Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone
Project SIL/03/C01

Mid-Term Evaluation
September 2006

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Executive Summary

Results Achievement

The evaluation findings indicate that the project is on track with regard to increasing sustainable access to financial services for poor and low-income people, as measured by the indicators cited below. It is too early in the project cycle to assess the impact of these financial services at the client level and the purpose of the mid-term evaluation was not to conduct an impact study.

It is clear that the project is well on the way to achieving its targets, having achieved or surpassed most of its mid-term goals. Specifically, the project has enabled the following results at the micro or retail level as of September 2006:

- 42,768 active clients are being served by 9 MFIs
- 5 MFIs report more than 100% operational self-sufficiency
- 1 MFI has branches in 7 towns and 7 sub-branches in surrounding areas
- 1 MFI is in the final stages of negotiations with a major international investor
- 1 new donor has joined the Investment Committee
- $ 3.88 million additional resources have been mobilized for the project

Additionally, progress has been made on establishing and strengthening local structures at the meso (support infrastructure) and macro (policy) levels, particularly through support to the Bank of Sierra Leone and the Sierra Leone Association of Microfinance Institutions (SLAMFI).

Factors Affecting Successful Implementation and Results Achievement

External Factors

Key aspects of the operating environment for microfinance have either improved or remained conducive since project inception. Sierra Leone's macroeconomic performance has improved, although wide-spread poverty still exists. In addition, the National Microfinance Policy of 2003 remains in force, and the legal and regulatory environment for microfinance was and continues to be conducive for the sector. It should be noted however that the inadequacy of the communications, energy and transport infrastructure restrict the markets and business sustainability for clients and the ability of MFIs to provide financial services cost-effectively.

Project-Related Factors

Design

The project concept is sound. The strategy to build the microfinance sector as part of the broader financial sector is in line with internationally-recognized good practice, with the Government of Sierra Leone's national microfinance policy and with the Poverty Reduction Strategy Paper (PRSP). The project design follows market-driven principles that are also consistent with good practice and the national policy. However, some of the expected results as described in the outputs and targets are overly ambitious, particularly given the state of the sector at project inception, and some of the targets are unclear, vague or inappropriate.

Institutional and Implementation Arrangements

The three main actors are responsible for project implementation and management: the Technical Service Provider (TSP) contracted to assume primary responsibility for managing and implementing the project; the Government of Sierra Leone, particularly the BoSL; and the Investment Committee, which comprises all contributing donors and government representatives and makes investment decisions. Enterprising Solutions Global Consulting, Inc. (ESGC) was chosen as the TSP and it in turn established the Microfinance Investment and Technical Assistance Facility (MITAF) at project inception; the project is commonly referred to as MITAF.

Project Implementation

The MITAF strategy appropriately includes interventions at the micro, meso and macro levels. MITAF has focused efforts and resources on building strong retail microfinance institutions during the first years of the project. This strategy has been approved by the Investment Committee and is sound. MITAF has also begun to implement a strategy to improve conditions for the sector as a whole, and expects that more emphasis will be place on sector-wide interventions in the coming years.

Selection of Partner Lending Institutions

MITAF is partnering with 10 lending institutions: 4 NGO MFIs; 4 community banks; 1 MFI that has transformed from an NGO into a limited liability company; and 1 microfinance bank that is currently being established. Although the market may not be able to support this many MFIs in the longer term, the decision to finance a range of types and sizes of institutions is sound; it should enable the project to come closer to achieving expected results than it would have if it only financed the relatively weak NGO MFIs in existence at project inception.

Recommendation:

Do not finance additional partner lending institutions.

MFI Capacity Building

MITAF has provided capacity building to all partner lending institutions through training and technical assistance. These services have been provided by MITAF staff and external trainers and technical advisors. Given the minimal institutional capacity of most of the NGO microcredit programs that were initially financed by the project, and a clear positive trend in key performance indicators, it is clear that MITAF assistance has been effective. Nevertheless, important weaknesses still exist that must be addressed if the partner lending institutions are to reach growing numbers of clients, maintain healthy portfolios and become sustainable.

Recommendations:

Focus capacity-building on areas of critical weakness, ensure that capacity-building services become more demand-driven and require partner lending institutions to contribute to the associated cost.

MFI Financing

Disbursement of MITAF funding is conditional on meeting minimum conditions, and grant or loan agreements are tailored to each institution individually. Standardized performance criteria that captures all important aspects of institutional capacity has not been applied uniformly. Portfolio at Risk (PAR) is the only criteria applied to all institutions, yet there is no minimum standard applied to all MFIs and the criteria written into funding agreements often does not meet internationally-recognized good practice (PAR >30 days 5% or less). Despite low standards, some MFIs have not been able to meet their performance standards in a timely manner, and as a result, have not received significant portions of their approved funding.

The majority of MFI financing approved by donors to date has been for loan funds, with insufficient funding for other types of institutional support. About 37% of loan fund financing has been through loans, which is appropriate. The funding has not been distributed equitably among the partner lending institutions; the project has erred on the side of caution in supporting the larger MFIs, not taking enough risk on the smaller organizations that may well have the potential to become sustainable with the appropriate assistance.

Recommendations:
Modify the strategy for financing the existing partner lending institutions to: increase the portion of the budget devoted to training and individualized technical assistance; allocate a larger portion of project funding to operational subsidies; put in place standard financial and institutional performance criteria, to be applied to all partner funding institutions; link the criteria for disbursement of loan funds only to portfolio quality indicators, and link the criteria for disbursement of operational subsidies to non-financial institutional performance standards.

Consider adding a loan guarantee to funding mechanisms.

Support to the Microfinance Sector
The existing regulatory and supervisory framework in Sierra Leone is reasonably conducive for microfinance, and needs only minor clarification and adjustment. Plans are already under way to assist the BoSL to resolve ambiguities and gaps in licensing, regulation and supervision and to improve its capacity. MITAF has been instrumental in assisting MFIs to establish the Sierra Leone Association of Microfinance Institutions (SLAMFI), has sponsored microfinance-specific training for external auditors, and has worked closely with the Microfinance Program (MFP) within the National Commission for Social Action (NaCSA) on training and the dissemination of best practice materials.

Recommendations:
Ensure that the assistance to the BoSL is provided to the Department of Banking Supervision and ensure that the external consultant begins work in early 2007.

Roles and Responsibilities

TSP
There are two problems with the role of the TSP as described in project documents:
as a private consulting company, ESGC is not well-placed to raise funds from donors; there is an inherent conflict of interest between providing training and technical assistance to MFIs on the

one hand, and assessing capacity and performance and recommending funding and the disbursement of approved funding on the other.

Recommendations:
Assure that members of the Investment Committee assume partial responsibility for mobilizing additional donor resources for the project as needed. Continue the strategy of contracting and financing external technical advisors and trainers; refocus MITAF staff responsibilities on increased MFI monitoring, supervision and assessment.

BoSL and MODEP
Because this is a project intended to build a pro-poor financial sector, the Bank of Sierra Leone is the appropriate government counterpart, as specified in the project document. The project document also outlines the role and responsibility of MODEP vis-à-vis the microfinance sector. Generally, the degree of oversight of and direct involvement in the microfinance sector foreseen is not in line with internationally accepted good practice with regard to governments' role in microfinance, and a number of the responsibilities are more appropriate to the BoSL.

Recommendations:
In the opinion of the evaluation team, the microfinance function within the BoSL be should be transferred from the Development Coordination Department to the Banking Supervision Department. In addition, the team recommends that the respective roles and responsibilities of the BoSL and MODEP with regard to registration, monitoring and supervision of the microfinance sector be clarified.

Investment Committee
The Investment Committee comprises the 4 donors, with government representatives participating without voting rights. The role and composition of the Committee is appropriate. However, there are fundamentally different visions of the project within the Committee, and the lack of a coherent and shared vision of the project and agreement about the strategy being implemented hinders its ability to operate effectively.

Recommendation:
Hold an extraordinary meeting of the Investment Committee as soon as possible after review of the mid-term evaluation report to confirm the stakeholders' commitment to the project's stated objectives and chosen strategy. As part of the discussion of the project strategy, it is recommended that the Investment Committee modify project outputs and targets and agree on an explicit project exit strategy.

Project Management

A complete budget showing all donor commitments by line item is not available. There have been significant delays in the disbursement of some of the committed funding due to internal donor obstacles. Additionally, the procedures still in place for disbursing donor funds to partner lending institutions are unwieldy and contribute to unnecessary and disruptive delays in financing. ESGC has done a good job of managing a complex and ambitious project to date. However, the lack of a centralized and consolidated financial management system for MITAF leads to disparities and gaps in the project financial records. MITAF reporting to the Investment Committee is regular and thorough although overly complex, which limits its usefulness.

Recommendations:
Operationalize the concept of the imprest account within all donor agencies. Develop a clear, complete and up-to-date project budget. Improve the ESGC/MITAF financial tracking system and simplify and consolidate quarterly reporting to the Investment Committee.

Strategic Positioning and Partnerships

The combined and coordinated contributions of the four donors to building an inclusive financial sector complements national priorities and is in line with their respective corporate priorities. While the donors may have different degrees of expertise in microfinance, together with objectives and interests, the project has provided a coordination mechanism that is flexible enough to allow donors to finance MFIs and/or types of assistance that are both in line with their corporate priorities and consistent with the overall project objectives.

Sustainability of Results and Exit Strategy/Post Project Planning

Although MITAF has begun work on a draft exit strategy, there was no explicit donor exit strategy clearly outlined in the project document, and it is clear that there are widely diverging opinions among key stakeholders about what aspects of the project should be sustainable after the project ends. This contributes to disagreements and conflicting expectations among stakeholders on project implementation strategies. In order to develop a logical and workable donor exit strategy, and to determine whether there will be a need to continue to provide the types of assistance currently being provided by MITAF beyond the end of the project, the evaluation team analyzed the expected state of the microfinance sector and its associated needs at project end. Given the limited size of the market, the progress already made toward achieving end-of-project goals, and the continued progress that can be expected, a second-tier financing and technical assistance structure should not be necessary at the end of the project in 2009.

Recommendations:
Continue the current exit strategy of building local capacity at all levels of the industry:

- Continue to emphasize building the capacity of the existing 10 partner lending institutions, so that they are no longer dependent on donor funding in 2009.
- Implement the revised strategy for providing assistance to the BoSL as soon as possible
- Continue to provide support to SLAMFI and the MFP so that these institutions are able to meet the sector’s continued development and promotion needs after 2009.

Evaluation

Purpose of the Evaluation

The purpose of this independent mid-term evaluation is: to assist the Government, beneficiaries, and the concerned co-financing partners to improve the efficiency, effectiveness, relevance and impact of the project; to provide feedback to all parties to improve the policy, planning, project formulation, appraisal and implementation phases; and, to ensure accountability for results to the project's financial backers, stakeholders and beneficiaries.

Evaluation Methodology

The Terms of Reference (TOR) for the mid-term evaluation are found in Annex 1. The evaluation team was composed of Ann Duval, external consultant and team leader, and Franklin Bendu, local consultant. The evaluation methodology described below, as outlined in the TOR, proved to be adequate for the scope and task at hand.

The evaluation commenced on September 6, 2006, with telephone interviews conducted by the lead consultant with key stakeholders. The list of people interviewed off-site is provided in Annex 2. An on-site evaluation mission took place from September 18 to 30, 2006. The final work plan for the evaluation is found in Annex 3. The schedule was revised several times during the course of the mission and the attached work plan shows the actual interviews and visits conducted during the evaluation mission. Annex 4 provides a complete list of the key stakeholders interviewed in Sierra Leone, including numerous government and donor representatives, project staff and the staff of partner lending institutions. In addition to interviews and meetings with key stakeholders, extensive project documentation review was conducted both prior to and during the evaluation mission; a partial list of those documents is included in the TOR.

The evaluation team visited the head offices of 8 of the 10 lending institutions being financed by the project, including 2 of the 4 community banks. These offices are located in Freetown, Mile 91, Bo, Makeni and Lunsar. During these visits, discussions were held with key managers and a brief review of financial management information systems was conducted. These visits enabled the evaluation team to quickly assess the strengths and weaknesses of each institution and to estimate the degree to which their reports to MITAF are accurate. In addition, the team was able to interview 40 clients (10 clients from each of 4 lending institutions) in Freetown, Bo and Makeni. Although the sample size was too small to enable the evaluation team to draw any firm conclusions from the client interviews, they enabled the evaluation team to get a sense of client satisfaction with the services they are receiving from partner lending institutions and of the impact of these services.

