by other reports, such as

³⁵ ADA, Ratings Outlook Report (2008)

UNEPFI³⁶ (2009). Ratings remain useful but are not indispensable: several microfinance investors use ratings as a source of “second opinions”, but only a few investors rely upon ratings on their own to decide between MFIs.

4.5 EQ 5 on leverage

EQ5: To what extent has the Programme leveraged and diversified financing sources for microfinance actors?

This question focuses on the leverage effect of the grants provided by the Programme. Its objective is threefold: (i) analysing the additional funding received by grantees and the level of diversification of their funding sources and instruments; (ii) estimating the impact of ratings on leverage; and (iii) considering more globally the extent to which leverage can be attributed to the Programme.

EQ 5 on Leverage – Answer Summary Box

Leverage (i.e. access to additional funding, and/or more diversified funding) could be observed mainly for larger MFIs or MFIs linked to international networks. Leverage remained limited for second-tier MFIs and savings-oriented institutions – however, large savings-oriented MFIs managed to increase their ability to collect deposits (see EQ 6 on product diversification).

Trends observed for programme grantees – increased mobilisation and diversification, but mainly towards public donors and less private investors – reflect in general market trends in sub-Saharan Africa, and are not specific to the Programme

Nonetheless, though no evidence was found that proves the observed leverage effect can be mainly attributed to the Programme funding, in several cases the Programme grant played a decisive role in convincing other funders.

4.5.1 The leverage of additional public and non-public funding on top of Programme support (JC 5.1)

Leverage varied greatly depending on the MFI/organisation size and the international support received.

- There is evidence of leverage effects – in the sense of additional funding (grants & loans) - (see JC 5.1 of Annex 4) in the case of bigger/more sustainable MFIs (Greenfields in particular), as well as for smaller but sustainable (or nearly sustainable) MFIs supported by international organisations (such as SIDI, Aquadev). Leverage can also be observed for some “meso” organisations or programmes – MAIN, PFIP, MIFED (not AMFIU) gained visibility during the Programme duration.
- Very logically, since they rely less on external funding, leverage is much more limited or non-existent for savings-oriented grantees (e.g. Urwego: no additional resources have been leveraged, with the exception of new partnerships for new branches).

³⁶ United Nations Environment Programme (UNEP) Finance Initiative

- Leverage is very limited as well for 2nd or 3rd tier MFIs with delinquency issues or uncertain sustainability prospects (several of SIDI, Aquadev and TRIODOS partners, one of MIFED's partners), and recently created organisations, still very much dependent on their initial funding partner (e.g. Carib-cap partners & CMFA).

Grantees managed to mobilise additional public funding, but little semi-public and private funding (apart from deposits).

- **Public funding (international donor agencies)** is still the first type of funding mobilised by grantees (including Greenfield and more commercially oriented MFIs). This is not surprising given the prevalence of donor funding in sub-Saharan Africa (*versus* semi-public and private funding) - see below.
- The first non-public funding mobilised is actually **local deposits**, through increased mobilisation by almost all MFIs – in both rural and urban areas. This results from the strengthening of MFIs (which in turn increases both the capacity to mobilise savings and the confidence of depositors) and in a few cases from specific efforts to extend the range of savings services (e.g. SIDI, Opportunity), in an African context favourable to savings practices. A few examples of new links being established with **local banks** were also mentioned (SIDI's partners, MIFED, ADVANS, Triodos' partner MFIs) but remain limited. As for **private and semi-private donors/investors** (MIVs in particular), mobilisation is even more limited (see below, 4.5.3).

4.5.2 The diversification of supported MFIs and networks funders and funding instruments, including with non-public funds (JC 5.2)

There is evidence of diversification in funding sources for some of the grantees, as shown in the table below:

Table 8: Grantee funding diversity

Grantee	# Active funders – 2006	# Active funders – 2008
Advans	1 donor (EU/ACP) 2 investors (ADVANS SA /IFC) 1 local investor/bank (SGBC)	2 donors (EU/ACP, AFD) 4 investors (ADVANS SA, IFC, EIB, FMO) 1 local investor/bank (SGBC)
LFS /AccèsBan que	1 donor (EU/ACP) 2 private funds (Triodos-Doen and BFV-SG) 2 investors (AccessHolding, AfriCap)	2 donors (EU/ACP, KFW) 2 private funds (Triodos-Doen and BFV-SG) 3 investors (AccessHolding, AfriCap, IFC)
Aquadev's MFIs	3 donors (EU/ACP, FAIL, Belgian cooperation)	For some MFIs: 4 donors (EU/ACP, IDB, Belgian cooperation and FAIL) 1 investor (OIKOCREDIT)
PFIP	2 donors (EU/ACP, UNDP/UNCDF)	12 public and non-public funds (as of Q2, 2010)
MIFED	1 donor (EU/ACP)	4 donors (AFD, GIZ, Cameroon State, BAD)
A3C CVECA network	1 donors (EU/ACP)	2 donors (State/Min. of agriculture, PAMIGA)

No such diversification can be observed for the other grantees – as could be expected, only the biggest MFIs and those related to international networks managed to really expand their range of donors.

Donor agencies still account for much of the diversification, and mobilisation of private and semi-private donors and investors (MIVs in particular) is limited. This reflects three issues:

- the relatively low share of investments of MIVs and private investors in SSA up to 2010 (due to the lack of opportunities of investments in attractive and mature MFIs) - SSA being so far the continent with least MIV investment (less than 7% of all investment by MIVs³⁷, although MIV investment is on a rising trend);
- the difficulty for 2nd and 3rd tier MFIs (e.g. Aquadev, SIDI, CVECA) to attract investors, except through dedicated instruments created by international partners (hence the FEFISOL initiative by SIDI, or the investment fund envisaged by PAMIGA³⁸);
- their cooperative status, limiting possibilities for equity investment (in recent microfinance models as Greenfields, the main funders are also shareholders); examples are Aquadev partner MFIs.

As regards funding instruments, some diversification towards more commercial tools was observed for the biggest, most sustainable MFIs, albeit at an early stage.

Most of the funding so far (including that for the Greenfields Advans and AccèsBanque which are still at an early stage of development) is still composed of grants or concessional loans. Again, Sub-Saharan Africa uses more grant funding (42% of all funding in 2009, according to CGAP/MIX) than any other region in the world.

The Greenfield MFIs (Advans & AccèsBanque) were located in countries with low cross-border funding and little diversification (Cameroon, Madagascar), which could explain why the grant played a decisive role in convincing shareholders and investors to support local subsidiaries of Advans and AccèsBanque, enabling them to access subsequently diversified funding instruments. Advans, for example, evolved from grant and equity (offered by four funders) in 2006 to a diversified panel of instruments at the end of 2008 (grant, equity, concessional loans, mid-term commercial loan and guarantee, from nine funders).

Offering grants to MFIs (instead of commercial funding instruments) was justified, and there is no evidence of significant market distortion.

- a majority of partner MFIs (SIDI, Aquadev), which were not yet sustainable, had proven needs of capacity-building and hence could not access commercial funding prior to the Programme support;
- even for the more mature MFIs, the need to innovate (in new products, MIS, etc) may justify the use of grants; for instance, Advans used the grant for the initial expatriate

³⁷ Ref. CGAP/MIX, SSA Microfinance Analysis and Benchmarking, 2010.

³⁸ Groupe Microfinance Participative pour l'Afrique (PAMIGA) created among others by the French associative group CIDR

support and support missions needed to set up a new MFI, and for new product testing, whereas loans were used for portfolio extension;

- the use of grant funding did not seem to have impacted negatively on the sector (market distortion) in any of the cases analysed (no case of strong competition reported so far).

4.5.3 The impact of ratings (Rating Fund) on leverage of additional funding

Rating has not played a decisive role in attracting new funders in most cases, despite some examples of leverage.

Academic research shows that simply being rated is not sufficient for leverage. A study (Hartarska and Nadolnyak, 2008) based on 394 MFIs (including 74 African MFIs) indicated that, except in Latin America, there was no clear evidence that rating helps MFIs raise more funds. The observations made during the desk and field phases tend to confirm this statement. On the one hand, amongst grantee MFIs, Greenfields tend to consider that ratings do not have any real value-added, since contacts with international funders are already established; while some smaller MFIs (A3C, UCCGN, Aquadev's partners) considered that they are not yet ready.

However, some positive appreciations have also been reported; for example:

- ratings have indirectly contributed to leverage by improving the transparency of MFIs, rather than directly enabling these MFIs to raise additional funding;
- in a few cases (e.g. CCA Cameroon), MFIs reported that ratings had helped them mobilise some additional funding from public agencies, more than commercial funding; in the emerging microfinance context of Rwanda, many MFIs met (including 2nd tier, smaller MFIs) were interested in rating, with high expectations as to possible impacts on leverage;
- several investors interviewed explained that they use ratings as a 'second opinion' to confirm their analysis – few examples were cited of hands-off investors relying exclusively on ratings (*see Annex 4 for further details*).

4.5.4 Attribution of leverage – both mobilisation and diversification of funding – to the Programme

There is a lack of evidence to demonstrate that the leverage effect observed can be mainly attributed to the Programme funding. This is mainly due to the limited amount of money granted to beneficiaries (compared to all funding received from other sources) and to the short grant duration. In many cases the leverage observed is linked to previous relationships established with donors or investors by grantee organisations – in particular, Greenfields networks such as Horus and LFS, and international NGOs such as SIDI, Aquadev, Triodos or Opportunity, had previously established links with investors (both public and MIVs). The more mature MFIs already received funding from several donors.

But in several cases, however, the evaluation detected a link between fund mobilisation and Programme support. Interviews during field missions indicate that the

EC expertise and experience in microfinance is not yet widely recognised by microfinance investors as a “quality stamp” sufficient to attract their funding. Nonetheless, in several cases the Programme grant played a proven role in leverage. Some examples are given below:

- The availability of the EU/ACP grant was a key argument in convincing shareholders to invest in local Greenfield MFI, for both Advans and AccèsBanque. The Programme invested in Greenfields at an early stage (e.g. Advans Cameroun was the first African Greenfield setup by Horus), at a time when securing a grant for technical assistance was essential for the networks and their investors, especially in countries perceived as risky. The success of Advans Cameroun also contributed to persuading AFD to support Advans SA with a multi-country grant (on SME finance).
- At “meso” level, in the case of PFIP and for two organisations (MAIN, MIFED), the Programme support also convinced other donors. The value added was less in terms of money, which was small, than in terms of visibility (for MAIN and MIFED) and in support for design (especially for PFIP, a project recognized for its innovative design and quality).
- Finally, through capacity-building the Programme helped several MFIs to strengthen their capacities and improve their transparency and performance, thus enabling them to improve their visibility or ability to “make them presentable” (for 2nd tier MFIs), to join networks, or to establish new links with funders (e.g. A3C joining PAMIGA, Aquadev’s partner Feprodes receiving a loan from Oikocredit, FSAs in Kenya, AMFIU’s members).

4.6 EQ 6 on Financial Services

EQ6: To what extent has the Programme contributed to increasing the range and use of microfinance services?

This questions aims at assessing the impact of the Programme, in terms of increased range of financial services and their use by end-clients. The answer to the question is structured in terms of (i) the importance given in the Programme to product and service diversification and (ii) the range of products and services offered to clients by beneficiary MFIs and their use.

EQ 6 on Financial Services – Answer Summary Box

Product diversification played a prominent part in the Programme’s objectives and was pursued directly or indirectly across a range of Programme grants through market research, product design, testing and launch. As a result many MFIs supported by the Programme introduced new products and services and end-clients now have an increased range of products and services from which to choose. The Programme also supported research and innovation, but primarily through its partnership with CGAP rather than its direct support to MFIs and MFI networks.

4.6.1 Importance given in the Programme to product diversification

The Programme aimed at increasing the range of financial services mainly indirectly through institutional capacity-building. Provision of a broader range of effective financial services was a key objective of the Programme, as mentioned in the ‘project purpose’ of the Logical Framework. It had mainly to result from enhanced capacity and performance of microfinance actors, as shown in the reconstructed Intervention Logic (*see section 2.3*), and in that regard mainly from the capacity-building component of the Programme (C1). Accordingly ‘diversification of financial services for the poor’ was one of the four objectives that respondents to the Call for Proposals had to meet, along with - for instance - ‘application of technology to reduce the transaction costs of financial services’ or ‘assisting the expansion of outreach in under-served markets’. Two grants were primarily aimed at product diversification (to Urwego and to Opportunity International UK); others treated it more indirectly. For instance two grants included specific performance targets relating to the range of products offered.