At the end of the evaluation mission, the evaluation team prepared an Aide Memoire describing key findings and recommendations. The lead consultant presented the Aide Memoire to representatives from the Bank of Sierra Leone (BoSL), the Ministry of Development and Economic Planning (MODEP), the United Nations Development Programme (UNDP) and the Microfinance Investment and Technical Assistance Facility (MITAF) at an evaluation debriefing session hosted by the BoSL. The evaluation schedule did not allow sufficient time to write the Aide Memoire; as a result, it was not circulated prior to the debriefing session. Because those attending the debriefing had not had the opportunity to review the Aide Memoire in advance, there was little discussion of the evaluation findings and recommendations. After the debriefing, the Aide Memoire was also sent to stakeholders outside of Sierra Leone.

Background

When the project was developed in 2003, the population of Sierra Leone was estimated to be 5.6 million inhabitants, with an estimated 935,800 households. Ten years of war had resulted in a decline in social indicators putting Sierra Leone at the bottom of UNDP's Human Development Index. Estimates were that the informal sector accounted for at least two-thirds of the total labor force, and 70% of the urban labor force. More than 80 percent of the population had an income below the poverty line of $1 per day.

By 2003, the improved security situation following disarmament in January 2002 had facilitated the resumption of economic activities. Real GDP was estimated to have risen by 6.4 percent in 2001 and by 6.3 percent in 2002. The rate of inflation had fallen sharply from 37 percent in December 1999 to –3.1 percent in 2002. The exchange rate was relatively stable, and interest rates had also declined in line with the fall in inflation.

Analysis indicated that Sierra Leone had a thriving informal sector with limited access to financial services. Estimates of the total potential active client base ranged from 91,000 to 160,000 households. Most microcredit was being supplied by 50 to 60 microfinance NGOs, projects and programs. Most of these microfinance operations were small and institutionally weak with an outreach of less than 200 clients, and none had achieved sustainability. The combined active client base of microfinance NGOs and programs was estimated at around 13,000 borrowers with a total loan portfolio outstanding of around US$ 1,000,000. Given the estimated potential demand and existing supply, there was an estimated unmet demand between 76,000 and 145,000 customers and a financing gap of US$ 20 to 40 million.

The project document[1] concluded that, "Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government's microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system."

The project was signed between the Government of the Republic of Sierra Leone, the UNDP and the United Nations Capital Development Fund (UNCDF) in December 2003. A Technical Service Provider (TSP) was contracted to manage the project in July 2004, at which time project implementation began. At project inception, the TSP set up the Microfinance Investment and

[1] SIL/03/C01, Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone (2004 -2009)

Technical Assistance Facility (MITAF), which enables the project to function legally in Sierra Leone under the auspice of UNDP. The project is generally referred to as MITAF.

UNCDF had begun discussions with a third donor, Kreditanstalt für Wiederaufbau (KfW) in mid 2003 and KfW signed memorandums of understanding with the other stakeholders in August 2004. A fourth donor, Catholic Organization for Relief and Development (Cordaid), became involved in the project at the end of 2004 by providing funding to one of the microfinance institutions (MFIs) operating in Sierra Leone. Through subsequent negotiations, Cordaid agreed to channel its microfinance funding through the project framework[2]. As of September 2006, mid-way through the 5-year project timeline, resources committed to the project by the 4 donors (UNCDF, UNDP, KfW and Cordaid) totaled over US$ 12.5 million. Investments in MFIs totaling $4.1 million had been approved, of which $1.9 million had been disbursed. The US$ 12.256 million donor funding committed as of September 2006 comprises three main categories[3]: US$ 6.9 million, or 57%, for funding to MFIs (for operating subsidies and loan funds, through grants, loans and investments); US$ 1.249 million, or 10%, for technical assistance and training to MFIs; and US$ 2.9 million, or 24% for the TSP to manage the project.

Table 1: Status of project funding as of September 2006 (US$ equivalents)

Total Donor Commitments[4]	MFI Investments Approved	MFI Investments Disbursed
$ 12,256,019	$ 4,132,183	$ 1,889,195

Evaluation

Results Achievement

The overarching goal of the program is to contribute to poverty alleviation by building a pro-poor financial sector. The program is expected to contribute to this goal by establishing the range of building blocks needed for the development of an inclusive financial sector in Sierra Leone, with microfinance as an integrated part of the financial system. The project document outlines 4 outputs that are intended to be mutually reinforcing and are aimed at 1) identifying breakthrough microfinance institutions (MFIs) and supporting them with training, technical assistance, and appropriate capital structures, and 2) ensuring an enabling policy environment and strengthening sector knowledge and understanding of microfinance best practice.

The outputs and targets are shown in Table 1, together with achievements as of September 30, 2006. The quantifiable results listed under Output 1 are those reported by MITAF. The institutions financed by the project report these and other indicators to MITAF quarterly and MITAF in turn reports to the Investment Committee. On-site visits to 8 of the institutions

[2] Cordaid signed a funding agreement with MITAF in November 2005 and because it has committed more than US$ 1 million to the project, it has been accepted as a member of the Investment Committee. However, at the time of the evaluation, an MOU had not been signed between Cordaid and the Government of Sierra Leone.
[3] In addition, a sizeable portion of funding committed by the UN agencies was designated for their own operating and project management costs (US$ 1.1 million).
[4] Based on figures provided to the evaluation team by the TSP Enterprising Solutions Global Consulting, Inc. in November 2006. The dollar equivalent of donor commitments was estimated by the evaluation team using the Euro:Dollar exchange rate at the time the funds were committed.

financed by the project indicated that while the financial information they report to MITAF may not be entirely accurate, the margin for error is not significant in most cases. Other results were verified by the evaluation team through a review of project documentation and through interviews with relevant stakeholders. It should be noted that many of the targets are not quantifiable and/or are subject to varying interpretations. Nevertheless, it is clear that the project is well on the way to achieving its goals, having achieved or surpassed its mid-term targets.

Table 2: Outputs, Targets and Achievements at September 2006

Outputs	Consortium Refined Output Targets	Target Achievement at June 30, 2006
Output 1: Potential leaders of MF industry have reached sustainability and have considerably increased their outreach to develop a competitive, sustainable pro-poor financial sector.	• Increase, from the baseline 13,000[5], the number of active clients of selected MFIs to 15,000 by end 2004, to 20,000 by end 2005, 30,000 by end 2006, 50,000 by end 2007, 75,000 by end 2008, and to 93,000-100,000 at project completion in 2009; • At least 1 MFI has reached financial self-sufficiency at project completion; • At least 3 MFIs have adopted international standards in governance, systems and policies; • At least 2 MFIs have a large branch network that covers a major part of Sierra Leone.	• 42,768 active clients served by 9 MFIs[6] • 5 MFIs report more than 100% operational self-sufficiency • Although progress is being made, no MFIs have yet achieved international standards in all of these areas. • 1 MFI has branches in 7 towns and 7 sub-branches in surrounding areas
Output 2: Strategic partnerships are built with other donors and the private sector in joint support of a sustainable pro-poor financial sector.	• Strategic partnerships that enable MFIs access to capital (grants, loans and commercial equity) are established in 2005, then expanded; • Coordination amongst donors/investors from the outset as donors/investors utilize investment committee framework; • Resources mobilized for MFIs as cost-sharing, parallel financing or savings mobilization (an additional $12 million cumulative during the project life).	• 1 MFI is in the final stages of negotiations with a major international investor • 1 new donor joined the Investment Committee • $ 3.88 million additional resources mobilized[7]

[5] The baseline figure of 13,000 active clients at project inception included clients of all microcredit programs operating in Sierra Leone, while the numbers of active clients regularly tracked and reported by MITAF only include clients of the institutions financed by the project.
[6] Includes June rather than September figures for Segbwema Community Bank.
[7] As reported by MITAF in September 2006, including a dollar value ($100,000) of the VSO-sponsored technical advisor estimated by the evaluation team. This figure does not include the €3.0 million additional German government funding that has been approved in principle but not yet finalized.

Outputs	Consortium Refined Output Targets	Target Achievement at June 30, 2006
<u>Output 3</u>: **A professional microfinance unit in the Bank of Sierra Leone is operational** and capable of ensuring an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system.	• A MF unit in the BoSL established as a professional focal point for the development of the microfinance industry; • Industry standards developed with MFIs including efficient and transparent information exchange; • A microfinance sector database developed; • The support infrastructure for the sector has improved (audit, credit reference bureau); • A conducive regulatory and supervisory framework for microfinance has been established. This framework stimulates integration of the microfinance sector into the financial system.	• BoSL has established a Microfinance Division • All MFIs financed by the project are reporting on standard performance criteria monthly to MITAF, and information is regularly exchanged among them at meetings of the Sierra Leone Association of Microfinance Institutions (SLAMFI) • MITAF has developed a sector database • MITAF has conducted training for local audit firms • Existing regulatory and supervisory framework is relatively conducive for microfinance
<u>Output 4</u>: **Sound microfinance principles have been disseminated** and are widely accepted and adopted.	• MODEP NGO-MFI conducive registration and monitoring process established; • Government, donors, consultants and practitioners have access to and utilize best practices in microfinance.	• MITAF has proposed an NGO-MFI registration form and process to MODEP • The purpose of and ways to measure this target are unclear. All project activities are designed to introduce best practices to the sector.

Output 1

It is clear that the project is on target with regard to the indicators outlined under Output 1, particularly increasing the number of clients served by the sector, increasing sustainability of the institutions financed and increasing branch networks. These results are those achieved by 9 partner lending institutions[8]: Finance Salone, Hope Micro, Christian Children's Fund (CCF), Association for Rural Development (ARD), Community Empowerment and Development Agency (CEDA), Yoni Community Bank, Marampa Masimera Community Bank, Mattru Community Bank and Segbwema Community Bank.

Target 1

With more than 42,000 active clients at September 2006, the project had already far surpassed the target for year-end 2006. Although the project has already exceeded the mid-term target, it is doubtful that the project will be able to reach the target of 93,000 to 100,000 active clients at project completion in 2009, given the current institutional capacity of most partner lending institutions. Further, pushing to achieve this target without strengthening institutional structures and systems is likely to have an adverse effect on the MFIs and therefore on overall project results (see Section 5.2.2.1).

Target 2

The project does not yet report on MFI levels of financial self-sufficiency. Nevertheless, 5 partner lending institutions report 100% or higher operational self-sufficiency: Finance Salone 100%; Hope Micro 118%; Marampa Masimera Community Bank 165%; Yoni Community Bank 112%; Segbwema Community Bank 104%. Two other institutions – CEDA and Mattru Community Bank – report being close to 100% operational self-sufficiency, at 93% and 97% respectively. Given these current levels of operational self-sufficiency it is probable that the project will achieve the target of at least 1 MFI reaching financial sufficiency, and will likely exceed this target.

In addition to tracking self-sufficiency, partner lending institutions track a number of other financial performance indicators, such as Portfolio at Risk (PAR) to measure the quality of the portfolio. All of the NGO MFIs visited during the evaluation explained that before MITAF, they did not even know about this internationally accepted measure of portfolio quality and were surprised to discover that their portfolios were not as healthy as they assumed. MFI performance targets related to PAR have been included in the project grant agreements, and it is clear that most institutions have made considerable progress on improving the quality of their portfolios. Nevertheless, the current PAR within a number of the partner lending institutions is well above internationally recognized good practice, and jeopardizes their potential sustainability. Another indicator of portfolio quality is the loan loss ratio, which is also extremely high in several of the MFIs. In many cases, a significant portion of the PAR and loan losses can probably be traced to serious incidents of fraud within the institutions.

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[8] Financing has been approved for a tenth MFI, ProCredit Bank, which has not yet started operations.

Target 3

This target is extremely important; financial indicators such as numbers of active clients and levels of self-sufficiency alone do not provide a complete or accurate picture of MFI capacity. However, expectations about institutional capacity have not been sufficiently quantified either in the project document or in a standardized way in the performance standards set within the grant agreements. With little baseline information on MFI institutional capacity, and in the absence of clear expectations and guidelines, it is impossible to measure progress toward this target. Please refer to section 5.2.2.2 for an examination of the current capacity of partner lending institutions. Although none of the MFIs are judged to meet this target, given the progress already made by most partner lending institutions and with appropriately focused training and technical assistance during the remainder of the project, the target of at least 3 MFIs meeting international standards in governance, systems and policies should be achievable.

Target 4

One MFI, Finance Salone, is well on the way to achieving the goal of establishing a large branch network covering a major part of the country, with branches in 7 towns and sub-branches in 7 surrounding areas. Other MFIs have also established more than one branch office: Hope Micro has 2 branches and 2 sub-branches; ARD has 3 branches; CCF has 2 branches. Nevertheless, it is doubtful that any of these organizations will be able to achieve the target as stated by the end of the project, given their need to strengthen current institutional capacity before further expansion.

Output 2

Although the targets listed under Output 2 are either not clear or not quantified, MITAF has been successful in mobilizing additional financial support for the project. Although MITAF has not played a role in the negotiations with the institution that is planning to invest in Finance Salone, it facilitated this process by participating in the valuation of the NGO program prior to transformation. MITAF is on track with other resource mobilization as well; it has facilitated the addition of US$ 3,882,581 million to initial project resources, including: US$ 1,221,019 million from Cordaid; an additional US$ 1.92 million from KfW; US$ 641,562 in savings mobilized by the 4 community banks; and, the in-kind contribution from Voluntary Services Organization (VSO) in the form of a resident technical assistant for Yoni Community Bank (valued at US$ 100,000). The German government has also approved in principal a further € 3 million commitment to the project to be provided through KfW; finalization of these arrangements was still pending at the time of the evaluation. The project has been less successful in achieving coordination among donors, as described in section 5.2.2.2.

Output 3

Most of the targets listed under Output 2 are not quantifiable and subject to varying interpretations; progress toward these targets is measured more by activities undertaken rather than by achievement of specific results. The BoSL has established a Microfinance Division, although there are problems inherent with this division as described in Section 5.2.2.2. MITAF has designed a standard reporting system for its partner lending institutions that incorporates internationally recognized performance criteria. MITAF was instrumental in helping MFIs form the Sierra Leone Association of Microfinance Institutions (SLAMFI), and MFIs now discuss issues and exchange information through this forum. In addition, MITAF requires MFIs to report to the international Mix Market after two years of submitting reports to the project; as of September 2006, two of the MFIs (Finance Salone and Hope Micro) were reporting to the Mix Market. MITAF has established and is maintaining a microfinance sector database; it is envisaged that this function be turned over to the BoSL for development into a full data base when its microfinance unit is fully functional. In September 2006, MITAF also conducted microfinance-specific training for auditing firms.

Output 4

MITAF also worked with MODEP to develop special registration procedures for NGOs engaged in microfinance, although this is currently not appropriate, given the financial institution licensing requirements set by the BoSL (see Section 5.2.2.2). It is not possible to measure achievement of the final target.

Development Objective

According to the project document, "The overarching goal of the programme is to contribute to the achievement of the Millennium Development Goals, in specific the goal of cutting absolute poverty by half by 2015, by increasing sustainable access to financial services for poor and low-income people in Sierra Leone." The strategy adopted to achieve this goal is to "develop a competitive and sustainable inclusive financial sector that provides access to financial services to poor and low-income people in general and micro and small businesses in particular".

The evaluation findings indicate that the project is on track with regard to increasing sustainable access to financial services for poor and low-income people, as measured by the outreach indicators reviewed in Section 5.1.1. It is too early in the project cycle to assess the impact of these financial services at the client level and the purpose of the mid-term evaluation was not to conduct an impact study.

Nevertheless, interviews with a small sample of clients revealed that all respondents' living conditions have improved; they can afford better health care, can send their children to school and have improved food consumption within the household. These findings mirror worldwide evidence that microfinance is an effective tool in the fight to reduce poverty. The excerpts from a CGAP Focus Note[9] in Box 1 highlight the ways in which microfinance contributes to the achievement of the Millenium Development Goals.

[9] Littlefield, Elizabeth, Morduch, Jonathan, Hashemi, Syed. *Is Microfinance an Effective Strategy to Reach the Millenium Development Goals?* Focus Note No. 24. CGAP, Washington, DC, January 2003

Box 1: Microfinance and the Millenium Development Goals

Microfinance is unique among development interventions: it can deliver these social benefits on an ongoing, permanent basis and on a large scale. Many well-managed microfinance institutions throughout the world provide financial services in a sustainable way, free of donor support. Microfinance thus offers the potential for a self-propelling cycle of sustainability and massive growth, while providing a powerful impact on the lives of the poor, even the extremely poor. Evidence shows that this impact intensifies the longer clients stay with a given program, thus deepening the power of this virtuous cycle.

Microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay for school fees, or to bridge a cash-flow gap can be a first step in breaking the cycle of poverty. Similarly poor households will use a safe, convenient savings account to accumulate enough cash to buy assets such as inventory for a small business enterprise, to fix a leaky roof, to pay for health care, or to send more children to school.

Microfinance also helps safeguard poor households against the extreme vulnerability that characterizes their everyday existence. Loans, savings, and insurance help smooth out income fluctuations and maintain consumption levels even during lean periods. The availability of financial services acts as a buffer for sudden emergencies, business risks, seasonal slumps, or events, such as a flood or a death in the family, that can push a poor family into destitution. Various studies, both quantitative and qualitative, document increases in income and assets and decreases in vulnerability of microfinance clients.

The conclusion of the Focus Note also states, however that, "No single intervention can defeat poverty. Poor people need employment, schooling, and health care." As discussed in another CGAP Donor Brief[10], microcredit is only one of many intervention strategies designed to alleviate poverty, generate income and promote employment. The brief warns that "Due to its current popularity among donors, however, microcredit risks becoming a "one size fits all" intervention solution. In choosing the most appropriate intervention tool for a specific situation, microcredit should be carefully evaluated against the alternatives. In many cases, savings and insurance services, micro-grants, infrastructure improvement, employment and training programs, and other non-financial services may be more effective tools for poverty alleviation and employment generation. Microcredit is generally most appropriate where ongoing economic activity and sufficient household cash flow already exist, as it may otherwise create an excessive debt burden."

Factors Affecting Implementation and Results

The evaluation examined both external and internal factors influencing the project.

External Factors

Key aspects of the operating environment for microfinance have either improved or remained conducive since project inception. According to the IMF country report for Sierra Leone issued

[10] ____________. *Microcredit: One of Many Intervention Strategies*. Donor Brief No. 2. CGAP, Washington, DC. April 2002.

in May 2006[11], “Sierra Leone’s macroeconomic performance during 2001–04 was, on the whole, strong. The government’s broad macroeconomic objectives for these years, as outlined in the PRGF-supported program in 2001 included a real GDP annual growth of about 6–7 percent and an inflation of about 5 percent per annum; a significant lowering of fiscal and external current account deficits; and a rebuilding of gross international reserves.” In addition, the National Microfinance Policy of 2003 remains in force, and the legal and regulatory environment for microfinance was and continues to be conducive for the sector.

While some progress has been made in tackling the causes of poverty identified in the 2001 Interim Poverty Reduction Strategy Paper (PRSP), much remains to be done. According to a September 2004 report by PASCO[12], “about 70 percent of the population of Sierra Leone are poor. Also, about 68 percent of the population cannot even afford enough food and 26 percent are in extreme poverty. The poor in Sierra Leone can meet only about 71 percent of their basic needs. Poverty is heavily concentrated in the rural and other urban areas outside Freetown.”

It should be noted that some of the barriers to carrying out successful income-generating or microenterprise activities – which should enable a small percentage of the poor population to improve their living conditions – also inhibit effective service to these clients. Notably, the inadequacy of the communications, energy and transport infrastructure restrict the markets and business sustainability for clients and the ability of MFIs to provide financial services cost-effectively.

Project-Related Factors

The project-related factors affecting implementation and results examined by the mid-term evaluation include those related to project design, institutional and implementation arrangements, and project management.

Project Design

The project concept is sound. As described in Section 5.1.5, experience shows that building an inclusive financial sector will contribute to the alleviation of poverty. The strategy to build the microfinance sector as part of the broader financial sector is in line with internationally-recognized good practice, with the Government of Sierra Leone’s national microfinance policy and with the PRSP. The project design follows market-driven principles (no targeting of specific clients or geographic areas) that are also consistent with good practice and the national policy. The specific strategy chosen to achieve the project objectives – identifying potentially strong MFIs and investing in building their capacity so that their services are sustainable over the long-term – is sound and based on successful experience around the world. The project’s overall objectives and strategy remain valid and should result in strategic value if achieved.

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[11] *Sierra Leone: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone.* Country Report No. 06/183, International Monetary Fund, May 2006

[12] *Status Report on Preparatory Activities for the Full Poverty Reduction Strategy Paper for Sierra Leone*. Poverty Alleviation Strategy Coordinating Office (PASCO), Sierra Leone, September 2004

However, some of the expected results as described in the outputs and targets are overly ambitious, particularly given the state of the sector at project inception[13], and some of the targets are unclear, vague or inappropriate. Specifically, the shortcomings in the design of output targets are as follows:

Output 1:
Target 1) 93,000 to 100,000 active clients at project completion in 2009. The target was overly ambitious and unrealistic in that it assumed that the MFIs financed under the project would be able to cover 58% to 63% of the highest estimate of the total market within 5 years. Pushing to achieve this target now without further strengthening institutional structures and systems is likely to have an adverse effect on the MFIs and therefore on overall project results. This is particularly important in this project as most of the NGO MFIs are likely over-extended, as evidenced by the low quality of their existing portfolios. One of the implications of the chosen project strategy – building sustainable financial institutions – is that it takes time to achieve results such as increasing the number of poor people who have access to financial services.

Target 3) at least three MFIs have adopted international standards in governance, systems and policies by project end. While this is a reasonable expectation, this target is not quantifiable and is subject to many interpretations.

Target 4) at least two MFIs have a large branch network that covers a major part of Sierra Leone by project end. Given the institutional strength of MFIs at project inception, this target was overly ambitious. It is also not sufficiently quantified and is open to various interpretations.

Output 2:
Target 1) strategic partnerships that enable MFIs access to capital (grants, loans and commercial equity) are established initially in 2005, then expanded.

Target 3) Resources mobilized for MFIs as cost-sharing, parallel financing, or savings mobilization (an additional US$ 12 million cumulative by project end).

The difference between and intent of these two indicators, both of which relate to additional resource mobilization, is not clear and the two seem to overlap. The mobilization of an additional US$ 12 million in five years also seems unrealistic, nor are there targets for each type of resource (savings managed by the banks, additional donor funding, etc.).

Output 3:
Target 2) industry standards developed with MFIs including efficient and transparent information exchange. This target is not clear, particularly because exchange of information is not necessarily an industry standard, nor does it specify who will be responsible.

Target 3) a microfinance sector data base developed. This target does not specify the purpose of a data base nor who should develop and maintain it.

[13] It should be noted that a number of the targets listed in the original project document were modified during the process of the contract negotiations with ESCG.

Target 4) the support infrastructure for the sector has improved (audit, credit reference bureau). This target is not quantifiable, nor is it clear whether "audit" and "credit reference bureau" are listed as indicative of improved support overall or whether there are specific targets with regard to each of them.

Target 5) a conducive regulatory and supervisory framework for microfinance has been established. The purpose of this target is not clear, in that a conducive framework already existed at project inception.

Output 4:
Target 1) MODEP NGO-MFI conducive registration and monitoring process established. As explained in Section 5.2.2.2, this target is not appropriate with regard to MODEP's role.

Target 2) Government, donors, consultants and practitioners have access to and utilize best practices in microfinance. This target is vague and unquantifiable. Information on best practices in microfinance is widely available throughout the world, both through on-line resources and written publications; it is not clear why or how additional access should be provided by the project. Further, it is beyond the scope of any project to ensure that anyone accepts and utilizes best practices. Finally, it can be argued that all project activities are in fact designed to introduce best practices to the sector as a whole.

Please refer to Section 5.6.1.1 and to Annex 7 for specific recommendations about the revision of various output targets.

The baseline data against which progress can be measured, as provided in the project document, is minimal. The only quantifiable baseline data was the estimated total number of active clients being served by lending institutions in the country and the estimated total portfolio of these institutions. It should be noted that the baseline figure of 13,000 active clients at project inception included clients of all microcredit programs operating in Sierra Leone, while the numbers of active clients that are reported quarterly by MITAF only include clients of the institutions financed by the project. Important quantifiable baseline data relating to the institutional capacity of potential lending partners was not collected or verified through institutional analyses prior to project inception. This renders the measurement of progress toward achieving targets even more problematic.

Gender issues were not specifically addressed in the project design; no information was provided on the number of women in the potential microfinance market or on the number of women being reached by MFIs before the project, and no specific gender-related targets were set. The MITAF quarterly reports therefore do not include a gender breakdown of active clients. Nevertheless, MITAF requires that partner lending institutions report on the percentage of women among their active clients and all of them report that the majority of their active clients are women (percentages range from 54% to 90% among the 9 currently active institutions).

The guidelines for implementation of the project included a description of the critical aspects of project management, particularly terms of reference for the various project parties, and criteria and processes for the financing of MFIs. However, the mid-term evaluation found that not all of the roles and responsibilities outlined in the project document are appropriate, as discussed in the following section. The project document also included appropriate initial funding criteria for MFIs, given the low institutional capacity of the existing NGO microcredit programs at the time.

Institutional and Implementation Arrangements

This section discusses the strategy that the project (MITAF) has implemented to date, as well as the role of the three main actors responsible for project implementation and management: the Technical Service Provider (TSP) contracted to assume primary responsibility for managing and implementing the project; the Government of Sierra Leone, particularly the BoSL and MODEP; and the Investment Committee, which comprises all contributing donors and government representatives and makes investment decisions.