Several Programme interventions also funded market research, product design and testing, with the objective of contributing to diversification of financial services. These are one-shot expenses which are not likely to be funded by commercial funders (“smart subsidies”), and hence are particularly appropriate for grant funding. This was notably the case with the grants to KDA, Horus, Carib-Cap, and Opportunity International UK.

4.6.2 Range of services offered to and used by clients of beneficiary MFIs (JC 6.1 and JC 6.2)

Many MFIs have increased their range of products, although often only slightly. Many MFIs supported through a direct or indirect grant have introduced new products (*see box below*). The Programme contributed first to broadening the range of MFIs’ products and services (e.g. Urwego Opportunity Bank’s redesign of its savings products in Rwanda; micro-credit products created or refreshed for all but one of the MFIs of Carib-Cap; new microfinance services or products in each of the five sub-grants to micro-level actors within PFIP). The Programme also contributed to broadening the range of products available to under-served target population groups, albeit with existing or revamped products (e.g. UOB, KDA). Nevertheless in many cases only a single product or service was added (or improved). In any case the question of attribution remains difficult for many of the examples cited in the box below; it is often hazardous to say to what extent the Programme can be accredited with the introduction of new products. There was also ambivalence for certain MFIs: introduction of new products was probably not their main priority and to a certain extent it was done at the expense of necessary prior “cleansing” efforts (e.g. in Carib-Cap).

Box 3: Examples of new products and services introduced by supported MFIs¹

Savings products (UOB, KDA, OMIPA/JEMENI/TAANADI under SIDI grant, AccèsBanque Madagascar under LFS grant, Advans Cameroun under Horus grant, A3C under MIFED grant, OIB Malawi under OI UK grant); **housing product** (HFHG under OI UK grant); **leasing product** (KDA, MEC Propas under Aquadev grant); **money transfer services** (MEC FEPRODES under Aquadev grant, AccèsBanque Madagascar under LFS grant, Advans Cameroun under Horus grant, Taanadi under SIDI grant), **local transfer service** (AccèsBanque Madagascar under LFS grant); **utility payment service** (AccèsBanque Madagascar under LFS grant); **cheques** (AccèsBanque Madagascar under LFS grant, Advans Cameroun under Horus grant); **micro-insurance products** (e.g. health, life, funeral, crop, software, etc. through MicroEnsure under OI UK grant); **rural e-banking service / branchless banking** (National Bank of Vanuatu and Nationwide Bank Papua New Guinea under PFIF grant); **mobile-banking service** (Vodafone Fiji under PFIF grant, M-Pesa by KDA); **mobile-payment system** (DataNets PNG under PFIF grant); **longer-term loan** (MIFED); **agricultural loan** (KDA, UOB under Urwego and OI UK grant, OMIPA under SIDI grant); **SME loan** (under OI UK grant); **cistern loan** (OMIPA under SIDI grant), **salary loan** (OMIPA under SIDI grant); **education loan** (OMIPA under SIDI grant); **'bonanza' credit** (OMIPA under SIDI grant); **market day loan** (KDA) – see EQ 6 in Annex 4 for details

The Programme contributed to research and innovation essentially through its support to CGAP, more than through the capacity-building component. By contribution to CGAP's Work Programme, as one of the largest of many donors the Programme contributed to its research work on product diversification, new delivery models and new microfinance technologies (mobile banking, money transfers, etc.). The accent of the contribution was on investigating specific issues in ACP countries. For instance CGAP activities in this field included two field tests in ACP countries under the CGAP's Technology Programme; three Technology Fora for Francophone Africa between 2004 and 2008; two pilots in ACP countries for the Graduation programme aimed at testing innovative financial products and methodologies; CGAP papers and guides on new products, some of which were translated into French; and launching of a global fund for remittances for encouraging credible strategies for money transfers in rural areas³⁹. With regard to other Programme grants, an indirect grantee (Microensure through Opportunity International UK) was given an award for his pioneering work in micro-insurance⁴⁰. Besides most new products or services were new to the country or region, although few were truly innovative on a global scale. Creating a genuinely new product needs time and effort, which was difficult in the short timeframes; larger MFIs and networks performed better in this perspective, given their critical mass for paying off investment costs with less difficulty (e.g. Opportunity International, Advans). Several grantees stressed the importance of grant funding for creating or testing new products at country level.

³⁹ See JC 6.1 under Annex 4 for more information on CGAP activities mentioned in this paragraph.

⁴⁰ Microensure won the Financial Times / International Finance Corporation 2009 Sustainable Banking Award in Achievement in Basic Needs Financing for its pioneering work providing life insurance products with two leading Ghanaian mobile phone providers.

End-clients have used a broader range of financial services, at least through three Programme grants clearly pursuing product diversification or rural expansion.

Analysis of the different interventions and their achievements show that there has been (a certain level of) additionality in several grants aimed at increasing the range of products and services, mainly through micro-level support. For instance:

- the grant to UOB has funded the opening of three rural branches in Rwanda, thereby introducing better service and easier access to banking products in the region;
- the grant to Opportunity International UK has contributed to funding of Microensure's pioneer work which, despite not reaching its target for breadth of outreach (number of clients), contributed to introducing new micro-insurance products to end-clients; *and*
- the grant to KDA contributed to demonstrating, through its support to Financial Services Associations in Kenya⁴¹, that microfinance could work in previously unserved regions of the country (although portfolio at risk remained an unresolved issue for those FSAs).

Several MFIs now offer various products to end-clients (including PFIP member organisations that offer mobile banking services in the Pacific Islands). **But, overall, information on end-client use of an increased range of microfinancial services is limited.** This is particularly true for grants other than the above-mentioned, the activities covered in these cases not being focused on product diversification; an increased range of products or services (the overall expected impact from the Programme) was seldom one of the indicators monitored. The main indicator providing information on the range of financial products used was breadth of outreach, where available. No impact studies have been conducted in the framework of this Programme (although it was a performance target for the UOB grant, for instance). Data on client satisfaction levels and retention rates, for instance, were also scarce; these factors were rarely considered as performance targets or monitored.

Finally, the Programme did not contribute much to non-financial services to clients.

The two main examples observed were a grant to AMFIU in Uganda for a training programme on financial education (43 SACCO⁴² staff members trained) and Urwego Opportunity Bank in Rwanda which provided clients with three types of training: (i) on business development services (BDS), (ii) on impact of HIV/AIDS on their business, and (iii) on business ethics from a Christian perspective.

⁴¹ Financial Services Associations (FSAs) are rural grassroots member-based financial institutions that provide credit, savings and money transaction services to their members. Characterised by lower costs and the ability to operate in more remote rural areas, FSAs offer an important means of increasing access to financial services.

⁴² Savings and Credit Cooperatives

4.7 EQ 7 on Beneficiary Selection

EQ7: To what extent did the criteria and process for selecting partners/beneficiaries suit the Programme objectives?

This question assesses the adequacy of partner selection and the selection process with a view to attaining the goals of the Programme. It covers in particular the Programme's demand-driven component based on Calls for Proposals, but addresses also the selection of partners and beneficiaries for the other Programme components. The answer is composed of three parts: (i) the selection criteria for partners and grantees; (ii) the link between the selection criteria and the Programme goals; and (iii) the adequacy of the Call for Proposals mechanism for identifying grantees.

EQ 7 on Beneficiary Selection – Answer Summary Box

The Programme grantees were selected through an open Call for Proposals and in accordance with pre-defined selection criteria, with the remaining Programme partners selected on a case-by-case basis. The final selection of partners and grantees was well aligned with the Programme objectives. The Call for Proposals mechanism proved to be an adequate modality for grantee identification. In particular, the Call facilitated the selection of established partners capable of implementing projects, in line with the Programme objectives. As result, however, there are some concerns that the Call's eligibility conditions may have discouraged applications from organisations with large portfolios outside of the microfinance sector, while the application procedure itself may have discouraged participation by small microfinance organisations.

4.7.1 Selection criteria for partners and grantees (JC 7.1)

Programme grantees⁴³ were selected according to pre-defined selection criteria. The criteria were developed by the Programme Coordinator prior to the announcement of the Call for Proposals. The choice of selection criteria was informed in part by the results of a demand-driven survey conducted at the start of the Programme. The same criteria were applied to all 80 applications received, each application receiving a maximum score of 100 points on the basis of its strength on the following areas:

- the financial and operational capacity of the applicant organisation (maximum 40 points);
- the relevance of the proposed project to the Programme goals and target country needs (maximum 15 points);
- the technical approach and management (maximum 15 points);
- the sustainability and impact of the proposed project (maximum 20 points);
- cost-efficiency (maximum 10 points).

Beyond grantee selection in the first component of the Programme (through the Call for Proposals), other Programme partners were chosen by the Programme on a

⁴³ "Programme grantees" here refers solely to the direct beneficiaries of grants made under the Programme's demand-driven capacity building component (Component 1(a)).

case-by-case basis. On the whole, the selected partners were well placed to meet the needs addressed by each Programme component, as well as the Programme objectives as a whole. The choice of CGAP as implementing partner for the Programme was made at the Programme design phase. Following CGAP's role in the donor Peer Review of the Commission's support for microfinance, the EC elected to work closely with CGAP for the Programme. In addition, CGAP was the Programme implementing partner for the Component 3 (enhancing efficiency and transparency in the microfinance sector), for which CGAP was well placed given its reputation and capacity as a leading policy centre and norm-setter in the microfinance donor community. The Programme contributions to Carib-Cap and PFIP were both implemented in partnership with major donors working in the region at the time. ITC-ILO was chosen as the implementation partner for the Making Microfinance Work and Boulder training sessions on the basis of previous experience with running the Boulder training and their strong reputation in this area. Finally, Transtec were selected as partners for the training of journalists with Deutsche Welle as subcontractors. Deutsche Welle had previously implemented similar workshops under the Making Finance Work 4 Africa training programme, with which the Training for Journalists programme maintained links throughout implementation.

The eligibility conditions and selection criteria for grantees were relatively clear and made available to all potential beneficiaries, even though a proportion of applicants experienced difficulty understanding them. The Guidelines for Applicants document, which was made available in English and French on the Programme website, set out the selection criteria in full; explained the eligibility requirements for grantees; and presented the objectives of the Call for Proposals. However, 28% of the applications received were incorrectly completed (e.g. missing documentation or signatures) and half of those also asked for a grant amount outside the Call's boundaries. In addition, feedback from beneficiaries and other stakeholders regarding the clarity of the Guidelines document was mixed. Whilst one stakeholder interviewed by the evaluation team stated that the application procedure was conducted "following the highest standards", others disagreed, citing in particular confusion as to the potential for synergies with the EIB (see JC 7.1 in Annex 4 for further details).

4.7.2 The link between the grantee selection criteria and the Programme goals (JC 7.2)

The grantee selection criteria themselves gave only limited weight to the application's relevance to the Programme objectives or to the needs of target countries. Instead, the selection criteria gave priority to the capacity and sustainability of the applicants in order to ensure that the Programme delivered its goal of implementing strong projects. Successful applications were expected to demonstrate their relevance to at least one of the objectives of the Call for Proposals as outlined in the Guidelines, namely: (i) diversification of microfinance products and services, (ii) applying new technologies, (iii) expanding to rural and remote areas, and (iv) enhancing transparency. But a maximum of only 5 points out of the possible total score of 100 could be awarded to an application on the basis of its relevance to these objectives. Relevance to the needs and constraints of the target countries also received a maximum of

5 points.⁴⁴ This was in contrast to other criteria, such as the financial and operational capacity of the applicant (40% weighting) and sustainability (20% weighting). Moreover, applications did not have to meet any minimum threshold for each criterion, so in theory an application could be successful without scoring any points under Programme relevance.

Nevertheless, the grantee projects selected were well aligned with the Programme goal of enhancing the capacity of ACP microfinance institutions. All of the selected applications related to one of the four objectives listed in the preceding paragraph, or fell within the category of creation of Greenfields. In all, four of 11 projects aimed primarily at expanding access to microfinance services in rural and remote areas, two at diversification of microfinance products and services, two at enhancing transparency of microfinance institutions, two at creation of Greenfield microfinance banks and one at applying new technologies. Moreover, the selection criteria's emphasis on sustainability and the financial capacity of applicants helped to ensure that, in the view of some Programme stakeholders, the final grantee selection was able to contribute to the achievement of Programme goals (see JC 7.2 of Annex 4 for further details). As noted by one Programme stakeholder *"In the end we supported the ones with the best ideas, who could actually best implement results."* (see JC 7.3 of Annex 4 for further details).