MITAF

The MITAF strategy includes interventions at the micro (retail lending institutions), meso (sector support infrastructure) and macro (policy) levels, which is appropriate. MITAF has been following a strategy of focusing efforts and resources on building strong retail microfinance institutions during the first years of the project. This strategy has been approved by the Investment Committee and is sound; sustainable MFIs are the keystone to achieving the project's development objective over the long term. MITAF has also begun to implement a strategy to improve conditions for the sector as a whole, at both the meso and macro levels, and expects that more emphasis will be place on sector-wide interventions in the coming years.

Selection of Partner Lending Institutions

Output 1 implies that only institutions that were considered to be potential industry leaders would be financed by the project. This implied strategy of focusing on a few stronger MFIs was sound in principle and because the market for microfinance services in Sierra Leone is quite limited.

Nevertheless, the project document established low entry criteria that allowed relatively weak institutions the opportunity to access the assistance provided by MITAF. Of the 9 institutions that applied for funding at project inception (6 indigenous NGOs and 3 international NGOs), 5 met the entry criteria and in 2004 were approved for financing by the Investment Committee (2 indigenous NGOs and 3 international NGOs).

At the request of the BoSL, the Investment Committee agreed in 2005 to finance the 4 community banks that the BoSL had established in 2003. In addition, the Investment Committee decided to invite proposals from international microfinance institutions (MFIs) to establish operations in Sierra Leone, in an effort to increase the desired project targets, particularly the number of active clients.

As a result of this several-prong approach to selecting partner lending institution, at mid-project, the project is partnering with 10 institutions, which is a large number considering the potential size and scope of the market:

- ***Finance Salone***, which began as a program of the international NGO American Refugee Committee (ARC) and now has transformed into a local Limited Liability Company;
- ***Hope Micro***, which began as a program of the international NGO World Hope, and subsequently registered as a local NGO;
- ***Christian Children's Fund (CCF)***, which operates a microcredit program called the Microenterprise Development Initiative (MEDI) and has applied to transform MEDI into a local NGO to be called Salone Microfinance Trust;
- ***Association for Rural Development (ARD),*** an indigenous NGO;
- ***Community Empowerment and Development Agency (CEDA)***, an indigenous NGO;
- ***Yoni Community Bank***, an indigenous bank established by the BoSL;
- ***Marampa Masimera Community Bank***, an indigenous bank established by the BoSL;
- ***Mattru Community Bank***, an indigenous bank established by the BoSL;
- ***Segbwema Community Bank***, an indigenous bank established by the BoSL;
- ***ProCredit Holding***, an international microfinance investment consortium that is in the process of establishing a specialized microfinance bank (ProCredit Bank).

Although the market may not be able to support this many MFIs in the longer term, the decision to finance a range of types and sizes of institutions is sound; it should enable the project to come closer to achieving expected results than it would have if it only financed the relatively weak NGO MFIs in existence at project inception. In particular, the addition of the community banks and the microfinance bank should ensure that the range of financial services for the poor is expanded and that outreach is increased. The community banks provide a range of financial services, including savings and money transfers, that the NGO MFIs cannot offer, and in some cases, serve more rural communities that cannot effectively be reached by most of the other institutions. ProCredit Bank will also provide savings services and will serve a larger range of clients than currently served by the NGO MFIs.

MFI Transformation

Although there is nothing in the project design related to expectations about the transformation of NGO MFIs into for-profit businesses, the evaluation team was requested to examine this issue. There seems to be a common perception that the transformation of NGO MFIs into for-profit businesses is a goal of the project. In any microfinance sector, there is room for a range of types and sizes of actors, from NGOs to licensed and regulated banks; remaining an NGO does not have to lead to unsustainable or small scale operations, while transforming into a for-profit business (whether providing only credit or a full range of financial services) does not automatically ensure sustainability or greater outreach.

From the point of view of the NGO, the main advantages of transformation relate to expanded sources of lending funds. An NGO's sources of funds include retained earnings, loans from local or foreign institutions (including donors), and grants from donors. These sources of funds can be sufficient to enable sustainability for an NGO whose mission is to remain focused on very low-income borrowers in a specific region. If an NGO transforms into a for-profit business, the new institution also will be able to attract shareholder capital, but is unlikely to be able to attract grants from donors. If the new for-profit business is allowed to take deposits as some form of bank regulated by the Central Bank, the deposit base will also significantly expand its lending funds.

The primary potential disadvantage of NGO MFI transformation is the increased tension between the profit motive and the social mission; an ongoing debate in the international microfinance community centers around the degree to which commercialization leads to "mission drift", or a move away from high-cost small loans to the very poor. Beyond this disadvantage, however, the potential of many NGOs to transform is seriously limited by their institutional capacity. Typically, in order to create a for-profit company, an NGO would have to be institutionally strong and already performing profitably; otherwise it would not be able to attract the necessary shareholders that are the primary reason for transformation.[14] In order to create a deposit-taking institution, an NGO must be able to meet prudential norms established by the Central Bank to protect depositors; these norms far exceed typical MFI performance standards and criteria. It can be argued that strict prudential norms are even more critical for financial institutions serving the poor, as the poor are exceedingly vulnerable to mismanagement of their savings.

While any of the 4 NGO MFIs currently being financed by the project legally could create limited liability companies to continue their microlending, there is currently no purpose in doing so because the weaknesses outlined below would prevent them from attracting external shareholders. Indeed, transformation would preclude access to the donor grants that they need to continue to build capacity. Although it can be expected that some of these NGOs will become strong, potentially sustainable institutions by the end of the project with MITAF's continued assistance, it is not necessary for them to transform into for-profit businesses in order to fulfill their mission. Additionally, none of these NGOs expressed a vision or intention of making this type of institutional transition. These 4 NGO MFIs are also not capable of becoming a deposit-taking institution at this time because of their current institutional weaknesses, particularly the lack of effective governance structures, sufficiently experienced and qualified management, and adequate financial information management systems. In the opinion of the evaluation team, it also is not likely that these NGOs will be able to become deposit-taking institutions in the foreseeable future, given the large gap between their current capacity and the capacity needed to conform to strict prudential norms.

MFI Capacity Building

Initially, MITAF identified training topics that seem to have been in line with the pressing needs of the sector as a whole. Some of the training was conducted by MITAF staff, although most workshops were conducted by external trainers identified and financed by MITAF. During this period, MITAF also trained the Microfinance Program to deliver some of the initial workshops independently. MITAF has also sponsored the participation of a number of MFI staff in international training programs. The institutions visited uniformly praised all of the training that they have received through MITAF. Based on assessments of each workshop completed by

[14] It should be noted that in Sierra Leone, it is possible for an NGO to establish a limited liability company for the purpose of making microloans with only two shareholders, as ARC has done with Finance Salone. In this instance, most shares are held by ARC as an institution, with one share held by the ARC Country Director. Therefore, while Finance Salone is now poised for capital investment by other shareholders, the creation of the LLC has not yet changed the microcredit operations previously carried out by ARC in any way.

participants and on the improvements that can be seen at the institutional level, the training provided to partner lending institutions has been effective.

Those institutions that have received external technical assistance through the project expressed particular appreciation for this form of assistance. The strategy of combining classroom training with on-site individual technical assistance is sound; experience has shown that without adequate follow-up of this nature, the impact of training at the institutional level is limited. As of September 2006, external technical advisors were working with 7 of the partner lending institutions. In 4 instances, the project is partially supporting the cost of advisors that have been provided by a parent organization, while MITAF has identified and/or funded the advisors for the other 3 institutions. In addition, ESGC staff has provided technical advice directly to a number of the partner institutions, particularly during the first year of project implementation. In September 2006, MITAF began working on a proposal to have the community apex bank of Ghana provide technical assistance and training services to the community banks.

While providing technical assistance to MFIs through external advisors is expensive, there are no viable alternatives in Sierra Leone. The microfinance sector is fairly young and inexperienced and logically, the only people who may be expected to develop sufficient experience and training are found among staff already working in the MFIs.

Rapid assessments carried out in 2004, immediately after project inception, showed that all of the NGO microcredit programs that were initially financed (ARC/Finance Salone, World Hope/Hope Micro, CEDA, ARD and CCF) had significant institutional weaknesses. In most cases, the programs themselves could not accurately measure basic performance ratios like operational self-sufficiency and PAR due to the lack of adequate systems and financial management capacity. The positive trend in some of the key performance indicators outlined in Section 5.1 indicates that MITAF capacity-building has helped to strengthen the institutions considerably since project inception.

Nevertheless, visits to partner institutions revealed significant weaknesses in most, including: lack of qualified and functioning boards of directors; lack of qualified management and/or insufficient number of managers; inability to design loan products in relation to client needs, including inability to set appropriate and rational interest rates; weak systems, especially financial management information systems; weak financial management capacity; insufficient internal controls; inability to carry out adequate business and strategic planning. These weaknesses must be addressed if the partner lending institutions are to reach growing numbers of clients, maintain healthy portfolios and become sustainable. It can be noted that the weaknesses listed above are apparent in both the NGO MFIs and the community banks; indeed, as much younger institutions that were provided with no technical assistance at start-up, the community banks currently lag behind the NGOs in most aspects.

MFI Financing
The funding process outlined in the project document has been adhered to; MITAF assessed the institutional capacity of applicant organizations and recommended funding parameters to the Investment Committee, which in turn has approved funding. Further, grant agreements have been signed with each partner institution outlining performance standards that must be met in

order to access the funding that has been approved by the Investment Committee. The performance standards have been tailored to and negotiated with each institution separately.

Of the total funding approved by the Investment Committee, the majority (76%) has been for three institutions – Finance Salone, Hope Micro and the ProCredit Bank. The majority of the funding (77%) that has been disbursed to MFIs as of September 2006 has gone to two institutions – ARC, for Finance Salone operations, and World Hope/Hope Micro. The remaining 23% of disbursed funds has been distributed among the 7 other partner institutions, 1 of which is an international NGO operating a microcredit program and 6 of which are indigenous institutions. The decision to provide more funding to ARC and World Hope was justified initially, as these two organizations had the most promising microcredit operations at project inception. Nevertheless, at project mid-term, a disproportionate amount of funding has been approved and disbursed for these two institutions. This is due in part to the criteria that have been used by the Investment Committee to approve and disburse subsequent tranches of funding in 2005 and 2006. Additionally, a disproportionate amount of the grant funding for operating costs has been approved for the ProCredit Bank.

MITAF established individualized performance criteria in an attempt to tailor funding conditions to the widely divergent levels of MFI institutional capacity. The intent of tailored disbursement criteria was both to address the most important institutional weaknesses and to take into account institutional capacity at the time the funding was approved. So, for example, if an institution already had an appropriate write-off policy and adequate internal controls, these conditions were not written into the agreement. On the other hand, in particularly weak institutions, a number of conditions would be included. While the establishment of performance-based financing agreements is a sound practice, several problems are apparent with the current process.

The lack of standardized performance criteria has led to a lack of transparency in the disbursement of funds to MFIs. First, there are no standardized institutional capacity criteria that could be applied equally to all institutions covering such areas as governance, management, systems and procedures. As a result, some MFIs are required to meet detailed institutional conditions that may be difficult to quantify and verify, while others have no disbursement conditions or are only required to meet several financial performance standards. Although the conditions are negotiated with and accepted by each MFI, they seem to be very driven by MITAF's opinion of what the institutions need to do to improve, even though institutional assessments are not regularly carried out. Additionally, although minimum PAR conditions are written into grant agreements now, the conditions often do not meet internationally-recognized good practice, nor is the same PAR applied to all institutions. In various grant agreements signed with the 9 partner institutions currently operational, the minimum PAR conditions range from 2% to 10%; a maximum PAR >30 days of 5% is generally recognized good practice.

Despite the individualized targets and low performance criteria, some of the MFIs have not been able to meet their performance standards in a timely manner, and as a result, have not received significant portions of their approved funding. ARD, CCF and Yoni Community Bank have faced the biggest difficulties in meeting their disbursement conditions, particularly because of their high levels of PAR. The performance of the other institutions post-disbursement continues to fluctuate, with a PAR that often exceeds the minimum conditions that had been set for disbursement.

The majority of financing approved by donors to date has been for loan funds (73%), with very little for capacity-building through support for operating budgets and the acquisition of fixed assets (7% and 2% respectively).[15] In addition, the disbursement of all types of funding approved by the Investment Committee is tied to the tailored performance criteria mentioned above. As a result, the little grant funding that has been approved for operating costs and/or the acquisition of fixed assets has been withheld along with approved loan funds. This is counter-productive in that some MFIs – particularly the smaller indigenous institutions that are still experiencing serious difficulties with portfolio quality – are not receiving the very funding that could help increase the institutional capacity necessary to meet the performance criteria.