4.7.3 The adequacy of the Call for Proposals modality for identifying grantees (JC 7.3)

The Call for Proposals mechanism enabled the identification of grantees from a wide pool of different organisations, based in a variety of regions. It was open to a wide range of types of organisation, including financial service providers, NGOs, network support organisations and investment funds, providing they could demonstrate a significant focus on microfinance. A total of 80 applications were made from a variety of organisations, including a significant number of organisations from developing countries (44%) *vis-à-vis* those from developed countries (56%).

However, there is some evidence to suggest that eligibility conditions constrained participation by large organisations. The eligibility criteria published in the Guidelines for Applicants (2005) state that investment funds applying for grants must have at least 50% of their portfolio oriented to microfinance suppliers. Interviews conducted during the evaluation suggest that this prevented the participation by large providers (both public and private) who, despite having sufficient capacity in microfinance to take advantage of a Programme grant, also have large portfolios outside the sector. An alternative would have been to focus on the minimum size of applicants' microfinance portfolios, or alternatively to look for indicators of organisational capacity such as minimum numbers of staff working primarily on microfinance.

⁴⁴ Nevertheless, as noted under section 4.7.1. above, the relevance criterion in fact totalled a maximum of 15 points. This was composed of the 5 points for relevance to the Programme goals; 5 for the relevance to target country needs and constraints; and 5 for the selection of partners and targeting of beneficiaries by the application.

Moreover, some elements of the Call for Proposals mechanism hampered participation by smaller organisations and those based in developing countries. **This was done on purpose, in particular in order to ensure that selected participants had the requisite capacity to implement projects successfully.** As noted under section 4.7.1. above, the weight given to the financial and operational capacity of the applicant (40%) and sustainability of the action (20%) hampered participation by smaller organisations. In addition, the Call for Proposal priorities listed in the Guidelines for Applicants placed emphasis on several features that can be difficult for smaller organisations to demonstrate, namely strong partnerships; multi-country and replicable projects; and leverage effect, particularly with respect to the EIB. Finally, owing to time pressure on the publication of the Call, the Programme implemented a “one-step” approach (in which all applicants submit full proposals) rather than a “two-step” approach (where all applicants submit a concept note and only those selected for step 2 complete a full proposal). This approach placed a significant administrative burden on all applicants, which may have deterred applications from those organisations less familiar with EU procedures. Indeed, lack of understanding of EU procedures was cited as a particular difficulty by some MFI staff interviewed during the evaluation.

Still, small local organisations did also benefit from the Programme, without winning a direct grant contract, through umbrella organisations. At least five of the 11 grantees (MIFED, AMFIU, SIDI, Opportunity International, AQUADEV) were implementing regional projects with local partners or else consisted of networks of smaller implementing organisations, thereby making provision for the participation of small MFIs as indirect beneficiaries of Programme support.

In addition, it should be noted that, beyond grantee identification, the Call for Proposals mechanism presented some difficulties regarding grant implementation. In particular, the time taken between proposal submission and contract award was problematic in countries with rapidly evolving microfinance markets. (See section 4.9.3 of this report for further details on this point.)

Finally, it should be noted that the Call for Proposal was initially envisaged as the first of two calls within the Programme period. **The fact that a second Call for Proposals for this five-year programme was not launched as initially announced, as well as creating false hopes, failed to generate any new demand-driven initiatives or to support in this way emerging areas of attention in a fast-changing microfinance context.**

4.8 EQ 8 on Cross-fertilisation

EQ8: To what extent has there been a cross-fertilisation of ideas and lessons learned between beneficiaries?

This question aims at assessing whether there has been cross-fertilisation between beneficiaries of the Programme (both grantees and partners), in terms of contacts, synergies, and exchange of information and ideas. The answer to the question is structured in two parts : (i) the planned cross-fertilisation activities within the Programme design itself ; and (ii) the actual instances of cross-fertilisation that occurred within the interventions.

EQ 8 on Cross-Fertilisation – Answer Summary Box

Notwithstanding a few examples of peer learning between beneficiaries, the Programme failed to fulfil its potential for cross-fertilisation between beneficiaries. The Programme included one dedicated platform for cross-fertilisation between beneficiaries: the Peer Learning Event in Brussels 2008. Whilst this event was highly rated by participants, it was not followed up by further cross-fertilisation activities or any active monitoring of participants' own cross-fertilisation actions after the event. Given the short timeframe and desire not to impose too many additional conditions on grantees, few grants requested or envisaged cross-fertilisation activities. Consequently, actual instances of cross-fertilisation beyond the Peer Learning Event were limited. Nevertheless, some cases do stand out, such as those seen between the Carib-Cap and Pacific Financial Inclusion Programmes, and the ITC-ILO training programme.

4.8.1 Planned cross-fertilisation activities within the Programme design (JC 8.1)

The Programme design included one dedicated platform for cross-fertilisation between beneficiaries, namely, the Peer Learning Event conducted in Brussels in 2008:

The Peer Learning Event enabled cross-fertilisation between Programme grantees across countries and regions. The event utilised the “Learning Cafe” method of peer-to-peer learning. In total, 25 participants, coming from 21 different organisations participated in the event, including 14 grantee and grantee-partner organisations. It allowed sharing of experience between participants from different organisations but also from different countries and regions (participants came from 9 African, 4 European, 1 Caribbean and 1 Pacific country). Participants rated the Peer Learning Event highly, with an average participant satisfaction score for the Peer Learning Event of 4.10 out of 5.

However, the Peer-Learning Event was not followed up with further cross-fertilisation activities during the Programme period and the Programme did not employ a mechanism for facilitating or monitoring contacts between participants after the Peer Learning Event. **Consequently, it is not possible to quantify the degree to which the event led to sustained learning and information exchange between participants.** The evaluation

team met participants of the Peer Learning event during the field phase, but no instances of follow-up activities were reported during these interviews.

Due to the short timeframe of grants, the complexity of implementation and the desire not to over-burden grantees with additional demands, **there was no specific “cross-fertilisation requirement” placed on Programme grantees** to integrate information-sharing activities in their projects, or to engage with other grantees during or after implementation.

4.8.2 Actual instances of cross-fertilisation that occurred within the Programme implementation (JC 8.2)

In addition to the cross-fertilisation activities planned in the Programme design, namely the 2008 Peer Learning Event (*see JC 8.1 above*), cross-fertilisation occurred in practice in several interventions, with other Programme beneficiaries or with other parties.

The supply-driven capacity-building component included two projects that explicitly shared information between themselves: Carib-Cap and the Pacific Financial Inclusion Programme (PFIP). Carib-Cap representatives visited the 1st Pacific Microfinance Week whilst PFIP staff attended the Caribbean Microfinance Forum the following year. One Carib-Cap staff member noted that the experience had a significant impact upon the implementation of the Carib-Cap programme, stating that it (a) triggered the decision to create a new network and gave them practical tools to do so; and (b) fostered a shift in mentality towards a more demand driven approach. (See JC 8.2 in Annex 4 for further information).

Moreover, both Carib-Cap and PFIP targeted cross-fertilisation within the wider microfinance sector as a core part of their activities. Both projects implemented annual microfinance fora and industry events. In addition to the annual events, PFIP also sponsored microfinance actors (including staff of MFIs, NGOs and central banks) to attend industry events in the broader Pacific region. In total, PFIP provided 15 bursaries for such industry events over the Programme period. (See JC 3.3 in Annex 4 for further information). Beyond specific cross-fertilisation events, Carib-Cap also utilised cross-fertilisation techniques, including the establishment of a “Learning Community”, within its MFI capacity-building strategy.

The Programme provided cross-fertilisation opportunities at the ITCILO training workshops for policymakers and MFI managers. The Programme sponsored 52 policymakers to attend the Boulder Training for Microfinance Actors provided at the ITCILO in Turin (Italy) and supported the training of 136 MFI management staff, including 49 microfinance trainers, via the ITCILO Making Microfinance Work workshops conducted in Africa. Whilst these events were training workshops rather than specifically cross-fertilisation activities, three peer-to-peer forums were held within the framework of these events. Participants rated the Boulder Training highly, with an average satisfaction score of 4.06 out of 5 for the events taking place during the evaluation period. Likewise, the Making Microfinance Work workshops received satisfaction ratings of 4.54 out of 5, exceeding the target of 4.00 (see JC 3.3 and JC 4.4 in Annex 4 for further information).

Four grantees had specific regional or international cross-fertilisation components.

Opportunity International implemented South-South learning between demonstration sites in Malawi, Ghana and Uganda. Urwego implemented peer learning visits for 3 institutions linked to the Savings Learning and Awareness conference in May 2009. SIDI provided, via its network, many opportunities for exchange between partner MFIs, including the 2009 MUSO workshop in Paris and the MAIN network meetings and workshops. Finally, the grant to ProCredit Congo included provision for North-South learning via the training of 7 DRC-based managers at the ProCredit Academy in Furth, Germany. (See JC 8.1 and JC 8.2 in Annex 4 for further information).

4.9 EQ 9 on Institutional set-up

EQ9: To what extent did the Programme's institutional set-up and configuration facilitate achievement of the Programme goals?

This question aims at assessing the peculiar institutional set-up of the Programme and its innovative approach with performance-based contracts. The response starts with an introduction on the overall set-up and is then structured as follows: (i) level of Programme Coordination's expertise in microfinance; (ii) effect of the institutional set-up on the EC's capacity in microfinance and on the management of the Programme; and (iii) lessons from performance-based contracts.

EQ 9 on Institutional Set-Up – Answer Summary Box

The Programme's peculiar institutional set-up with a CGAP employee as Programme coordinator enabled the EC to have the Programme managed with strong microfinance expertise and applying good practices in this field - this was widely recognised as one of the Programme's key success factors. But the decentralisation to EU Delegations of the follow-up of country-level grants posed several difficulties, given the limited expertise in microfinance in many Delegations.

Finally, the use of performance-based contracts for the Programme grants, while not without teething problems, proved to be an effective incentive for attainment of results as well as a useful monitoring tool.

The Programme was run by a 'Programme Coordinator', a CGAP employee detached specifically for the management of the programme. The Programme Coordinator also controlled the secretariat of the Steering Committee, which was composed of the EC, the ACP Secretariat and CGAP, with the EIB as a non-voting member. The EC remained the contracting authority for all contracts signed within the Programme (under the 'centralised management' modality); an EC staff member therefore had the function of 'task manager' of the Programme. It appears from several testimonies that this set-up was chosen for four main reasons: (i) the EC's concern to ensure that its new flagship programme in microfinance was widely recognised as of high quality; (ii) the willingness of the EC to strengthen its institutional capacity in microfinance; (iii) time pressure, in the sense that the EC sought rapid set-up of the Programme and that launching a formal (internal/external) recruitment process for a Programme coordinator would have taken longer than

contracting CGAP; and (iv) CGAP's interest in gaining experience at operational level, in particular with the opportunity of following up on its recommendations in the 2003 Peer Review⁴⁵.

4.9.1 Programme Coordination expertise in microfinance (JC 9.1)

By partnering with CGAP the EC ensured that the Programme was managed with strong microfinance expertise. Indeed CGAP was and still is widely recognised as the leading policy centre in microfinance with high professional standards. Its technical expertise and wide network in the field of microfinance contributed both to the state-of-the-art design of the Programme in terms of the then current CGAP guidelines of the time, and to follow-up of interventions during Programme implementation.

The Programme was also managed in accordance with high quality standards. CGAP in fact had little prior experience of directly managing microfinance projects over a five-year period in collaboration with another donor; it had nevertheless taken responsibility for other, smaller, project management activities, mainly at the request of microfinance actors. Several commentators questioned whether CGAP should have kept to its core business of policy and research, generally speaking. But CGAP considered that it would be useful for the centre also to gain direct management experience in microfinance for better insight into operational aspects (e.g. on their recommendation to have performance-based agreements with MFIs). In any case most stakeholders involved expressed explicit satisfaction with the quality of the support they received from the CGAP Programme Coordinator.

4.9.2 Effect of institutional set-up on EC capacity in microfinance (JC 9.2)

The Programme's institutional set-up facilitated strengthening of the EC capacity in microfinance. As further detailed under EQ10, CGAP's coordination role in the Programme enabled the EC to have direct and easy access to first-rate CGAP expertise, both within and beyond the Programme. Relations and coordination have been good between the successive (CGAP) Programme Coordinators and the (EC) Programme task managers, and also with the EC Microfinance Focal Points. This benefited *inter alia* the annual three-day training sessions on microfinance for EC staff from 2007, the definition of the EC Guidelines on Microfinance (2008), and joint participation in annual Microfinance Weeks of the European Microfinance Platform (e-MFP). In addition the easy access to and active support from the EC Programme task manager was also considered helpful by several EU Delegations in charge of the follow-up of Programme grants at country level.