Table 3: Distribution of Approved Funding

Grants for Operations and TA	% of Total	Grants for Loan Funds	Loans for Loan Funds	Total Approved Loan Funds	% of Total	Total Funding Approved for Existing MFIs
$ 849,628	27%	$ 1,132,555	$1,150,000	$2,282,555	73%	$3,132,183

Primarily because some MFIs are not able to meet the performance criteria in place for accessing successive tranches of funding, a considerable amount of donor funding has been effectively "frozen". At September 2006, of the US$ 2.982 million grant funding that had been approved by the Investment Committee, only US$ 1.489 had been disbursed to MFIs. While US$ 1 million is pending because the ProCredit Bank is not yet operational, the remaining difference of US$ 492,988 is substantial. Additionally, only US$ 400,000 of the US$ 1.150 million that has been approved as loans to MFIs had been disbursed. Some of this difference was due to the inability of the donors to provide the loans approved (the first US$ 400,000 tranche of the US$700,000 loan approved for Finance Salone in June 2005 was only disbursed in October 2006). Nevertheless, US$ 400,000 of the $1.150 million that had been approved as loans to Hope Micro[16] and Yoni Community Bank had not been disbursed because the MFIs could not meet the performance criteria.

Table 4: Funding Approval vs. Disbursement

Grants Approved[17]	Grants Disbursed	Difference	Loans Approved	Loans Disbursed	Difference
$1,982,183	$1,489,195	$492,988	$1,150,000	$400,000	$750,000

MFI Assessment and Monitoring

[15] Based on figures provided by MITAF as of September 2006, but excluding the US$1 million financing of start-up costs that has been approved for ProCredit Holding. This US$ 1 million was excluded from the analysis, as it skews the amount and percentage of project funding that was provided for institutional strengthening to the other 9 institutions.
[16] Although Hope Micro had met its disbursement conditions in March 2006 when the loan was approved, since that time its monthly PAR has exceeded the disbursement criteria.
[17] Not including the US$1 million for ProCredit Bank.

Initially, MITAF visited partner lending institutions often and regularly, both to provide technical assistance and to monitor operations. In 2006, MITAF developed a standard MFI reporting format based on internationally recognized standards and assisted MFIs to develop the financial systems and understanding necessary to complete the reports. MITAF now assesses MFI performance primarily through these quarterly reports; little on-site monitoring has been undertaken since the introduction of the reporting system[18]. In addition, MITAF carried out due diligence exercises with 3 MFIs in 2006, and plans to complete these exercises with all partner lending institutions in an 18-month period.

MITAF has applied its standard MFI assessment and monitoring procedures to the 4 community banks. Because these banks are required to provide monthly returns to, and are under the supervision of, the BoSL Department of Banking Supervision, it is not clear that MITAF is playing an appropriate monitoring role in this instance.

Support to the Microfinance Sector
Plans are already under way with respect to providing technical assistance to the BoSL and MODEP to enable them to better fulfill the roles assigned to them in the project document; it is envisaged that this technical assistance would also help the BoSL resolve current ambiguities and gaps in relevant licensing, regulation and supervision guidelines.

It should be noted that the existing regulatory and supervisory framework in Sierra Leone is reasonably conducive for microfinance, and needs only minor clarification and adjustment. The regulatory and supervisory framework for microfinance in any country should be appropriate to the specific needs of the institutions operating within the sector. It is generally accepted that prudential regulation and supervision is only necessary for deposit-taking institutions, while credit-only institutions require only light regulation related to permission to lend[19].

The main actors in the Sierra Leone microfinance sector are those being financed by the project and include: 1 commercial bank that will be able to offer a full range of financial services (in the process of being established); 1 limited liability company providing only loans; 4 community banks authorized to provide full financial services; and, 4 credit-only NGOs. The 2000 Banking Act, and associated Banking Regulations issued in November 2003, clearly outline the prudential regulations for the deposit-taking institutions[20]. The Other Financial Services Act of 2001 defines other types of financial institutions, and applies to any type of institution wishing to engage in any financial activity (including those institutions that make only loans). According to this law, all such institutions must receive a license from the BoSL, although the Governor may exempt institutions from licensing requirements. Therefore, under the current law, both NGOs

[18] It should be noted that MITAF staff still needs to work with some of the community banks to help them produce the reports, as their underlying manual systems make it difficult to generate the necessary information in a timely manner.
[19] Christen, Robert Peck; Lyman, Timothy R.; Rosenberg, Richard. *Guiding Principles of Regulation and Supervision of Microfinance.* Microfinance Consensus Guidelines. CGAP, Washington, DC, July 2003.
[20] There is ambiguity about the status of the community banks within the BoSL; some understand that these banks should be regulated and supervised under the Banking Act and associated Regulations, while others consider these banks to fall under the Other Financial Services Act because of different capital requirements. To date, operating guidelines specific to community banks have not been developed.

and private companies making loans should either have a license from the BoSL or a licensing exemption.

The Department of Banking Supervision is responsible for issuing licenses and currently does not consider NGO MFIs to be under its purview. It should be emphasized that lack of compliance with existing licensing requirements has in no way hindered the development of the sector to date; to the contrary, it has been appropriate to allow NGO MFIs to operate without a license and without being subject to regulation and supervision by the BoSL.

The Department of Banking Supervision is also responsible for developing operating guidelines (regulations) for financial institutions, as well as for the prudential supervision of deposit-taking institutions. Currently, guidelines exist for Banks, Mortgage Finance Institutions, Savings and Loan Companies, Discount Houses and Foreign Exchange Bureaus. Guidelines have not yet been developed that would apply to private credit-only MFIs. Therefore, the Department of Banking Supervision sent two staff members for on-site training with the Central Bank of Uganda in September 2006, and is now working on these guidelines[21].

The proposed strategy for support to the BoSL focuses on developing the capacity of the Microfinance Division within the Development Coordination Unit. Given the role of the Banking Supervision Department defined by current legislation, it is not clear that the strategy currently focuses on the appropriate department.[22] Further, assistance related to clarifying and revising existing licensing, regulation and supervision issues is not foreseen until the latter part of 2007.

MITAF has also been working with MODEP to develop a specialized registration form and process for NGOs that are engaged in microcredit, and the BoSL capacity building strategy includes a secondary objective of developing the capacity of MODEP's microfinance unit. Given the findings of the evaluation concerning the role of the BoSL vis-à-vis the microfinance sector, it is not appropriate for MODEP to develop specialized registration forms and processes for NGO MFIs.

With regard to other sector-wide issues, MITAF has been instrumental in assisting MFIs to establish the Sierra Leone Association of Microfinance Institutions (SLAMFI); when this new institution becomes more fully operational, it would be the logical forum for setting industry standards and promoting efficient and transparent information exchange, as well as for the dissemination of best practice. In September 2006, MITAF sponsored microfinance-specific training for external auditors, which should contribute greatly to the achievement of improved support infrastructure. MITAF has also worked closely with the Microfinance Program (MFP) within the National Commission for Social Action (NaCSA) on the dissemination of best practice. In September 2006, MITAF and the MFP submitted a proposal to CGAP that would entitle MFP to distribute CGAP materials in Sierra Leone, and MFP was selected as a local distributor by CCAP in October.

[21] The Banking Supervision Department undertook this measure at its own initiative and expense in order to be able to respond to Finance Salone's application for a license.
[22] In September 2006, MITAF reports receiving permission from the BoSL to work with the Banking Supervision Department.

Technical Service Provider (TSP)
The project design entailed contracting a TSP that would have overall responsibility for managing the program and ensuring that the results were achieved. UNCDF, in consultation with other members of the Investment Committee, selected Enterprising Solutions Global Consulting, Inc. (ESGC) from among several applicants and a performance-based contract was negotiated between the UNCDF and ESGC, and signed in July 2004.

At project inception, ESGC created a separate identity for the project known as the Microfinance Investment and Technical Assistance Facility (MITAF). The staff of MITAF comprises 4 international ESGC staff and 5 professional local staff hired by ESGC; of the four international staff, one – the Chief of Party – is resident in Sierra Leona. ESGC has enhanced its ability to provide capacity-building services to the microfinance sector by identifying and contracting qualified international and local trainers, and by assisting MFIs to access international technical advisors.

While the concept of contracting a TSP to manage the program is sound, there are problems inherent in the project design with respect to the TSP's responsibilities. First, the TSP is expected to mobilize additional donor and investor resources for the project and/or for specific MFIs. As a private consulting company, ESGC is not well-placed to raise funds from donors; typically this is the responsibility of donors and government. While it is capable of facilitating contact with other types of investors interested in specific MFIs, the responsibility to source this type of funding typically lies with the MFIs themselves. Second, there is an inherent conflict of interest between some of the responsibilities assigned to MITAF, particularly between the functions of providing training and technical assistance to MFIs on the one hand, and assessing capacity and performance and recommending funding and the disbursement of approved funding on the other.

Much of the initial training and technical assistance for the partner lending institutions has been provided by consultants and advisors who are not ESGC staff. In these instances, there is no conflict of interest within MITAF. Nevertheless, a significant portion of MFI capacity building to date has been done directly by MITAF staff, and these same people are responsible for then assessing MFI performance. This puts MITAF in the position of being both "judge and jury" and undermines productive relationships with the MFIs. While it made sense for MITAF to provide direct technical assistance in initial stage of the project, the strategy now being followed of identifying and funding resident technical advisors is more appropriate.

Government (BoSL and MODEP)

Because this is a project intended to build a pro-poor financial sector, the Bank of Sierra Leone is the appropriate government counterpart, as specified in the project document. The BoSL has established the microfinance unit envisaged in the project design. However, this unit, now the Microfinance Division, is housed within the Development Coordination Department. Given the goal of integrating microfinance into the financial sector, and that the responsibility for licensing, regulating and supervising financial institutions lies with the Banking Supervision Department, it is not clear why the microfinance unit is currently housed in the Development Coordination Department. Confusion about which department within the BoSL should receive MITAF's technical assistance has delayed effective progress in meeting project goals related to improving the regulatory environment.

The project document also outlines the role and responsibility of MODEP vis-à-vis the microfinance sector through the establishment of a microfinance unit within MODEP. The project document also specified that technical officers from MODEP would be included as observers on the Investment Committee; the role of technical observer is an appropriate one for MODEP as a development ministry.

For internal budget reasons, MODEP has not yet been able to establish a full-fledged unit. The project budget does not foresee operating support for this unit; it was appropriately assumed that these costs would be part of the government contribution to the project. Although the MODEP microfinance unit is not functional, it should be noted that some of the responsibilities assigned to it are not appropriate. Generally, the degree of oversight of and direct involvement in the microfinance sector foreseen is not in line with internationally accepted good practice with regard to governments' role in microfinance[23]. Further, a number of the responsibilities are more appropriately carried out by the BoSL.

Specifically, there is potential confusion and overlap between MODEP and the BoSL with regard to the specific registration and monitoring of NGO MFIs (see discussion of BoSL role above). While MODEP remains the appropriate body to register all NGOs in the country, it is not the appropriate body for developing an MFI-specific registration procedure, nor for carrying out the various monitoring responsibilities that are currently assigned to it (monitor all NGO MFIs operating in Sierra Leone, inform the government on the performance of the microfinance industry, monitor the geographical distribution of NGO MFIs). Also, it is not appropriate for MODEP to be responsible for sector development in the ways currently outlined (guide potential MFIs on the operations of the microfinance industry and facilitate the development of capacity required for further enhancement of the industry in both the public and private sector).

Investment Committee

The role assigned to the Investment Committee is appropriate, as is the composition of the Committee, with donors/investors who invest at least US$ 1 million having voting rights, the BoSL as Chair with non-voting status, and technical officers from the Ministry of Finance and the MODEP as observers.

However, the Investment Committee is not as functional as it could be due to several problems. Most importantly, there are fundamentally different visions of the project within the Committee, and the lack of a coherent and shared vision hinders the ability of the Committee to operate effectively.

First, misunderstandings or disagreements exist among stakeholders about the two aspects of the overarching goal of the project – reducing poverty and building a pro-poor financial sector. Although there is no fundamental conflict between these twin goals, differing interpretations within the Committee indicate a perceived conflict. Everyone agrees with the development objective of contributing to poverty alleviation. Some stakeholders support the project strategy

[23] See, for example, *The Role of Governments in Microfinance*, CGAP Donor Brief No. 19, June 2004.

that was outlined in the project document and that is being implemented. That strategy focuses on building the capacity of a limited number of financial institutions that will be able to serve growing numbers of poor clients over time. Because building institutional sustainability is a key element of the strategy, results related to poverty alleviation, such as increased numbers of active clients and increased geographic outreach, take time to achieve. Some stakeholders are not satisfied with the pace at which these results are being achieved, and do not believe that this strategy will result in satisfactory results by the end of the project.

Second, there are related conflicting views within the Investment Committee about the type and number of institutions that should be financed under the program. The stakeholders who are not satisfied with the strategy and results to date would have preferred that the project finance more indigenous NGOs, particularly those working in rural areas. Even at project mid-term, with 10 partner lending institutions, some of these stakeholders continue to advocate for the inclusion of more NGOs. In relation to these stakeholders' desire to see more money disbursed to clients throughout the country, they also object to the proportion of funds that are being invested in building the capacity of the partner lending institutions, particularly through external technical assistance.