⁴⁵ See I-9.1.1 under Annex 4 for more details on the reasons behind the institutional set-up of the Programme.

4.9.3 Effect of institutional set-up on Programme management (JC 9.3)

The overall set-up impacted on the management of the Programme mainly in terms of confusion on roles, strict EC rules and procedures to be followed, and decentralisation of follow-up activities to EU Delegations – these elements are described below.

Double affiliation of Programme coordinators created some confusion. Many stakeholders met were confused as to the paternity of the Programme. They thought of it either as a CGAP programme or as an EC programme, or knew both were involved but never came to understand the set-up precisely (*see also section 4.10.3 on visibility*). The set-up also created situations of conflict of interest which were delicate to manage. The Programme was indeed providing almost 30% of its resources to CGAP: funding of the CGAP Work Programme (17%) and of two CGAP initiatives, namely the Rating Fund (7%) and the Information System Program (5%). Nevertheless, despite some questions, no major issue relating to conflict of interest has come to light.

EC rules and procedures were difficult to handle for several MFIs or donors and for introducing innovative approaches. The EC remained the contracting authority for the Programme under the ‘centralised management’ modality, implying that EC rules and procedures applied for grant and service contracts and for establishing contribution agreements with international organisations. MFIs, donors and other grantees mentioned unresolved issues particularly with regard to reporting, currency exchange rates, procurement, and audit requirements. When adding frequent oversight on grantee side vs. strict EC rules, difficulties led eventually to delays in disbursement for some grantees⁴⁶. Additionally, the road to travel towards introduction of innovative approaches was full of obstacles and, thus, of necessity, longer. This was for instance the case with the performance-based agreements, the specific set-up of Carib-Cap, the grant to MIFED, and others. Several grantees nevertheless mentioned that EC Headquarters and Delegation staff often tried to help them address these difficulties as far as the rules allowed.

Besides, the duration of the Call for Proposals process proved difficult for several grantees. It first took about eight months to set up the Call for Proposals, among other reasons because the procedures differed (e.g. for performance-based contracts) from standard EC calls for proposals. There was then typically a gap of one year between the launch of the Call (June 2005) and the signature of contracts with the grantees (June-July 2006). This was a particularly difficult gap to fill for MFIs with little cash flow flexibility or in rapidly changing contexts (e.g. MIFED, Procredit).

The decentralisation to EU Delegations of the follow-up of country-level microfinance grants posed several difficulties and questions. The set-up laid down that the Programme Coordinator managed the Call for Proposals and related selection of and contracting with applicants. For country-level grants the EC decided to give Delegations the responsibility for the follow-up of the activities and contractual and financial reporting; they were also consulted during the Call for Proposals. Field missions and opinions received showed that in many cases effective follow-up was hampered by the limited expertise in microfinance at the Delegation or by the limited priority given to it

⁴⁶ See examples under I-9.3.1 in Annex 4.

because the Programme was not part of bilateral cooperation (for which the Delegations are mainly accountable). This was even more the case in those countries where microfinance was not part of the EC's focal sectors of cooperation or was a field with few interventions in the country. It led notably to difficulties in terms of follow-up of performance target achievement and contractual aspects, but also in terms of coherence and synergies with other EC interventions or participation to Programme events and other activities in this sector (e.g. thematic donor coordination meetings). Commentators mentioned the exception of the Delegation in Madagascar, in that there was a microfinance programme funded with EDF resources and hence a staff member spending a clear portion of his time on microfinance, and the Delegation in Uganda where the Programme coordinator helped them find consultants for their specific programmes and where an exchange of expertise took place. More generally, country-level activities of this centralised multi-country thematic Programme were clearly not aligned with the EC bilateral cooperation, at any rate not in all countries visited⁴⁷, despite an effort to consult Delegations on project proposals in the context of the call for proposals. Some commentators noted however, that lack of coherence at country-level was not necessarily a major issue for such a demand-based all-ACP programme and for such a flagship programme that aims at overall EC learning and contribution to the wider microfinance community.

4.9.4 Performance-based contracts (JC 9.4)

Performance-based contracts were an incentive for attainment of results and a useful monitoring tool. The use of performance-based contracts⁴⁸ was an innovative feature of the Programme, in the sense that it was one of the first occasions it was used for both CGAP and the EC⁴⁹, and also for other microfinance donors at the time. It was an opportunity to gain practical experience of CGAP's recommendations on the subject for the Programme (and as formalised later in CGAP's 2006 Good Practice Guidelines)⁵⁰. Performance-based contracts were in fact very useful for both donors and grantees, as acknowledged by most, if not all, stakeholders met. They enabled grantees to remain focused on primary objectives, in that key targets had minimum performance thresholds, on which payment of the next tranche of funding was dependent. Performance-based contracts also streamlined monitoring, which was being performed quarterly and annually based on a few (between 7 and 12) objectively verifiable indicators. In combination with quarterly and annual reporting from the Programme Coordinator to the Steering Committee, it helped the EC, CGAP, ACP Secretariat and EIB gain a clear view on progress towards results and on key issues at stake.

Nevertheless, the implementation of performance-based contracts encountered teething problems in terms of EC procedures. A first difficulty lay in drafting the Call for Proposals (which took eight months in all – see JC 4.9.3 above). A second lay in allowing changes in the targets of the grant applications prior to contracting, with a view to more realistic and homogeneous targets. Changing targets later by way of adapting them to a moving context, was also challenging. Finally difficulties lay in the double standards of

⁴⁷ Cameroon, Rwanda, Kenya and Jamaica

⁴⁸ For details on what performance-based contracts consist of, see JC 9.4 under Annex 4.

⁴⁹ For project/programme modalities – budget support is also based on performance (disbursement of variable tranches depend on achievement of targets).

⁵⁰ Microfinance Consensus Guidelines: Good Practice Guidelines for Funders of Microfinance, CGAP, 2006

EC contracts in respect of payments, as the maximum amounts to be disbursed depended on both performance targets and eligible expenses. There were also unsolved questions of how to implement the ‘punitive value’ system (it has not been applied in consequence)⁵¹.

On average, 90% of minimum performance thresholds and 68% of performance targets were met by grantees, as shown in Table 9 below.

Table 9: Achievement of Targets in Performance-Based Contracts⁵²

	Min. Perf. Thresholds		Perf. Targets	
	Reached/Total	%	Reached/Total	%
Urwego	4/4	100%	8/10	80%
OI UK	4/5	80%	7/10	70%
Procredit	<i>(cancelled)</i>			
AQUADEV	4/4	100%	3/8	38%
MIFED	4/5	80%	7/8	88%
KDA	4/5	80%	5/8	63%
SIDI	5/5	100%	5/7	71%
Triodos	5/5	100%	9/10	90%
AMFIU	4/5	80%	5/10	50%
LFS	4/4	100%	6/8	75%
Horus	3/3	100%	7/12	58%
ITC-ILO	2/2	100%	6/9	67%
AVERAGE		90%		68%

Whilst the average performance on minimum thresholds was relatively high at 90%, the number of grantees that met 100% of their thresholds was lower than this might suggest, with only seven of the eleven grantees (64%) meeting all their minimum performance thresholds. Four grantees hence failed to meet one or two thresholds (MIFED, Opportunity International, AMFIU and KDA – the last-mentioned mainly due to externalities).

Average achievement of maximum performance targets was lower, at 68%. Notably, the level of target achievement did not vary significantly between “core targets” (i.e. those targets for which the grantee also had to meet minimum performance thresholds) and “non-core” targets (i.e. those for which they did not). Moreover, it should be noted that the target levels were actually reduced in many cases compared to the initial target figures, so as to take account of over-ambitious levels and changing contexts. In a few further cases targets were mentioned as met (or almost met), but later information requests or field visits revealed that in fact they were not complied with (e.g. library and impact assessment for the grant to UOB). For further details on target achievement, see JC 9.4 in Annex 4.

⁵¹ See I-9.4.5 under Annex 4 for details.

⁵² Relating to grants under the demand-based component (C1a) and the grant to ITC-ILO.

The findings from this evaluation confirm most of the lessons drawn in the 2007 Programme Note on performance-based contracts.⁵³ Our major observation is that our information does not show that “most reasons for below-target performance are exogenous factors”. Whereas we recognise the examples on which this claim is based, information collected during the present exercise also brought to light several cases in which the grantee also had a share of responsibility for underperformance: e.g. Aquadev, AMFIU, Opportunity International in Kenya, and UOB, as cited above.

4.10 EQ 10 on EC and ACP capacity

EQ10: To what extent did the establishment of a microfinance-dedicated programme enhance the EC’s and ACP Secretariat’s capacity and visibility in this field?

The Programme’s Financing Agreement specifies that, in addition to three main expected results, “A further result that can be expected, as by-product, is the improved presence and image of the European Commission in the microfinance field and the improved internal and external coordination and quality control on on-going activities.” The present EQ assesses those internal objectives. It also covers the capacity and image of the ACP Secretariat in the field of microfinance, as requested by the Terms of Reference for the present evaluation. The response to the question is structured as follows: (i) EC capacity in microfinance at the launch of the Programme; (ii) the effect of the Programme on the EC’s capacity and visibility in microfinance; and (iii) the effect of the Programme on the ACP Secretariat’s capacity and visibility in microfinance.

EQ 10 on EC/ACP Capacity – Answer Summary Box

The Programme was established with an explicit side-objective to improve the capacity and visibility of the EC in the microfinance sector. In this regard the Programme made active contributions to the improvement in knowledge management mechanisms in microfinance at the EC, while EC staff members were overall satisfied with the support received from the Programme. Nevertheless, some unresolved issues remained in terms of building sustainable human capacity in microfinance in the EC (and the ACP Secretariat), relating notably to the EC’s human resource management. As regards visibility, the Programme has made modest improvements to the visibility of the EC and ACP Secretariat in microfinance, although it improved the EC’s image in this area since the 2003 Peer Review. Challenges to the Programme’s visibility included the absence of a more tightly defined “topic” with which the Programme support could be associated in microfinance, and the fact that the Programme’s communication potential was insufficiently exploited.

⁵³ EU/ACP Microfinance Programme’s Experience with Performance-Based Contracts, EC, 2007
http://ec.europa.eu/europeaid/where/acp/regional-cooperation/microfinance/documents/lessons_performance_based_contracts_en.pdf

4.10.1 Launch of the Programme (JC 10.1 and JC 10.2)

In the aftermath of the 2003 Peer Review, which was critical of EC operations in microfinance, the EC sought to improve its capacity and visibility in this field. Accordingly the EC launched, with the collaboration of CGAP, a microfinance-only Programme which it sought to be of undisputed quality and to have beneficial side-effects on other EC microfinance activities. The overall state-of-the-art design of the EU/ACP Microfinance Programme was in a sense an immediate demonstration that the EC had the capacity and willingness to be an active member of the microfinance donor community, albeit with CGAP's support (*see section 4.1.4 for details*).

4.10.2 Effect of the Programme on EC capacity in microfinance (JC 10.3 and 10.5)

The Programme contributed actively to building knowledge management mechanisms in microfinance at the EC. When launching the Programme, few EC staff members had strong expertise in microfinance beyond some task management experience; and moreover there were limited permanent capitalisation mechanisms in this field. But a positive trend has emerged since the sudden awareness within the EC of this issue - including at high level - as a result of the 2003 Peer Review. Several mechanisms have been introduced (or strengthened) in the EC for increasing structurally its microfinance capacity⁵⁴. The Programme contributed by means of:

- frequent exchange of information and views between the Programme Coordinator, the EC Programme task manager and the EC Microfinance Focal Point;
- review and contributions by the Programme Coordinator and several CGAP staff members of the “Guidelines for EC Support to Microfinance” (2008);
- the Programme coordinator’s participation in the elaboration and conduct of the EC internal 2-3-day training courses on microfinance (58 staff members trained during the period 2007-2010);
- training material based on the CGAP curriculum and incorporating examples from the Programme; *and*
- the Programme coordinator’s participation to annual Microfinance Weeks of the European Microfinance Platform (e-MFP), with for instance a presentation of the Programme in 2010 jointly with presentations by the EC Programme task manager and EC Microfinance Focal Point.

Overall, EC staff members interviewed in the context of this evaluation were satisfied with the support they received in relation to microfinance from the Programme or from EC Headquarters staff⁵⁵. The Programme Coordinators contributed actively to passing on knowledge on microfinance to EC staff members,

⁵⁴ E.g. publication of Guidelines for EC Support to Microfinance, creation of a function of EC Microfinance Focal Point, review by this Focal Point of interventions with microfinance activities through the Quality Support Group, ‘EC Microfinance Thematic Network Newsletters’ to EC staff members involved in microfinance activities, list of EC projects in microfinance for CGAP compilation, microfinance page on the Capacity4Dev platform and on the EC intranet, internal two/three-day trainings on microfinance, CGAP scholarships for participation of key EC staff members to the renowned Boulder Microfinance Training Programme.

⁵⁵ This finding relates mainly to satisfaction by EC staff members involved in microfinance operations in ACP countries.

through operational interaction, EC training events, and so forth. By creating the position of Microfinance Focal Point, the EC further ensured the presence of a global contact point on microfinance with expertise on the topic; the EC task manager of the EU/ACP Programme was also a point of reference for Programme stakeholders. **But building sustainable capacity in microfinance in terms of people remained an unresolved issue at the EC.** The Programme faced unresolved issues relating to the management of human resources at the EC in terms of both Programme implementation and its objective of increasing the EC's capacity in microfinance⁵⁶. Many people involved in microfinance, or more specifically in the management of the Programme, have indeed been working on microfinance for the EC for only a few years.⁵⁷ Most (not all) EC staff members involved in this Programme did not have prior (strong) experience of microfinance, and several of those who have gained experience in microfinance are currently not working in this field, or indeed any longer at the EC. There were at the end of 2010 different staff members working specifically on microfinance at EC headquarters, but their estimated total did not represent more than one full-time equivalent (1 FTE). This all led to the structural difficulty of having EC staff members with extended personal expertise in microfinance working in this area.

4.10.3 Effect of the Programme on EC visibility in microfinance (JC 10.6)

The Programme has improved the EC's visibility in microfinance at the EU and international levels, but has remained modest. The EC created the Programme with the idea that it would become its flagship programme in microfinance and would thereby increase the EC's visibility and image in microfinance. Overall it has clearly been the EC operation in microfinance with the highest internal and external visibility. It certainly contributed actively to improving the EC image in microfinance following the critical 2003 Peer Review. The visibility provisions of the Programme and its grants have also been respected according to available information⁵⁸. But even so, interviews with many stakeholders in the microfinance community at the EU or international levels showed that while a majority of them were aware of the Programme, it was not known to certain important actors in the field (including EU Member State representatives). Several interlocutors thought that the Programme was a CGAP programme. Others did not know whom to contact at the EC. In any case, the EC's visibility in microfinance was essentially limited to that of the Programme and not to the broader magnitude of its on-going funding in the field of microfinance⁵⁹.

⁵⁶ Human resource management issues at the EC with relation to the Programme related to policies or practices such as the staff rotation policy for statutory staff members, the willingness to have 'generalist' profiles, the maximum of 3-year contracts (renewable once) for contractual agents, or the substantial work performed by external consultants.

⁵⁷ Besides the successive Programme Coordinators who were external to the EC (CGAP employee and associated consultant), there were for instance five successive EC Programme task managers between the signature and closure of the Programme. There were also two successive EC MF Focal Points. Delegation staff in charge of the follow-up of Programme grants further rotated quickly in certain countries (e.g. five successive task managers for the KDA grant in Kenya).

⁵⁸ Visibility was also reported as problematic in two cases: EU logos gave the impression of substantial grant funding and a donor-driven approach, reducing MFI/network incentives for ownership and profitability and confusing end-clients on the origin and the reimbursable vs. charitable nature of the funding. See I-10.6.1 under Annex 4.

⁵⁹ The EC reports to CGAP show that at the end of 2010 it had 170 projects for a total of €212m, involving activities totally or partially in the area of microfinance.

The main reasons for the above limitations in visibility of the Programme and of the EC in general in microfinance are the following: (i) the difficulty of associating the Programme or EC support with a well-defined area of microfinance (relative fragmentation of grants within an overall broad ‘capacity-building’ objective)⁶⁰; (ii) the communication potential of the Programme not being fully exploited - a few activities were undertaken⁶¹ but not always optimally, while other possible communication means were not much implemented - for example, formal or informal gatherings for sharing experience with the wider (EU/ACP) microfinance community⁶²; (iii) the unusual set-up of a CGAP Programme Coordinator for an EC programme, causing the CGAP’s overall high visibility in microfinance to repeatedly overshadow that of the EC; and (iv) confusion among internal and external stakeholders as to the EC’s willingness to be active in microfinance, resulting from apparently contradictory messages sent to EC staff members in the wake of the 2003 Peer Review. The launch of the new Call for Proposals for the second Programme in June 2011 made actually the first Programme known to a new generation of international actors interested in the EC’s grant funding availability.

At partner country level, visibility was very low. Delegation staff members noted that they participated in a few Programme-related visibility activities, such as representing the EC at the opening or closure of a training programme⁶³. But except for the direct grantees and beneficiaries, most people met during the field missions, including MFIs and other donors, did not know of the existence of the Programme or, more generally, that the EC was active in microfinance. Furthermore, smaller MFIs did not hear of the recent Call for Proposals for the second Programme. The EC typically did not participate in high-visibility microfinance events in the countries visited, such as donor coordination round-tables on microfinance, given that microfinance was not among the EC’s focal sectors for cooperation in those countries. Moreover, visibility of *indirect* grant funding in the countries was almost zero: even Delegations had a limited view on activities or beneficiaries in their country through EC-funded programmes or actions such as the IS Program, Rating Fund, Boulder scholarships through ITCILO, or the Africa Policy Forums. Beneficiaries themselves often did not remember whether those actions benefited from EC funding.

⁶⁰ Examples of other donors with high visibility in microfinance: the \$3m Mastercard Foundation on financial education with scholarships for the Boulder Microfinance Training; the \$34m Micro-insurance Innovation Facility housed at the ILO; the Bill and Melinda Gates Foundation on savings (with the huge budget of \$500m for its Financial Services for the Poor Strategy since 2006).

⁶¹ E.g. Programme flyers, Programme website, Note on lessons learned from performance-based contracts, e-booklet on ideas resulting from the Peer Learning Event. See Bibliography in Annex 6 and information under JC 10.3 in Annex 4.

⁶² Examples of EuropeAid Infopoint events: the lunch conference organised by the EC on the future of microfinance in 2008 with the heads of EuropeAid, CGAP and ADA as speakers; and the breakfast conference in 2010 on risk management in Africa with the Programme Coordinator, the EC Programme Task Manager and Triodos as speakers.

⁶³ E.g. A staff member of the Delegation in Rwanda participated in the closure of the ITCILO Making Microfinance Work training-for-trainers and in a ‘Savings Learning and Awareness conference and Trainer of Trainer Training session’ organised by the grantee Urwego Opportunity Bank.

4.10.4 Effect of the Programme on ACP Secretariat capacity and visibility in microfinance (JC 10.4 and JC 10.6)

The Programme has clearly increased the ACP Secretariat's capacity in microfinance. The Programme did not aim specifically at increasing the ACP Secretariat's capacity as such, given that it was not a stated objective (as was the case for the EC's capacity in microfinance). Nevertheless the Secretariat gained substantial experience by being involved in and closely associated with the Programme. It was a member of the Steering Committee, and as such received quarterly and annual reports from the Programme Coordinator and was invited to participate in Steering Committee meetings (although it often did not do so owing to time constraints). Technical meetings were also reportedly held between the EC, the Programme Coordinator and the ACP Secretariat every two months. Secretariat staff members could also participate in the EC internal training courses on microfinance. Commentators noted that the Secretariat's capacity in microfinance has significantly increased over the period: from limited experience in 2005, three staff members are now knowledgeable on microfinance, and since 2008 there has been one full-time private sector development specialist who spends approximately 15-20% of the time on microfinance. Some ACP ambassadors and representatives were also said to have in-depth knowledge of the subject.

The visibility of the ACP Secretariat has remained low in microfinance. Visibility guidelines were respected according to the information available, with the ACP or EU/ACP Programme logo on official Programme material (but not systematically on grant-related material). Nevertheless the visibility of the ACP Secretariat was limited in the context of this Programme by the overall level of awareness of the Secretariat, this being particularly the case at country level.

5. Conclusions and Lessons Learned

This chapter presents (i) an **Overall Assessment** of the EU/ACP Microfinance Programme, (ii) general **Conclusions** on the Programme, and (iii) specific **Lessons Learned**.

Cross-references to the supporting responses to the Evaluation Questions are annotated below for each conclusion and lesson, with a summary of key findings on which they are based, where necessary. References are also provided to the Recommendations (set out in the next chapter) which are drawn from each conclusion and lesson.

5.1 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. Its unique institutional set-up with a CGAP Programme coordinator ensured application of good practices and overall successful management. It also contributed to increasing EC capitalisation mechanisms in microfinance.

This overall positive assessment is somewhat tempered by the fact that long-run sustainability is questionable for some Programme results, especially for the support to 2nd tier MFIs with long-lasting difficulties and for networks, for which the grant amount, duration and technical support were not proportionate to the amplitude of the challenge. Besides, the Programme has contributed to strengthen the EC image and visibility in microfinance, an explicit side-objective, but these remained limited overall, owing notably to the fact that the Programme did not have a clear and easily recognisable focus and that there had been no strong communication strategy.

5.2 Conclusions

The **conclusions** below aim at providing an assessment of the Programme in accordance with the OECD-DAC evaluation criteria and certain key issues:

- C1, C2 : Relevance
- C3: Effectiveness
- C4: Sustainability
- C5: Impact
- C6: Efficiency
- C7: Coordination
- C8: Coherence
- C9: Visibility

Conclusion 1: 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, budget and timeframe. Nevertheless, 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.

Based on EQs 1, 2, 7

Basis for Recommendations 1, 2, 3, 4

This conclusion is drawn from the following findings:

- The main reasons for setting up the Programme were (i) the demand from the ACP Group of States for EC (EDF) grant funding in microfinance and (ii) the EC's willingness to demonstrate its capacity to be a donor that counts in microfinance with a focus on capacity-building, in the aftermath of the 2003 Peer Review in this high visibility sector.
- The Programme was designed in close partnership with CGAP and other donors and was based on its good practices current at the time.
- There clearly was (and still is) a need for grant funding in the area of microfinance. In Africa, the Caribbean and the Pacific, microfinance was not yet much developed and financial service providers had proven weaknesses requiring more capacity-building than in other regions. 'Smart subsidies' were needed for capacity-building and sector-level strengthening and for stimulating innovation or demonstration.
- Providing grant funding was the EC's main comparative advantage for the Programme; there being relatively few donors providing grants in the area of microfinance, and indeed progressively fewer over time.
- The Programme aimed at being a trend-setter in capacity-building, the focus of the new approach to EC support for microfinance at the time. It responded to Peer Review critics of EC credit line operations (credit which would from then onwards be provided by the EIB).
- Funding was actually quite fragmented, with a €15m budget across all (78) ACP countries for a relatively wide thematic scope of capacity-building overall and transparency of the microfinance market, including support at the level of small MFIs, and given the rapid evolution of the market. Moreover, little cross-fertilisation between Programme interventions limited the potential interest of funding a variety of beneficiaries, topics and geographical entities. The width of the scope affected in particular the visibility of the Programme and, more widely, of the EC in the area of microfinance, unlike some other funders who defined a narrower and easily recognisable focus (*see Conclusion 9*).
- This five-year Programme funded capacity-building through grants with a typical duration of 2-3 years, whereas capacity-building requires usually time, active support and follow-up. The grant amount and duration were too limited to allow adequate addressing of the issues at stake in some MFIs, particularly those from the 2nd tier. The

Programme also encountered unresolved issues with the sustainability of its achievements (*see Conclusion 4*).

- The Programme did not focus its action directly on poverty reduction or social performance, but considered this rather as an ultimate, resulting objective, with an immediate need lying rather in capacity-building. This was in line with the leading paradigm at the time. It appears however to be a weakness in terms of design of the Programme, at least in the light of current norms and knowledge. Besides, as social performance progressively became a major issue in the microfinance sector, the Programme missed an opportunity to develop a specific focus on the subject after 2008, and therefore to gain visibility on this subject (*see Box 1 on Social Performance under section 4.1.2*).
- More broadly, the conditions for contribution of microfinance to poverty reduction are being debated nowadays, with for instance a recent literature review (Duvendack et al., 2011) concluding that “it remains unclear under what circumstances, and for whom, microfinance has been and could be of real, rather than imagined, benefit to poor people.”. One should accordingly be cautious with firm judgements on the design of the Programme, as with other microfinance programmes pursuing explicitly poverty reduction.