A significant portion of Investment Committee meeting time was being devoted to discussions related to the above conflicts, and to other project management issues, with relatively little discussion of the most important issue – approving funding and disbursement criteria, examining funding recommendations and approving funding. Therefore, it was decided in mid 2005 to formalize a Technical Committee to discuss such issues and make recommendations to the Investment Committee. Although sound in concept, it seems that to date the Technical Committee has duplicated the work and time for all involved, without achieving its purpose. At the meetings in June 2005 and February 2006, most of the high-level stakeholder representatives from the Investment Committee attended both committees, doubling the amount of time devoted to these discussions. Further, despite the deliberations in the Technical Committee, contentious issues were not resolved and were again discussed at the subsequent Investment Committees. In April and May 2006, the Technical Committee meetings were attended by stakeholder technical representatives as originally envisaged. However, no clear recommendations for the Investment Committee emerged from these more recent meetings.

Institutional changes within two of the donor organizations have led to a change in their representatives on the Investment Committee. In addition, a new donor joined the Committee in 2006. This lack of continuity in donor representation has affected the Committee's operations somewhat adversely, as new representatives need time to get up to speed on project operations and do not necessarily share the views of their predecessors. This problem is compounded because the Investment Committee only meets twice a year.

As mentioned previously, the portion of donor funds committed to capacity building (technical assistance and training) for most of the partner lending institutions is very low, as is the percentage of MFI funding being provided as operating or technical assistance grants. More investment in these types of assistance now should help to ensure that the partner institutions can eliminate their dependence on donor funding in the future. Of the US$ 4.1 approved for direct funding to MFIs, US$ 2.8 million is to be provided as grants and US$ 1.15 million as loans.

This represents a reasonable proportion of grant to loan funding. The funding approved by the Investment Committee has not been distributed equitably among the partner lending institutions. While there were justifiable reasons for this, the Committee has erred on the side of caution in supporting the larger MFIs, not taking enough risk on the smaller organizations that may well have the potential to become sustainable with the appropriate assistance. Nevertheless, funding to date should represent a solid return on investment, given the actual and expected results in terms of sustainable increased MFI outreach

The Investment Committee is also supposed to ensure donor coordination within the Government's microfinance policy. Although no other major donor-funded microfinance projects are currently operating in the country, at least one donor is in the process of preparing a major project that will impact the microfinance sector. The Government and the International Fund for Agricultural Development (IFAD) are preparing a Rural Finance and Community Improvement Programme (RFCIP) that will, among other things, provide significant support for the establishment and development of more community banks throughout the country. Although MITAF staff cooperated fully with the IFAD appraisal team and UNCDF representatives were in touch with IFAD prior to their mission to Sierra Leone, the Investment Committee as a whole has not played its role as the coordinating body of microfinance donors in Sierra Leone, in discussing with the new donor this project's potential impact on the microfinance sector.

Project Management

Donors

The allocation of the original project budget among donors and within budget line items is not clear within any single project document. Donors have separate budgets, which are outlined in multiple Memorandums of Understanding and internal donor documents. This leads to lack of transparency overall and difficulty in tracking donor commitments, approvals and disbursements vis-à-vis budget line items.

A certain amount of the committed funding that should have been made available by donors as of September 2006 has not yet materialized, notably due to difficulties within the UN agencies in meeting their financial commitments and/or because of inefficient disbursement mechanisms. Additionally, there was a delay of more than a year in disbursing the first tranche of the loan to Finance Salone due to the inability of the donors in question to establish an appropriate loan mechanism.

The procedures still in place for disbursing donor funds to partner lending institutions are unwieldy and contribute to unnecessary and disruptive delays in financing; each donor makes separate disbursements of each funding tranche into MFI bank accounts. Although it has been agreed within the Investment Committee to establish an imprest account to be managed by MITAF to address this bottleneck, all donors have not yet implemented this arrangement.

MITAF

Enterprising Solutions Global Consulting, Inc. has done a good job of managing a complex and ambitious project to date. The international and local MITAF staff, and the external technical advisers and trainers identified by ESGC, have been qualified for their respective tasks.

However, management weaknesses exist that need to be addressed. There is no centralized and consolidated financial management system, which leads to disparities and gaps in the financial records maintained by ESGC/MITAF; some financial management functions are the responsibility of MITAF staff in Sierra Leone while others are assumed by the ESGC office in Mexico. The weaknesses in the ESGC system are rendered even more dysfunctional because of the lack of a consolidated project budget, and the complex system in place for disbursement of donor funds. MITAF reporting to the Investment Committee is regular and thorough. However, the quarterly reports are unnecessarily complex, which limits their usefulness and understandability.

Strategic Positioning and Partnerships

Four donors are currently partnering to fund the project: UNCDF, UNDP, KfW and Cordaid. The combined and coordinated contributions of these partners to building an inclusive financial sector complements national priorities and is in line with their respective corporate priorities.

Some of the donors have more expertise and successful experience in the microfinance sector than others. Both UNCDF and KfW have specialized in promoting and supporting a financial sector approach to microfinance, and can count numerous successes around the world. Within UNDP, microfinance is generally undertaken or financed to the extent that it contributes to poverty alleviation or other development goals. A 2003 CGAP review of the UNDP microfinance portfolio found that the UNDP has had little success with its microfinance programs, except where it has partnered with UNCDF, as it is doing in this project[24]. The Dutch foundation Cordaid has multiple sustainable development goals and programs, and is a relatively new microfinance donor, having created its Finance Business Unit for this purpose in 2000.

While the donors may have different objectives and interests, the project has provided a coordination mechanism that is flexible enough to allow donors to finance MFIs and/or types of assistance that are both in line with their corporate priorities and consistent with the overall project objectives.

Sustainability of Results and Exit Strategy

Although MITAF has begun work on a draft exit strategy, there was no explicit donor exit strategy clearly outlined in the project document, and it is clear that there are widely diverging opinions among key stakeholders about what aspects of the project should be sustainable after the project ends. This contributes to disagreements and conflicting expectations among stakeholders on project implementation strategies.

All stakeholders seem to agree that the partner lending institutions should have made considerable progress toward sustainability by the end of the project, and that achieving this goal will ensure that results at the client level are also sustainable. Stakeholders do not agree on whether the assistance functions fulfilled by MITAF should be sustainable beyond 2009, nor on who would most appropriately fulfill those functions. These functions include: channeling donor funds and facilitating access to other funding sources for MFIs; ensuring that training and

[24] Rosenberg, Richard. *Aid Effectiveness in Microfinance: Evaluating Microcredit Projects of the World Bank and the United Nations Development Programme*. Focus Note No. 35. CGAP, Washington, DC, April 2006

technical assistance is provided to MFIs; and, providing capacity-building support at a sector-wide and policy level.

In order to develop a logical and workable donor exit strategy, and to determine whether there will be a need to continue to provide the types of assistance currently being provided by MITAF beyond the end of the project, it is necessary to project the expected state of the microfinance sector and its associated needs at project end. In global terms, the estimated size of the potential market for microfinance services is quite small, at less than 200,000 active clients. This market cannot support many MFIs, and may not be able to support the number of MFIs that are currently in operation or planned, including the projected significant expansion in the number of community banks throughout the country. Thus, the following analysis focuses on the needs of the 10 partner lending institutions currently participating in the project.

Retail Lending Institutions

Capacity-Building

None of the 10 partner lending institutions should need a ***structure like MITAF*** to provide capacity-building assistance at the end of the project:

It is clear that at least 2 of the 10 partner lending institutions – Finance Salone and ProCredit Bank – will not need the types of capacity-building support provided by MITAF. They will both have achieved a sufficient degree of institutional capacity and/or have access to technical assistance financed by their investors.

The 4 community banks may need some level of continued technical assistance and training after the end of the project. However, given their particular nature and needs, a structure like MITAF is not the most appropriate means of providing them with continued support. These banks would be better served by a specialized provider, such as the apex for community banks that will be established through the IFAD project.

It is unlikely that all of the 4 NGO MFIs will remain at the end of the project. It is likely that the CCF/MEDI program will not survive, given its overall weaknesses, and in particular because of its continually deteriorating and non-sustainable portfolio quality. The remaining 3 – Hope Micro, ARD and CEDA – have demonstrated steady improvement since project inception and will have achieved varying degrees of institutional sustainability by the end of the project. Given the relatively small size of the potential microfinance market and the current number of MFIs, it is possible that some of these NGOs will find it necessary to merge in order to sustain their operations. The 2 or possibly 3 NGO MFIs likely to be in place at project end should be sufficiently strengthened by project interventions to continue without external training or technical assistance. By mid 2009, these NGOs will have been carrying out microcredit operations since at least 2002. After 7 years of experience, including 5 years of support from MITAF, these NGOs should have developed in-house staff training capacity and/or be able to identify and finance their own specific assistance needs.

Financing

None of the 10 partner lending institutions should need a ***structure like MITAF*** to capture donor or other funding at the end of the project:

Negotiations between Finance Salone and a major international investor are at an advanced stage; this partnership will bring significant additional share capital and access to further investments, in addition to the high level of funding already provided by the project. Finance Salone is already at the point where no further loan funding, beyond that already committed, is needed from the project.

ProCredit Holding is establishing the ProCredit Bank, with an initial capital of US$ 3 million, and the shareholders will likely increase this to US$ 5 million by 2008. In addition, the ProCredit Bank will immediately begin accepting deposits and projects significant and growing levels of savings. ProCredit Bank does not need grants or loans through the project to increase its lending base.

The 4 community banks are designed to serve their immediate communities and as such are not expected to grow to the extent that other MFIs can. The resources they can mobilize through deposits and share capital, in addition to financing received through the project, should be adequate to meet their capital needs at the end of the project. If additional funds are needed beyond that point, it would be more appropriate for these banks to access them through the envisaged apex institution for community banks.

It is not likely that the NGO MFIs will be in a position to transform into for-profit businesses or banks, nor is it necessary for them to do so. NGO MFIs should be able to access a significant level of loan funds through the project by 2009, both through grants and loans, assuming that they take advantage of the capacity-building services available to them through the project and make significant progress in strengthening their institutions and improving performance. Additionally, MITAF will assist strong NGO MFIs to establish linkages with local commercial banks so that they can access additional loan funds either during or after the project. Therefore, their possible sources of additional loan funds after the project ends will include retained earnings, loans and grants from donors, and loans from local commercial banks. Given the limited number of MFIs likely to be operational and the limited grant funding likely to be needed at project end, a second-tier financing facility or donor-pooling mechanism is not justified.

Sector-Wide Initiatives

Given the activities that MITAF has already carried out, and the plans for continued support at the meso and macro levels, no assistance ***through a structure like MITAF*** should be necessary at the end of the project.

The project aims at improving the overall operating environment for microfinance, in addition to the support to retail MFIs described above. This includes ensuring that the regulatory and supervisory framework for microfinance is conducive and the BoSL is capable of carrying out its related functions, and that the microfinance support infrastructure has improved. Relatively little work needs to be done at the macro level with regard to the regulatory and supervisory framework, and to increasing the BoSL's capacity to appropriately monitor, regulate and supervise the microfinance sector. The project's related policy objectives should be easily achieved prior to the end of the project with the revised strategy recommended by the evaluation.

With regard to the microfinance support infrastructure, MITAF has already undertaken numerous local capacity-building activities that will serve to ensure an enabling environment in the long-term. The training and assistance already provided to SLAMFI, the MFP and local auditors, and the continuing collaboration that is planned with SLAMFI and the MFP, should enable these local bodies to operate without MITAF by project end.

Lessons Learned

Several key lessons emerged from the mid-term evaluation:

It is critical to ensure that all stakeholders understand and share one cohesive vision of the project, including explicit agreement with the strategy for achieving the project goals. It is also very important to ensure that targets and indicators included in project design are clear, quantifiable and realistic. Without a clear and shared vision, agreement about the project strategy, and good indicators, effective project implementation is hindered. Additionally, it is important for stakeholders to clearly articulate a project exit strategy at the time of project design.

Stakeholders (whether donor or government) that focus exclusively on poverty reduction expect to see rapid growth in MFI outreach, often for understandable social and/or political reasons. These expectations are incompatible with building the necessary underlying institutional capacity, and can in fact be detrimental to long-term sustainability in the sector.

Contracting the management of the project to a private consulting company can be a viable alternative to setting up a new local institutional structure for this purpose. Because the project timeframe (5 years) and strategy is adequate to create local capacity at various levels of the sector, establishing an apex institution was neither necessary nor advisable. Nevertheless, a private consulting company is not necessarily the best mechanism to ensure donor coordination or to mobilize additional donor resources.