Conclusion 2: Relevance of a Microfinance dedicated programme

A microfinance-dedicated flagship programme made sense for contributing directly or indirectly to the wider microfinance community knowledge and practices beyond direct beneficiaries, and for strengthening both EC capacity and image in microfinance. It was however confronted with typical challenges for country-level activities of centralized programmes.

Based on EQs 1, 2, 7, 9

Basis for Recommendations 1, 4, 7, 10

This conclusion is drawn from the following findings:

- The Programme directly supported global initiatives aiming at improving the effectiveness and transparency of the microfinance market (CGAP Work Programme, Rating, Fund, IS Program, ITCILO trainings, etc.) and also promoted to a certain extent dissemination of transferable lessons within other grants.
- The Programme, as the EC’s flagship programme in microfinance based on good practices and with CGAP support, contributed to improve EC capacity in this area. It also contributed to improve its image and visibility, although to a limited extent (*see Conclusion 9 on Visibility*).
- The Programme included interventions at country level, which made sense from the perspective of building EC capacity and overall knowledge in microfinance. But it faced the typical challenges for country-level activities of centralised programmes, for instance in terms of coherence with the bilateral cooperation or management attention and expertise in the EU Delegations in this particular area (*see Conclusion 8*).

Conclusion 3: Effectiveness

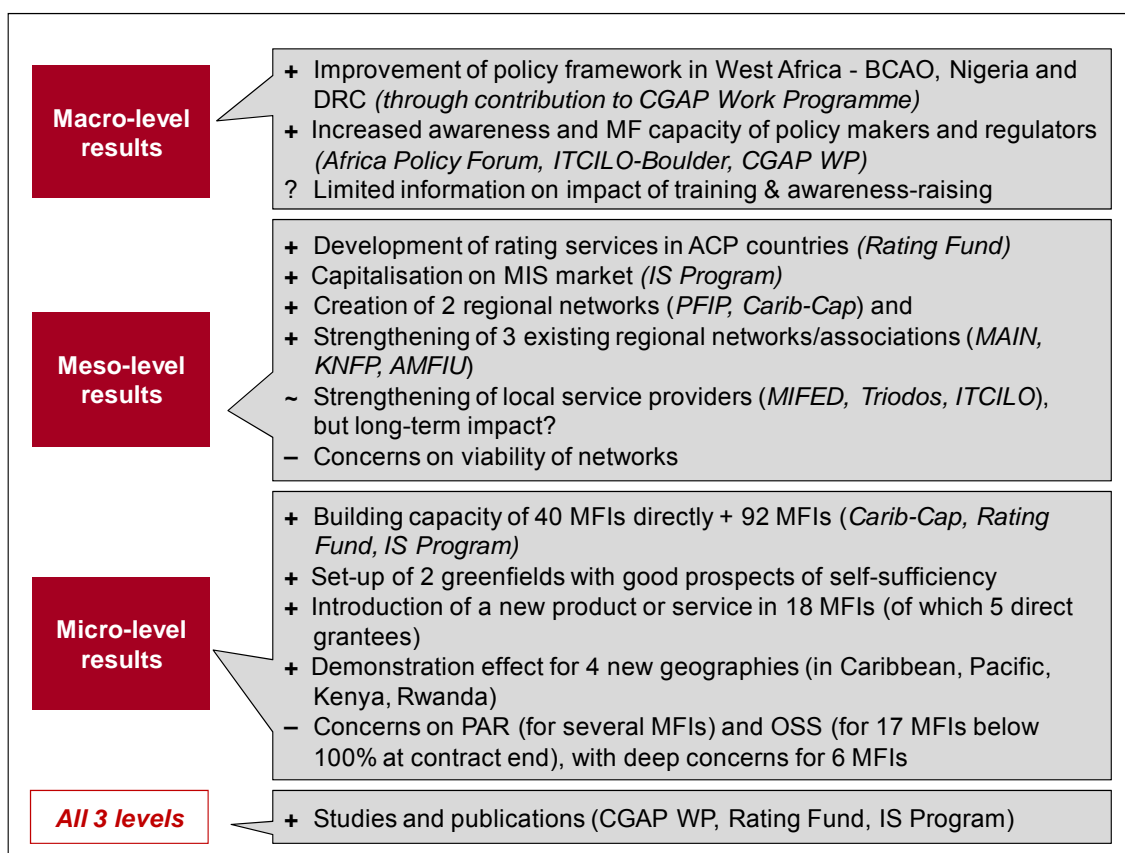
The Programme contributed to progress in the area of microfinance at three levels. At the macro-level it contributed financially to CGAP's policy improvements in ACP countries. At the meso-level, it supported financially the development of rating services and use of management information systems, and 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.

Based on EQs 2, 3, 4, 6, 7

Basis for Recommendation 1

The Programme's main results are presented in the figure below (*with further comments thereafter*), together with main concerns (*presented in Conclusions 3, 4, 5*). Many results can be attributed directly fully or partially to Programme grants, or to multi-donor activities arising directly from its financial support (e.g. Rating Fund, IS Program, CGAP Work Programme).

Figure 6: Main Programme Results



In addition to the information presented in the above figure, the following points should be mentioned:

- For the demand-driven capacity-building component (representing almost half of the Programme's budget), on average 90% of the grants' minimum performance thresholds were met, while 68% of their (maximum) targets were achieved. The other Programme components did not systematically use performance indicators and minimum thresholds in their contracts, which precluded provision of a proxy for the overall level of achievement.
- Few synergies were observed between interventions at macro-, meso- and micro-levels. Two exceptions stand out, however, in regions in which the microfinance industry was at a nascent stage: in the English-speaking Caribbean (meso- and micro-level support through Carib-Cap) and in the Pacific (macro-, meso- and micro-level support through PFIP) – *see also lesson learned #7*.
- Few independent (final or mid-term) evaluations of Programme interventions and supported multi-donor initiatives were performed. This limits the objectivity of the information available on Programme results, which originates mainly from the grantees but is checked by EU Delegations. Country missions and follow-up of interventions showed up discrepancies with reality in a few cases; for example, UOB's 2009 final report indicated that certain targets had been met whereas in fact they were not met and did not plan to be anymore.

Conclusion 4: Sustainability

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.

Based on EQs 2, 6

Basis for Recommendation 8

This conclusion is drawn from the following findings:

- Prior to 2008, the quality and capacity of MFIs in ACP countries were typically over-estimated by microfinance stakeholders. The 2008 financial crisis revealed weaknesses, mainly in smaller MFIs, for instance in terms of delinquency or portfolio at risk.
- Portfolio at risk (PAR) and operational self-sustainability (OSS), two important indicators of MFI sustainability, were often the weaknesses which caused some MFIs to fail to meet minimum thresholds in performance-based contracts (*see figure under Conclusion 2*). Achievement of PAR targets was globally worse than for OSS, particularly for smaller or rural MFIs that had had long-lasting difficulties. The sustainability of many of the 2nd tier MFIs supported could not be ensured in the timeframe of the grants (e.g. SIDI, Aquadev, Carib-Cap, MIFED's Northern Cameroon CVECA). On the contrary, the larger beneficiary MFIs generally increased their financial performance in a sustainable manner, although also with PAR issues in a few cases. Besides, the two Greenfields (Advans and AccèsBanque), founded from scratch on good practices with

strong expatriate support, performed well and on a more sustainable basis, although they were set up in difficult contexts.

- The Programme's approach was to support a diversity of retail models (credit unions/companies/village banks/Greenfields...), not favouring one over the other. The results observed cannot lead to the conclusion that some models performed better than the others, especially since the number of MFIs in the Programme's portfolio is small. The conclusions are rather that (i) difficulties and risks, although of a different nature, can arise with any model, but (ii) the amount of money and technical support invested matters and explains to a large extent the good results achieved by the two Greenfields (Advans and AccèsBanque), and (iii) support to 2nd-tier MFIs required a longer-term perspective and significant technical assistance for those encountering numerous weaknesses (lack of MIS, control, HR...) and difficult market conditions. With the grants to Sidi and Aquadev, the Programme chose to support a large number of 2nd tier MFIs through one single partner: in such cases this approach led to significant results for Sidi, but for Aquadev a lack of initial diagnostic and preparation, combined with a fragmentation of funding across fifteen MFIs, affected results.
- Sustainability is also a concern for some meso-level activities (*see figure under Conclusion 2*). The viability of regional networks strengthened or created with Programme support is still not guaranteed in many cases, a difficulty facing many microfinance networks in ACP countries.
- Questions also remain as to the long-term impact of support to local service providers (through MIFED, Triodos or ITCILO), given the limited information available.

Conclusion 5: 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.

Based on EQs 2, 6, 7

Basis for Recommendation 9

This conclusion is drawn from the following findings:

- Increasing the range of financial products and services used by poor people was the Programme's main expected impact (*see Intervention Logic in section 2.3*).
- Many MFIs supported through a direct or indirect grant have (i) increased the number of products or services they offer, although often only slightly; or (ii) contributed to broadening the range of products available to under-served target population groups, albeit with existing or revamped products.
- End-clients have used a broader range of financial services, particularly those clients of Programme beneficiaries that explicitly pursued product diversification or rural expansion: UOB, OI, KDA. But overall there is little information on end-client use of an increased range of microfinancial services, especially among grantees that did not explicitly target product diversification. But Advans Cameroun tracked both drop-out and satisfaction rates for their products, and then adapted their products accordingly.

This practice was not, however, followed by other beneficiary MFIs, perhaps due to information system capacity constraints.

- The foregoing apart, information is limited on other longer-term impacts of the programmes, and on poverty reduction as an overall objective, owing to lack of monitoring data or to the rather indirect link between certain actions and overall objectives (as explained in Conclusion 1 on relevance, Conclusion 3 on effectiveness and Conclusion 4 on sustainability).

Conclusion 6: 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.

Based on EQs 1, 6, 7, 9

Basis for Recommendation 5

This conclusion is drawn from the following findings:

- The EC decided in 2003 to partner with CGAP for launching an impeccable flagship programme. The Programme's design was based on CGAP good practices and was managed according to high quality standards overall. Despite some questions and concerns, many achievements can be attributed to the Programme (*see Conclusion 2*), and indeed many stakeholders acknowledged the effective support they received from the Programme's management (*see Lesson Learned #5*). Such a partnership, combining EC's value-added as a grant funder with CGAP's microfinance expertise, thus led in this context to efficient use of the available resources.
- Interesting practices relating to effectiveness and efficiency were applied. This primarily applies to performance-based contracts, which at the time were an innovation in the area of microfinance, and which proved an effective way of triggering results achievement (*see Lesson Learned #2*). Another interesting practice, applied in several cases, was creation of a multiplier effect in respect of capacity-building services (e.g. training of trainers, cost-sharing of ratings, and increasing the transparency of the market for management information systems).

Conclusion 7: 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.

Based on EQ 1

Basis for Recommendation 11

This conclusion is drawn from the following findings:

- In terms of coordination at design level, the Programme was designed overall in close coordination with CGAP and the EIB. Both CGAP and the EIB sat on the Programme's Steering Committee. Finally, the Programme's support for the CGAP annual work programme, the Rating Fund and the IS Program also enhanced donor coordination within the Programme.
- Within the Programme's specific interventions, though, coordination was mixed: there are examples of well-coordinated action such as the fact that Programme grantees under the demand-based component had to report to the MIX Market global initiative, that IS Program's software reviews were transferred to the same MIX Market, and the coordination between PFIP and UNCDF. There are also examples of co-funded actions such as LFS or the Africa Policy Forums. Efforts were further made to coordinate with major active donors in regions where coordination had previously been weak or non-existent, for example in the Caribbean and Pacific regions. In this sense the EC intervention had positive effects on donor coordination. Nonetheless, coordination did not reach its full potential in certain other interventions. The multi-donor Carib-Cap initiative, for example, was implemented with little analysis and coordination with other programmes funded by the EU and IADB, which encompassed capacity-building grants to MFIs and were potentially competing with the Carib-Cap project at the time.
- With regard to the EIB, it has been actively involved throughout the Programme (at set-up, in the Steering Committee, in the Call for Proposals prioritising grantee proposals that enhanced synergies with the EIB). However, this did not result in many instances of joint Programme-EIB support, except to a certain extent in the cases of PFIP, LFS Holdings and Horus Cameroon. There were indeed few major opportunities, owing mainly to the fact that the EIB provides typically longer-term support to larger organisations, including through investment funds.

Conclusion 8: 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.