Recommendations

Project-Related Factors Affecting Successful Implementation and Results Achievement

Project Design

In order for the project to move forward smoothly, it is imperative for the various stakeholders (donors and government bodies) to harmonize their vision of the project and related expectations. It is therefore recommended that an extraordinary meeting of the Investment Committee be convened as soon as possible after review of the mid-term evaluation report to confirm the stakeholders' commitment to the project's stated objectives and chosen strategy. As part of the discussion of the project strategy, it is recommended that the Investment Committee modify project outputs and targets as follows, as well as come to agreement about the project exit strategy (see Section 5.6.1.3):

Output 1, Target 1: The targets for the number of active clients between now and the end of the project should be reduced to more accurately reflect the partner lending institutions' ability to grow sustainably, and to reflect more modest coverage of the total potential market.

Output 1, Target 3: It is recommended to eliminate this target altogether; instead, more explicit performance criteria and goals should be included in the funding agreements with partner lending institutions and monitored individually (see Annex 5 for suggestions about non-financial performance criteria).

Output 1, Target 4: This target relating to geographic coverage, should be modified to reflect a) more specific and realistic goals and b) to take into account that the strategy to achieve this target has shifted from expecting several MFIs to establish extensive branch structures to supporting community banks.

Output 2, Targets 1 and 2: These targets should be re-worked so that the intent of each and the difference between the two is clear, so that the amount of additional resources to be mobilized is realistic, and so that specific indicators for types of additional financing are set. For example, a realistic goal should be set for the amount of savings to be mobilized by partner lending institutions, and a goal could be established for the number of MFIs that MITAF should assist to access loans from local banks.

Output 3*:* It is recommended that the output itself be modified to read as follows, "An enabling environment for the development of the microfinance industry and its eventual integration into the financial system has been developed." Within this revised output, the existing targets should be modified as follows:

Output 3, Target 2: The Sierra Leone Association of Microfinance Institutions (SLAMFI) has developed country-specific industry standards and serves as the forum for regular and transparent reporting on industry performance and outreach.

Output 3, Target 3: This target should be eliminated; the data base developed by MITAF is to be turned over to the BoSL and therefore is part of Target 1.

Output 3, Target 4: This target should only specify training for local audit firms in microfinance-specific auditing techniques and norms; the decision to establish a credit reference bureau should lie with the MFIs and will likely eventually grow out of SLAMFIs activities.

Output 3, Target 5: This target should be modified to be more specific and include only those financial institution regulations that need to be developed or clarified.

Output 4: This output should be eliminated altogether.

To facilitate Investment Committee discussions of the above recommendations, the findings and recommendations concerning the project Outputs and Targets have been consolidated into one table, found in Annex 7.

Institutional and Implementation Arrangements

Roles and Responsibilities

It is recommended that the Investment Committee assumes partial responsibility for mobilizing additional donor resources for the project as needed. In parallel, the role of the TSP should also be modified. While the evaluation team believes that the donors themselves are better positioned to attract new donors to the program, all donor representatives on the Investment Committee have stated that they do not agree and/or that this is not feasible for them as individuals. Therefore, the recommended alternative is to limit the TSP's responsibility to identifying potential new donors, with members of the Investment Committee responsible for making contact and negotiating funding arrangements with new donors within their respective spheres of influence or operations.

In the opinion of the evaluation team, the microfinance function within the BoSL should be transferred from the Development Coordination Department to the Banking Supervision Department. In addition, the team recommends that the respective roles and responsibilities of the BoSL and MODEP with regard to registration, monitoring and supervision of the microfinance sector be clarified.

Project Implementation Strategy

MFI Financing

The evaluation team strongly recommends that no additional partner lending institutions be financed. It is recommended that the Investment Committee modify the strategy for financing the existing partner lending institutions as follows:

- Increase the portion of the budget devoted to training and individualized technical assistance to partner lending institutions.
- Allocate a larger portion of project funding to operational subsidies and the acquisition of fixed assets, particularly for smaller and weaker institutions.
- Put in place standard performance criteria, to be applied to all partner funding institutions, with respect to acceptable levels of portfolio quality (measured both by PAR and the Loan Loss Ratio).
- Include more explicit performance targets related to institutional structures, staffing and systems in the funding agreements, and set minimum standards.
- Link the criteria for disbursement of loan funds only to portfolio quality indicators, and link the criteria for disbursement of operational subsidies to non-financial institutional performance standards after initial tranches have been disbursed.

A list of suggested simple standard financing criteria is provided in Annex 5. Once the Investment Committee has reviewed and approved the above recommendations, it is recommended that all existing financing agreements with NGO MFIs and community banks be reviewed and modified as necessary.

In addition to the operational recommendations above, the Investment Committee should consider adding a loan guarantee to its financing mechanisms, as this could enhance MITAF's ability to assist some of the stronger MFIs to access loans from local commercial banks.

MFI Monitoring

In order to adequately determine whether MFIs are meeting the new performance standards and disbursement criteria, MITAF should modify its MFI assessment and monitoring functions. Ongoing monitoring needs to include regular assessments not only of MFI financial performance but also other indicators of institutional strength. In order to do this, it is recommended to make quarterly monitoring visits to the institutions and to undertake more through institutional assessments on an annual basis.

MFI Capacity Building
It is recommended that MITAF staff no longer provide technical advice directly to MFIs. Instead, MITAF should continue the strategy it has adopted over the course of the project of contracting and financing external technical advisers and trainers.

It is recommended that MITAF clarify its role vis-à-vis the community banks to ensure adequate coordination with the BoSL. In terms of providing training or identifying external technical assistance for these banks, MITAF must coordinate with the staff in the Community Development Division. With respect to monitoring and supervision, MITAF needs to ensure that its requirements are consistent with and complementary to the requirements of the Banking Supervision Department.

It is important that the capacity-building strategy for the remainder of the project focus on the areas of weakness identified and that it is designed to assist the institutions to achieve the recommended performance criteria. Given the areas of weaknesses common to many of the partner lending institutions, the evaluation team would recommend that the project ensure training and/or technical assistance in the following critical areas within the coming year:

Internal Controls. Although introductory training has been provided on this subject, the high incidence of fraud and high levels of PAR indicate that many of the necessary facets of internal control systems are not yet in place. Assistance in the area of internal control needs to include: a review of and advice about improving existing financial management information systems (both accounting and portfolio management systems); training on developing adequate loan and accounting procedures and manuals; training on appropriate staffing structures and the division of roles and responsibilities.

Management and Governance. While it is incumbent on the MFIs to build their own management and governance structures, it would be helpful to provide further training in these areas. There is a particular need to strengthen the financial management and oversight functions within the MFIs.

Product Development. MITAF has provided training on developing and introducing individual lending. Nevertheless, the majority of the existing MFIs still need help in adjusting their existing group loan products and methodologies. In particular, training is needed on using market-driven principles to set loan sizes and repayment terms, and above all, on how to calculate and set appropriate Annual Percentage Rates (APR).

The impact of the guidance suggested above should begin to be evident by early 2008, and at that point, MITAF could offer more advanced training to well-performing MFIs. In particular, by then a certain number of MFIs should be able to understand and benefit from more sophisticated planning methods, such as is provided by the Microfin tool.

Although the above areas have been identified by the evaluation team, it is also important that the provision of capacity-building services become more demand-driven. For this reason, it is recommended that MITAF convene all partner lending institutions for a workshop that will assist them to determine the common and individual training and technical assistance needs for the next year. It is important that the technical advisors participate in this meeting. As the training and technical assistance become more demand-driven, it is recommended that MITAF consider requiring partner lending institutions to contribute to the associated cost. The amount and nature of the cost-sharing should be negotiated with the MFIs during the workshop.

Sector-Wide Strengthening
In line with the recommended shift of responsibilities within the BoSL, it is recommended to revise the capacity-building strategy that has been proposed by MITAF. This assistance should be provided to the Department of Banking Supervision. Further, the content and timing of the strategy should be revised.

As soon as possible, the legal consultant identified should undertake a review of the Other Financial Services Act, together with the Department of Banking Supervision and appropriate local counsel, to determine whether any changes are necessary to best accommodate credit-only microfinance institutions (whether NGOs or for-profit companies). In line with the findings of the legal review, the consultant should assist the Department to determine the licensing requirements, guidelines and return requirements that are most appropriate for the various institutional forms. If necessary, the consultant should provide assistance in developing these regulations. In a second stage of the strategy, a consultant familiar with a Central Bank's regulation and supervision responsibilities should provide assistance to the Department of Banking Supervision to determine the number and level of personnel necessary to fulfill its microfinance monitoring, regulation and supervision role, and to train staff as necessary.

In relation to the above recommendation, it is recommended that MITAF and MODEP suspend work on special registration forms and procedures for NGO MGIs until the role of the Banking Supervision Department has been clarified in this regard.

It is also recommended that MITAF continue to support and work closely with SLAMFI and the MFP to build their capacity to assume responsibility for sector promotion and development after the project.

Project Management
It is recommended that all donors immediately operationalize the concept of the imprest account within their own agencies. Further, the donors should provide information to MITAF that allows it to develop a clear and complete project budget, showing revised donor commitments if necessary. Finally, it is recommended that ESGC immediately improve its financial tracking system and simplify and consolidate quarterly reporting to the Investment Committee.

Sustainability of Results and Exit Strategy/Post Project Planning

The evaluation found that an institutional structure like that of the existing MITAF structure will not be necessary or justified at the end of the project. Instead, it is recommended that the project continue to build local capacity at all levels of the industry. The emphasis should continue to be on building the capacity of the existing 10 partner lending institutions, so that they are no longer dependent on donor support after mid-2009. With regard to sector-wide strengthening, MITAF should implement the proposed revised strategy for providing assistance to the BoSL as soon as possible, and should continue to provide support to SLAMFI and the MFP so that these institutions are able to meet the sector's continued development and promotion needs after 2009.

Annexes:

1. TOR
2. List of people interviewed off-site
3. Final work plan
4. People interviewed on-site
5. Suggested Financing Criteria
6. References
7. Evaluation of MITAF Outputs and Targets
8. Follow-Up Matrix

Terms of Reference for the Mid-Term Evaluation of the Joint Project on the Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone

Country:	Sierra Leone
Project Number:	SIL/03/C01
Project Title:	Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone
Executing Agency:	UNCDF
Implementing Agencies:	UNCDF and UNDP, in cooperation with KfW (Technical Service Provider is Enterprising Solutions)
Project duration:	2004-2009
Start Date:	July 2004
Total project cost:	US$8.83 million
Financing	
▪ KfW:	€$3.0 million
▪ Cordaid:	€1.02 million
▪ UNCDF:	$3.0 million
▪ UNDP:	US$2.5 million
Mid-term evaluation date:	Est. June 2006

1.0. Background

1.1. Country Context

Ten years of war resulted in a decline in social indicators putting Sierra Leone at the bottom of UNDP's Human Development Index. More than 80 percent of the population has an income below the poverty line of $1 per day. The improved security situation provided through the support of UNAMSIL has facilitated the resumption of economic activities.

At project start the microfinance sector in Sierra Leone was at a nascent stage. It was estimated that the demand for credit for productive purposes ranged between 90,000 and 160,000 customers with a combined loan volume ranging from US$ 24.8 to 43.5 million. Although many operators had adopted a business like approach and were committed to reach profitability and scale, the supply reached less than 13,000 customers with a combined loan portfolio of less than US$ 1,000,000. A shift had recently been made from a relief towards a business like orientation with a focus on sustainability. This shift was accelerated by the microfinance policy that had recently been approved by the Government. This policy provides a framework that is conducive for the development of the microfinance sector and its integration into the commercial financial sector.

1.2. Project Summary

The Government of Sierra Leone (GoSL), has launched a programme in 2004 to develop a sustainable pro-poor financial sector, with support from the main co-financing partner, Kreditanstalt für Wiederaufbau (KfW), the United Nations Capital Development Fund (UNCDF), the United Nations Development Programme (UNDP) and Cordaid. The total initial programme cost is US$8.83 million. To meet this objective, they have established a facility, the Microfinance Investment and Technical Assistance Facility (MITAF) whose objective is to accelerate microfinance sector growth through concerted support at all levels – MFIs, support institutions, Bank of Sierra Leone, government, donor/investors and the broader microfinance community. Enterprising Solutions Global Consulting and Micro Service Consult have been contracted to manage the five year project.

MITAF recommends funding for MFIs through grants, debt, convertible debt and equity. The technical assistance support ranges from in-house coaching, to a local, regional and international training program, to study tours to other MFIs and central banks and the sponsoring of long term resident technical advisors and conferences.

MITAF donors are currently funding the following institutions:

1. Finance Salone (Limited Liability Company, with an international affiliate)
2. Hope Micro (Indigenous NGO, with an international affiliate)
3. ARD (Indigenous NGO)
4. CEDA (Indigenous NGO)
5. KENDDRA[25] (Indigenous NGO)
6. CCF/SMT (In process of registering as an indigenous NGO, with an international affiliate)
7. Marampa Masimera Community Bank (Community bank, operating under Other Finance Services Act/Banking Act)
8. Mattru Community Bank (Community bank, operating under Other Finance Services Act/Banking Act)
9. Segbwema Community Bank (Community bank, operating under Other Finance Services Act/Banking Act)

[25] Currently receive technical assistance and training support only.