Based on EQs 1, 2, 3, 9

Basis for Recommendation 10

This conclusion is drawn from the following findings:

- The Programme was launched in conjunction with a broader EC response to the Donor Peer Review of 2003. This response included the decision to cut credit lines for microfinance and focus on capacity-building in microfinance institutions. The Programme was thus designed in part as a demonstration project of the EC's capability in this regard.
- As mentioned under Conclusion 2, the Programme included interventions at country level, which made sense from the perspective of building EC capacity and overall knowledge in microfinance. But microfinance represented only a small share of aid to ACP countries and was seldom a cooperation priority for the Delegations; this resulted in little management attention and expertise in this area at country level. The Programme tried to involve Delegation staff at different stages and by several means, for instance in the appraisal of grant proposals in the call for proposals and with regular and ad hoc support throughout the Programme implementation given that management responsibility of most contracts had been given to Delegations. But in the end the follow-up by Delegations proved difficult.
- Nevertheless the Programme contributed to EC capitalisation mechanisms in such a way as to develop EC staff capacity in microfinance. This included frequent exchange of information and views between the Programme Coordinator, the EC Programme task manager and the EC Microfinance Focal Point; the Programme Coordinator's role in reviewing the "Guidelines for EC Support to Microfinance" (2008); and the Programme Coordinator's participation in the internal training sessions on microfinance. Moreover, the EC's overall learning from the Programme also contributed to strengthening other EC actions in microfinance, for instance through the Quality Support Group's review of funding proposals, sharing of Programme experience with EC staff during training sessions or interaction with the EC Microfinance Focal Point.

Conclusion 9: 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.

Based on EQ 10

Basis for Recommendation 12

This conclusion is drawn from the following findings:

- Recognition of a role for the EC in microfinance was an important consideration when setting up this flagship Programme. The EC created the Programme with the idea that it would become its flagship programme in microfinance and would thereby increase the EC's visibility and image in microfinance. Overall it has clearly been the EC operation in microfinance with the highest internal and external visibility.
- The Programme has made significant progress in improving the image and visibility of the EC in microfinance, which were low at the time of the 2003 peer review. But despite efforts and the wide recognition of the Programme management, not so many stakeholders in both the microfinance and donor communities knew the Programme well in the end. At country-level, awareness of the Programme in the field was found to be very low, aside from Programme grantees – most persons met were unaware that the EC was active in microfinance in their countries or regions.
- By providing funding under a broadly-defined objective and across a wide geographical area, the Programme was unable to develop a clear association with an easily recognisable focus in microfinance. High visibility donors in microfinance are for instance the Ford Foundation (graduation), the Bill and Melinda Gates Foundation (savings and micro-insurance innovation) or Mastercard (financial education).
- In addition, a strong communication strategy was lacking. Whilst the Programme did develop a communications plan following the mid-term review, only a few activities were undertaken, while other possible communication means were not much implemented - for example, formal or informal gatherings for sharing experience with the wider (EU/ACP) microfinance community.
- The Programme did not fully exploit the potential for capitalisation on and communication of lessons from several interesting cases. Certain publications, case studies, dissemination and other events resulted from the Programme itself, but not very many. Capitalisation and communication by grantees, for instance in terms of exchanges of tools or lessons and sharing of information, was encouraged in certain cases but with potential for more. Notable efforts were made however to encourage grantees to share financial information on the MIX Market.

5.3 Lessons learned

The following Lessons Learned, which are complementary to the Conclusions, are based on relevant good and bad practices observed in the Programme.

Lesson Learned #1: Importance of sound initial diagnosis

A sound initial diagnosis is a typical success factor in a programme or project. This proved, however, to be an unresolved issue for several interventions in this Programme, in the sense that the diagnosis in several initial proposals proved insufficient; the interventions' approach had to be revised or had to start with a more thorough, and unplanned, diagnosis.

Based on EQs 3, 4

Basis for Recommendation 3

Lesson Learned #2: Useful performance-based contracts

Performance-based contracts were a real incentive for attainment of results and a useful monitoring tool, as acknowledged by both donors and grantees. The EC was one of the first donors to use them in microfinance. The performance-based contracts made it possible in particular to remain focused on the interventions' primary objectives. Having indicators and target levels proposed by the grantees favoured ownership and alignment with their strategies. Amendments in frequent cases made possible both harmonisation of targets across grants and also reasonable threshold and target levels over time, taking account of possible changes in context. In one case (Advans Cameroun) the initial outreach targets proved unrealistic (given the initial delay to start the project) and constraining, and needed to be revised two times; this emphasizes the need for discussion and flexibility in defining and following up indicators. In addition, implementation of performance-based contracts encountered teething problems, notably in terms of EC procedures, given that it was an innovative approach at the EC (aside from budget support).

Based on EQs 2, 9

Basis for Recommendation 5

Lesson Learned #3: Valuable partnership with CGAP

The partnership with CGAP proved to have been both effective and efficient. The peculiar institutional set-up, with a CGAP staff member as Programme Coordinator for an EC-funded programme, made sense in the context of the launch of the Programme. It also contributed substantially to both successful management of the Programme and to building up the EC's capacity in microfinance, through direct access to CGAP expertise and experience. Funding the CGAP work programme was also relevant in the context of providing support at macro-level and in terms of coordination. The EC lost visibility to CGAP in certain cases, but CGAP also provided the Programme with a quality stamp and an increasingly positive image for the EC in microfinance, mainly as a direct result of the Programme; in any case most of the important issues in terms of EC and Programme visibility in microfinance were not related to the institutional set-up.

Based on EQs 9, 10

Basis for Recommendation 11

Lesson Learned #4: “Champions” key to success

It was explicitly recognised from the beginning that ‘champions’ were needed for good design and successful implementation of this flagship programme, in the sense of a team of committed and capable individuals who would drive the process through to its conclusion. Key success factors in this Programme indeed proved to be the CGAP Programme Coordinators and the quality of interaction with EC Programme task managers and EC Microfinance Focal Points.

Based on EQs 9, 10

Basis for Recommendation 3

Lesson Learned #5: Partners’ capacity key to success

The Call for Proposals gave important weight to the financial and operational capacity of the applicant organisations, with 40 marks out of 100. This could be criticised as it ruled out participation by, or selection of, many organisations. Even so, indirect support to smaller MFIs was possible through proposals involving several of them. Programme implementation showed that partner capacity was indeed a key success factor. This was particularly the case with a few of the more risky grants, such as the Advans Greenfield in Cameroon or the demonstration effect with KDA in remote areas of Kenya. Conversely, the lack of preparation of one partner (Aquadev) had a negative impact on the project.

Based on EQs 2, 7, 9

Basis for Recommendations 5, 11

Lesson Learned #6: Useful support at different levels in two regions

Providing support at all three levels - macro, meso and micro - definitely made sense in two cases, where the microfinance industry was at a nascent stage: the English-speaking Caribbean (with meso- and micro-level support through Carib-Cap) and in the Pacific (with macro-, meso- and micro-level support through PFIP). Those programmes indeed considered their action within the global context of the microfinance sector’s needs in those regions (but the fact that action at the macro-level was not explicitly included prior to Carib Cap’s second phase proved to be an issue). Meso-level actions such as creating networks and setting up regional events for sharing experience, in addition to micro-level MFI capacity-building, indeed made sense in these two island regions. No other case of action at different levels was observed and there was only limited cross-fertilisation between interventions (including between interventions at different levels).

Based on EQs 1, 3

Basis for Recommendations 1, 12

6. Recommendations

This chapter presents the Recommendations emerging from the Conclusions and Lessons Learned from the evaluation of the 2005-2010 EU/ACP Microfinance Programme. They convert lessons from *past performance* into recommendations for improving future programming, design, implementation and evaluation of EC programmes in microfinance, notably of flagship programmes in this area. They are addressed to the EC and to the Programme management⁶⁴. They are presented in the figure below and are elaborated on thereafter.

Figure 7: Recommendations

Relevance	R 1 : Consider launching a follow-up Programme
	R 2 : Continue commitment to good practices
	R 3 : Define a clear focus with realistic objectives
	R 4 : Continue consultation with Delegations
Effectiveness	R 5 : Extend & improve performance-based contracts
	R 6 : Ensure independent evaluation of interventions
	R 7 : Promote benefits for wider MF community
Sustainability	R 8 : Integrate fully the sustainability dimension
Impact	R 9 : Integrate fully the impact dimension
Coherence	R10 : Increase coherence with other EC programmes
Coordination	R11 : Continue and strengthen coordination
Visibility	R12 : Build a more active EC approach to visibility
Instit. capacity	R13 : Continue consolidating EC MF capacity
	R14 : Continue consolidating ACP Secr. MF capacity

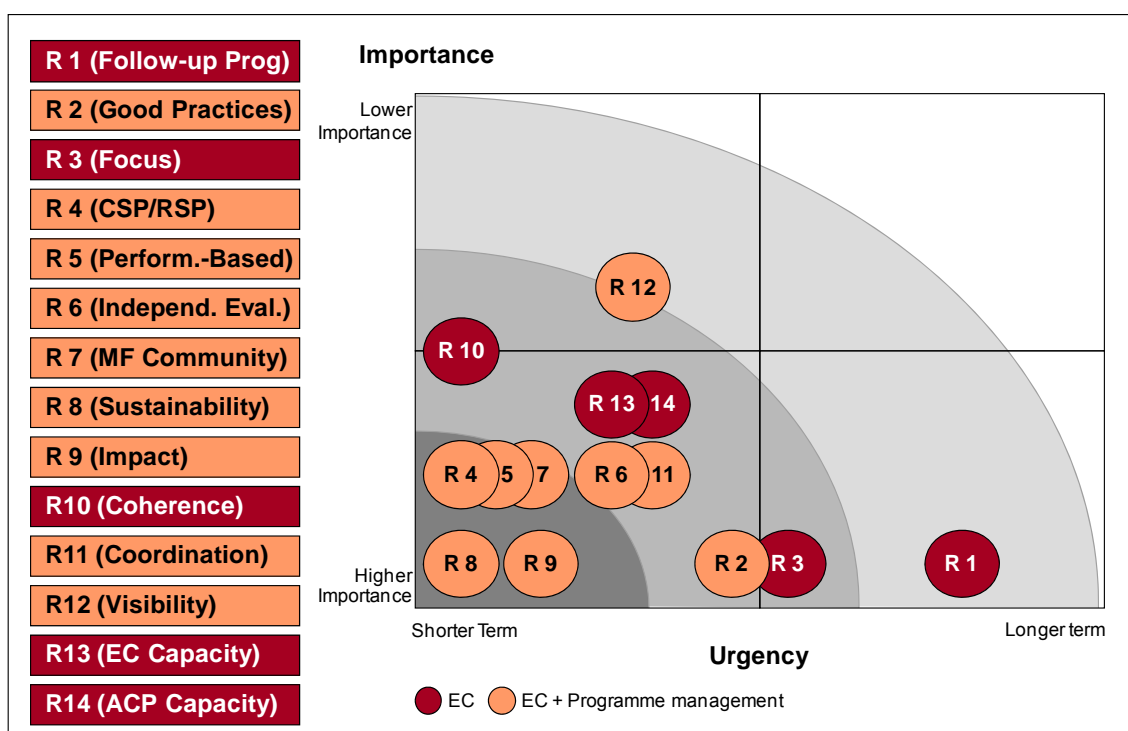
Cross-references to the supporting Conclusions and Lessons Learned are annotated below for each Recommendation. Implementation responsibilities have been defined between EC Services and Programme management. Implementation conditions and expected consequences are also specified where relevant.

The levels of priority for each recommendation are presented in the figure on the next page. They are specified in terms of importance and urgency of the need to address them. Assessment of urgency takes account of the launch in early 2011 of a second EU/ACP Microfinance Programme for the period 2011-2014. This led the evaluators to consider, for instance, R1 on launching a follow-up programme, and R2 and R3 relating to its approach

⁶⁴ 'Programme management' refers here to external programme coordinators and/or implementing partners. The ACP Secretariat is for instance a possible implementing partner for all-ACP programmes with EDF resources.

and focus, as not needing immediate action as a follow-up Programme has already been launched. On the other hand, key recommendations which might still be timely in this perspective include R8 and R9 on full integration of the sustainability and impact dimensions in the interventions. R5 on extending and clarifying contractual matters in performance-based contracts is also a short-term issue. R4 and R10, on increased alignment and coherence at country level and with other EC interventions, are also recommendations for the shorter term, as is R7 in its insistence on benefits to the wider microfinance community. Recommendations R13 and R14, on the EC's and ACP Secretariat's respective capacities in microfinance, should then be considered, along with R12 on their visibility.

Figure 8: Prioritisation of recommendations



Recommendation 1 : Consider launching a follow-up Programme

Based on Conclusions 1, 2, 3 + lesson learned #6

Implem. Responsibility: EC

Grant funding in microfinance remains 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. An EC flagship programme would still make sense in a double perspective, for (i) contributing directly or indirectly to improvements in the overall microfinance sector; *and/or* (ii) improving other EC interventions in microfinance through state-of-the-art experience in this area. A beneficial side-effect might additionally be consolidation and strengthening of the EC's visibility and image in microfinance.

Recommendation 2 : Continue commitment to good practices

Based on Conclusion 1

Implem. Resp.: EC, Progr. Management

Continue to ground flagship microfinance programmes explicitly in prevailing good practices, in collaboration with recognised experts in the area, as was done during the Programme. Continue also to leverage the flagship programme in extending application of good practices to other EC microfinance interventions.

Recommendation 3 : Define a clear focus with realistic objectives

Based on Conclusions 1, 8, 9 + lessons learned #1, 4

Implem. Resp.: EC

Ensure that programme objectives (i) are clear and specific (e.g. in terms of overall objectives, target groups, operational foci); (ii) are realistic (e.g. given the budget and timeframe of the programme and its components); and (iii) take account of EC value-added in the microfinance field (e.g. comparative advantage in providing 'smart subsidies' as a grant donor, fostering a 'European approach'⁶⁵, partnerships with experienced microfinance actors or donors). 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 client⁶⁶ or on the linkage between financial inclusion and certain other development areas⁶⁷, rather than on a type of MFI (1st/2nd/3rd tier), a narrow theme, or a given level (macro/meso/micro). The choice of the overall objective will naturally have implications for other levels of objectives and on the definition of activities and selection of partners.

Recommendation 4 : Continue to consult with EU Delegations

Based on Conclusions 1, 2 + lessons learned #1, 2

Implem. Resp.: EC, Progr. Management

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. See also Recommendation 10 on increased coherence and synergies with other EC programmes.

⁶⁵ European microfinance actors have for instance a pioneering and leading role in the field of social performance and related themes (e.g. end client protection).

⁶⁶ E.g. rural clients, the ultra-poor or very poor

⁶⁷ E.g. agriculture, food security, education, health

Recommendation 5 : Extend and improve performance-based contracts

Based on Conclusion 6 + lessons learned #2, 5

Implem. Resp.: EC, Progr. Management

- **Continue the pioneering EC practice** in microfinance of **performance-based contracts** with grantees, as it proved an effective and efficient way of working, valued by both donor and grantees.
- **Maintain interesting aspects** of performance-based contracts that have been applied, such as initial definition of targets by the grantees in calls for proposals, harmonisation of indicators between different programme components and in line with industry standards, agreement with grantees on minimum thresholds and target levels, and revisions during the lifetime of the grant whenever needed.
- **Make sure that the necessary flexibility exists**, in terms of both dialogue and procedures.
- **Also ensure that indicators are coordinated with those of other donors.** Also consider carefully which indicators should have **minimum performance thresholds**, and the level of these thresholds. Try also to devise sufficient **incentives** for grantees to reach all (maximum) target levels.
- In the case of an intervention supporting different MFIs, request **information and explanation at the level of each MFI** (rather than only at a general/average target level as was the case in the Programme).
- **Extend results-based management practices as far as possible.** For instance use performance-based contracts also for all other contracts than those negotiated through the Call for Proposals, if possible, at least for contracts or agreements with one or few counterparts⁶⁸. Include performance indicators for interventions at macro- and meso-levels; since few donors have indicators at these levels, it might require a prior, and interesting, effort to provide definitions. For micro-level contracts, social performance indicators could also be included in performance-based contracts in future. Moreover it should be noted that performance-based contracts, as a results-based management practice, appear also definitely appropriate for many areas of EC/donor support other than microfinance.
- **Ensure that the EC has appropriate contractual rules for managing performance-based contracts and agreements.** The EC should for instance find a solution to double standards for disbursement (based on performance and eligible expenses). Clarify the EC's approach and rules with regard to punitive value, which should be explicit in contracts with grantees so as to facilitate its implementation, albeit mainly in a convincing preventive role.

⁶⁸ Different donor requirements should typically be avoided in multi-donor initiatives.

Recommendation 6 : Ensure independent evaluation of interventions

Based on Conclusions 3, 4, 5, 6

Implem. Resp.: EC, Progr. Management

Ensure that *independent* evaluations are conducted for the programme's interventions, even in a lighter form where necessary, or possibly done by co-financiers or external microfinance actors. Few independent assessments of Programme interventions were indeed performed, which implied that information on Programme results originated mainly from the grantees and moreover was embellished or even inaccurate in a few cases, as observed during country missions and follow-up discussions.

Recommendation 7 : Actively promote benefits to the wider microfinance community

Based on Conclusions 1, 2, 3, 5

Implem. Resp.: EC, Progr. Management

The EC should also exploit more the exchange potential within its grants, in a perspective of 'smart subsidies' benefiting the wider microfinance community; this would indeed also contribute to improving the EC's visibility. EC programmes could for instance set higher requirements for grantees in terms of capitalisation and communication, for example in terms of exchange of tools or lessons learned at country/regional/international levels, sharing of information through the credit bureaux, and - where relevant - also in terms of publications. This could be a criterion of selection in Calls for Proposals. In cases of strong competition between IMFs at local level, programmes should insist on contributions from grantees to a country's credit bureau, if it exists. In fact the two Greenfields, Advans in Cameroon and AccèsBanque in Madagascar, actively encouraged working with credit bureaux and provided them with information on their clients, even where this was not required by the Programme, in countries where other MFIs clearly lacked transparency.

Recommendation 8 : Integrate fully the sustainability dimension

Based on Conclusion 4

Implem. Resp.: EC, Progr. Management

Make sure that the sustainability dimension, including financial viability and operational sustainability, is actively integrated into overall programme and individual interventions. Ensure for instance that objectives at programme and action levels are realistic within their timeframe and sustainable (*see R3*); that exit strategies are in place at programme and action levels; that Calls for Proposals assess interventions' sustainability prospects (e.g. sound diagnosis, realistic objectives, exit strategies); that there is at least one minimum threshold relating to sustainability in performance-based contracts⁶⁹; and that sustainability measures and follow-up at programme and activity levels are monitored.

⁶⁹ It would for instance be interesting to monitor the MFI's Financial Self-Sufficiency (FSS) ratio, besides the Operational Self-Sufficiency ratio (which was already largely monitored in the Programme). FSS allows indeed the measurement of an MFI's capacity to function without grants. As the FSS is not easy to monitor, it would be useful also considering external sources such as rating agencies, which used to consider this ratio.

Recommendation 9 : Integrate fully the impact dimension

Based on Conclusion 5 + lessons learned #2, 5

Implem. Resp.: EC, Progr. Management

Similarly as for sustainability (*see R8*), ensure that the overall objectives are emphasized and integrated throughout the programme. Ensure in this respect that the objectives of the individual interventions contribute actively to the overall objectives of the programme. Also ensure monitoring of overall impact, including at least one minimum threshold in performance-based contracts. Knowing that client information is not always easy to obtain, and that impact measurement can be costly with sometimes disappointing results, it could be approximated with measures such as social performance indicators or client retention or satisfaction rates.

Recommendation 10 : Increase coherence with other EC programmes

Based on Conclusions 2, 8, 9

Implem. Responsibility: EC

In addition to the recommendation on continued consultation of Delegations and increased coherence with the EC's bilateral cooperation (*see R4*), it would also be beneficial for both the EC and beneficiaries to have increased coherence and synergies between an EC follow-up flagship programme in microfinance and other EC interventions worldwide in this area, for instance in terms of end-client focus or linkage between financial inclusion and certain other development areas (*see also R4 for examples*). It would increase the potential for applying lessons from the flagship programme to other EC interventions. It would also provide the EC with a higher potential for communication and visibility in terms of a coherent approach and focus, with enhanced critical mass and more transferable lessons.

Recommendation 11 : Continue and strengthen coordination

Based on Conclusion 7 + lesson learned #5

Implem. Resp.: EC, Progr. Management

- **Continue strong coordination with key partners and other donors from the design phase** of a programme, including joint action and channelling of aid through experienced partners or quality initiatives.
- **Ensure also that individual interventions are coordinated** at implementation level with national actors and other donors (this was a weakness of the Programme). Also coordinate definition of **performance indicators**.
- **Continue encouraging joint operations with the EIB**, as was done for instance in the Call for Proposals.
- **Consider also setting up specific partnerships with other donors and investors.** For instance representatives of several EU MS met during this evaluation expressed an explicit interest in partnership on blending mechanisms and other initiatives, whether via creation of new facilities or use of pre-existing facilities such as the German-steered multi-donor REGMIFA investment fund⁷⁰, AFD's ARIZ guarantee fund⁷¹ and Microfinance Investment Facility. This was also recommended in the Programme's Mid-Term Review. Such types of partnership already exist in other areas (e.g. water, energy with AFD).
- **Continue strong coordination in terms of programme governance**, as was the case with the Steering Committee of the Programme (which consisted of representatives from the EC, CGAP, EIB, ACP Secretariat and Programme management).

⁷⁰ REGMIFA: Regional MSME Investment Fund for Sub-Saharan Africa.

⁷¹ ARIZ : Assurance pour le risque de financement de l'investissement privé en zone d'intervention de l'AFD.

Recommendation 12 : Build a more active EC approach to visibility

Based on Conclusion 9 + lesson learned #6

Implem. Resp.: EC, Progr. Management

- For programmes in which EC or ACP Secretariat visibility is of particular importance, it would clearly be easier to achieve if a **global visibility approach** was developed from the design phase, for instance in terms of focus (e.g. clear and specific objectives), potential for communication (e.g. in terms of innovation or demonstration effect), and resources (e.g. general communication plan, dedicated budget, communications specialist knowledgeable on microfinance, active participation in high-visibility initiatives).
- **Well-designed grants can provide an opportunity for increasing visibility.** By way of example, a programme using EC grants for promoting innovation and demonstration effects, and with the capacity to capitalise on it - say through publications, case studies, or seminars - can be a win-win approach in terms of image and visibility for the EC and of progress for the microfinance community. This approach has already proved successful among grant donors, particularly with private foundations (e.g. the Ford Foundation or the Bill & Melinda Foundation).
- **The potential of existing communication tools should also be further exploited** (e.g. Websites, EuropeAid InfoPoint events) to improve communication, including lessons learned and specific points of interest from flagship programmes (and from other EC interventions in microfinance).
- The EC could further be perceived as a donor that counts in microfinance through **privileged partnerships in high-visibility joint actions**, such as with other EU donors and investors (*see R11*).

Recommendation 13 : Continue consolidating EC capacity in microfinance

Based on lesson learned #4

Implem. Responsibility: EC

- **Continue consolidating microfinance expertise at the EC**, so as to be able to provide decision-making and advice at both strategic and operational levels on a flagship programme and to transfer lessons from such programmes to other EC interventions. Increase therefore the time dedicated in this area within the EC, ideally in a longer-term perspective through an official such as the EC Microfinance Focal Point. It would also strengthen communication, internally and externally, for instance on programme results and transferable lessons.
- **Ensure as far as possible that microfinance operations are managed by staff members experienced in this field, according them sufficient time and priority.** As a general rule in this context, **avoid giving EU Delegations responsibility** for follow-up of country-level activities of centralized microfinance programmes, given the typically marginal relative importance of microfinance in the EC's cooperation. Possible exceptions to this recommendation are those Delegations with proven capacity and portfolios in microfinance.
- **Continue in any event to train EC staff at all levels** who are involved in such flagship programmes (and other microfinance operations). Staff members in charge of the flagship programmes should also continue to have the opportunity to attend international high-quality training sessions (e.g. the Boulder Microfinance Training or regional CGAP funder training events).
- **Continue to develop and consolidate mechanisms which promote internal dissemination and application of lessons** from a flagship programme to other microfinance interventions (and conversely), such as an update of the EC Microfinance Guidelines, quality support, electronic exchange platforms, newsletters, and so forth.

Recommendation 14 : Continue consolidating ACP Secretariat's capacity in microfinance

Based on lesson learned #5

Implem. Resp.: EC

As with the EC, it is recommended that the ACP Secretariat's capacity in microfinance should continue to be increased. Ensure in particular that ACP Secretariat staff members (and possibly ACP representatives) have easy access to microfinance expertise, such as the capitalisation mechanisms from the EC (EC Microfinance Focal Point, EC internal training courses, EC communications, etc.) and from CGAP. It would also be worthwhile encouraging those ACP Secretariat staff involved in microfinance to take part in high-quality international training sessions in this area.