10. Yoni Community Bank (Community bank, operating under Other Finance Services Act/Banking Act)
11. ProCredit Holding/IPC (applying for commercial banking license)[26]

1.3. Project Expected Results

The overarching goal of the programme is to contribute to the achievement of the Millennium Development Goals, in specific the goal of cutting absolute poverty by half by 2015, by increasing sustainable access to financial services for poor and low-income people in Sierra Leone. The programme will contribute to this goal by establishing the range of building blocks needed for the development of an inclusive financial sector in Sierra Leone, with microfinance as an integrated part of the financial system. The four outputs to be achieved by MITAF are:

Outputs	**Consortium Refined Output Targets**
Intended Output 1: Potential leaders of MF industry have reached sustainability and have considerably increased their outreach to develop a competitive, sustainable pro-poor financial sector.	☐ Increase, from the baseline 13,000, the number of active clients of selected MFIs to 15,000 by end 2004, to 20,000 by end 2005, 30,000 by end 2006, 50,000 by end 2007, 75,000 by end 2008, and to 93,000-100,000 at project completion in 2009; ☐ At least 1 MFI has reached financial self-sufficiency at project completion; ☐ At least 3 MFIs have adopted international standards in governance, systems and policies; and ☐ At least 2 MFIs have a large branch network that covers a major part of Sierra Leone.
Intended Output 2: Strategic partnerships are built with other donors and the private sector in joint support of a sustainable pro-poor financial sector.	☐ Strategic partnerships that enable MFIs access to capital (grants, loans and commercial equity are established in 2005, then expanded; ☐ Coordination amongst donors/investors from the outset as donors/investors utilize investment committee framework; ☐ Resources mobilized for MFIs as cost-sharing, parallel financing or savings mobilization (an additional $12 million cumulative during the project life).
Intended Output 3: A professional microfinance unit in the Bank of Sierra Leone is operational and capable of ensuring an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system.	☐ A MF unit in the BoSL established as a professional focal point for the development of the microfinance industry; ☐ Industry standards developed with MFIs including efficient and transparent information exchange; ☐ A microfinance sector database developed; ☐ The support infrastructure for the sector has improved (audit, credit reference bureau); ☐ A conducive regulatory and supervisory framework for microfinance has been established. This framework stimulates integration of the microfinance sector into the financial system.
Intended Output 4: Sound microfinance principles have been disseminated and are widely accepted and adopted.	☐ MODEP NGO-MFI conducive registration and monitoring process established; ☐ Government, donors, consultants and practitioners have access to and utilize best practices in microfinance.

[26] Operations are in the preliminary stage and funding has yet to be disbursed.

The outputs are intended to be mutually reinforcing and aimed at identifying breakthrough MFIs and supporting them with training, technical assistance, and appropriate capital structures. This involves a variety of donor/investors, capacity building with the Bank of Sierra Leone (BoSL) to establish an enabling policy environment, and strengthening sector knowledge and understanding of microfinance best practice.

1.4. Project Status

Output 1: The total number of active loan clients as of the end of March for the nine MITAF partners approved for funding is approximately 40,000.[27] During the previous quarter, CEDA reported an operational sustainability rate of 132%, Finance Salone 104%, Hope Micro 90%, ARD 87% and CCF 90%. Finance Salone and Hope Micro have adopted international standards of systems and policies but will still need approximately two more years to develop a fully functioning Board of Directors. Finance Salone is covering major parts of Sierra Leone with branches in Wellington, Kambia, Port Loko, Bo, Kono and Kenema. A branch should open in Kailahun before the end of 2006. It also has sub-branches in central Freetown in the Western Area; Lunsar and Lungi in Port Loko; Daru in Kailahun; Bamoi and Rokuprr in Kambia and Blama in Kenema. The community banks are providing financial services in Mile 91, Tonkilili; Lunsar, Port Loko; Segbwema, Kailahun and Mattru, Bonthe. New banks are under construction in Kabala, Koinadugu and Zimmi, Pujehun.

Output 2: The accumulated funding amount committed by Cordaid is $1,221.019. KfW approved in principle but subject to final approval by the German Government the amount of €600,000 for capitalization of ProCredit, €1 million for ProCredit technical assistance and €3 million for MITAF. Five million dollars is pending in equity from ProCredit. MITAF assisted with an official valuation of Finance Salone to determine a fair market value of equity shares, the amount of shares to be sold for equity is unknown.

Output 3: MFIs report monthly to MITAF. Finance Salone and Hope Micro are currently reporting to the Mix Market. MITAF developed and distributed an ACCESS-based database and is produced sector mapping on active loan clients bi annually. Finance Salone was the first MFI to be externally audited using CGAP guidelines. ARD, Hope Micro, CCF have been in contact MITAF regarding CGAP audits for 2005. Training has been conducted on transparency, standards and benchmarks; regulation and supervision; and the transition of MFIs into regulated financial intermediaries. The BoSL unit staff participated in the MFI monitoring visits organized to enhance government and counterpart staff understanding and knowledge of the specifics of microfinance service delivery.

Output 4: The MITAF reporting format is designed to steer MFIs in employing best practices. Ongoing technical assistance is provided to the MITAF partners with lower technical capacity. MITAF has conducted MFI trainings on delinquency management, human resource management, internal controls, business planning, group lending methodology, governance, accounting and financial management. The Microfinance Programme (MFP) has conducted best practices and delinquency management trainings. MITAF also conducted a Training of Trainers course for accounting, financial management and internal controls. The MFP publishes a microfinance specific newsletter. The government has received training on transparency, standards and benchmarks; regulation and supervision; and the transition of MFIs into regulated financial intermediaries. The BoSL microfinance unit manager went on an exposure visit to the Bank of Uganda.

2.0. Purpose of the Evaluation

The Project Document calls for an independent mid-term and final evaluation. The general objectives of the Mid-Term Evaluation (MTE) are: to assist the recipient Government, beneficiaries, and the concerned co-financing partners, to improve the efficiency, effectiveness, relevance and impact of the project; to provide

[27] MFI reports to MITAF are due on the 14th of each month.

feedback to all parties to improve the policy, planning, project formulation, appraisal and implementation phases; and to ensure accountability for results to the project's financial backers, stakeholders and beneficiaries. The evaluation will be forward-looking, offering lessons learned and recommendations to improve programme performance or national policy during the remaining project period.

The expected outcome of this Mid-Term Evaluation is a strategic review of project performance to date, in order to:

- Help project management and stakeholders identify and understand (a) successes to date and (b) problems that need to be addressed, and provide stakeholders with an external, objective view on the project status, its relevance, how effectively it is being managed and implemented, and whether the project is likely to achieve its development and immediate objectives, and whether UNCDF is effectively positioned and partnered to achieve maximum impact.
- Provide project management and stakeholders with recommendations (a) capturing additional opportunities, as well as (b) for corrective actions to resolve outstanding issues and improve project performance for the remainder of the project duration.
- Help project management and stakeholders assess the extent to which the broader policy environment remains conducive to replication of the lessons being learnt from project implementation and/or identify exit strategies.
- Help project management and stakeholders set the course for the remaining duration of the project.
- Help project management and stakeholders to draw initial lessons about project design, implementation and management.
- Comply with the requirement of the Project Document/Funding Agreement as well as UNCDF Evaluation Policy.

The findings of this Mid-term Evaluation will be reported to the Government and relevant stakeholders, and presented to the Investment Committee to help its decision-making process.

3.0. Contents and Scope of the Evaluation

Taking into account the implementation status of the programme and the resource disbursements made to date, evaluate the following questions:

3.1. Results Achievement

3.1.1. Is the project making satisfactory progress in timely achievement of project outputs (as per logframe intended results and indicators), and related delivery of inputs and activities? Are the partners able to achieve the results? In doing so, specifically address, among other things:

- With relation to Output 1, assess progress of MFIs towards achieving self-sustainability and increasing outreach (light assessment, limited to confirming available reported data and field visits to sample of MFIs supported).
- Linked to Output 1, provide an opinion, to the extent feasible, on whether any of the existing MFIs/community banks in Sierra Leone are ready for formalization and transformation into for profit businesses and what would be the positive/negative impacts of this.?
- With relation to Outputs 3 and 4, is the programme effective in supporting changes in the enabling environment for MF and in dissemination and establishment of good practices in the country? With regard to dissemination of good practices:
  - To which audiences?
  - Through what media?
  - Which actors should be responsible for which messages/media?

- Who should pay for what, i.e., what should the programme budget cover, and what should the government cover and take responsibility for disseminating?

3.1.2. Given output achievement and related delivery of inputs and activities to date, is the project likely to attain its Immediate and Development Objectives? Specifically:

- What are the early indications of whether the project is likely to make a tangible contribution to achieving its overall development and immediate objectives?

3.2. Factors Affecting Successful Implementation and Results Achievement

Is project implementation and results achievement proceeding well and according to plan, or are there any obstacles/bottlenecks/outstanding issues on the partner or government side that are limiting the successful implementation and results achievement of the project?
3.2.1. External Factors:

- To what extent does the broader *policy environment* remain conducive to achieving intended results, including adherence to policy and policy impact and replication of the lessons being learnt from project implementation? Specifically in this regard, to what extent do critical assumptions (refer to logframe) on which project success depends still hold?
- Are there *any other factors external to the project* that are affecting successful implementation and results achievement?

3.2.2. Project-related Factors:

Project design (relevance and quality)

- Was the project concept/logic and design optimal to achieve the desired project objectives/outputs?
- In assessing design consider, among other issues:
  - Are the partners credible? Are the checks and balances sufficient in the framework?
  - Were relevant gender issues adequately addressed in project design?
- Was the project preparation process (formulation, inception) and its products (logframe, Project Operations Plan, Annual Workplans) of high quality?
- Did the project document include adequate guidelines for implementation of the project?
- Is the project rooted in and effectively integrated with national strategies (eg poverty reduction strategy) and UN planning and results frameworks (CCA, UNDAF) at country level?
- Do the project's objectives remain valid and relevant? Will they result in strategic value added if they are achieved? Does the project design and document need to be reviewed and updated?

Institutional and implementation arrangements. Are the project's institutional and implementation arrangements suitable for the successful achievement of the project's objectives or are there any institutional obstacles that are hindering the implementation or operations of the project, or which could benefit from adjustment? Among other issues, assess:

- MITAF:
  - Assess and evaluate the strategy, structure, performance and utilization of financial resources of MITAF as the financing tool of the project.
  - Define options for the role and structure of MITAF in Sierra Leone after the end of the project (2009) and measures to be taken in order to reach these structures.
  - In this context, identify options for the integration of a local TSP into MITAF and identify steps needed for this integration.

- **TSP Enterprising Solutions Global Consulting team:**
  - Assess and evaluate adequacy of the objectives, activities, outputs/indicators and outcomes, and intended results of the TSP Enterprising Solutions Global Consulting team in relation to the sector, as per its TOR.
  - Assess and evaluate the strategy, technical capacity; and performance of the TSP team in reaching the defined milestones and goals of the project.
  - Evaluate the utilization of international technical assistance.
- Government of Sierra Leone, namely the Bank of Sierra Leone and the Ministry of Development and Economic Planning:
  - Evaluate the Government of Sierra Leone's technical capacity to:
    - assume full ownership through technical and financial control of MITAF's sector development role.
    - assess technical capacity of the BoSL and MODEP, their past performance and ability to successfully fulfill their respective ToR from the Project Document.
    - ensure an optimal enabling environment for the development of the microfinance industry.
    - supervise a sustainable microfinance sector in Sierra Leone.
    - assess and evaluate the technical assistance foreseen within the project with respect to reaching these capacities.
  - Evaluate the capacity of the implementing partners (BoSL, Ministries) to meet their respective responsibilities in the programme? Are they the most appropriate implementing partners? Is it the role of these partners to assume full ownership through technical and financial control of MITAF's sector development role? What capacities are the responsibility of the programme to strengthen, and what capacities are the responsibility of the Government to provide? What is the optimal use of programme resources?
- Investment Committee:
  - Assess and evaluate whether the Investment Committee serves its purpose of ensuring donor coordination within the Government's microfinance policy.
  - Evaluate whether the investments approved by the Investment Committee are likely to contribute to an Inclusive Financial Sector in Sierra Leone? If not, what is missing?
  - Assess whether the Investment Committee is taking sufficient risk in its investments?
  - Evaluate whether the right balance of grants, soft loans and commercial sources of funding being provided such that the MFIs will not be dependent on donor funding.
  - Assess whether the investments approved so far represent a potentially solid return on investment?
  - Evaluate whether the results are being achieved in an efficient manner with limited donor funds?
- All partners:
  - Provide an objective assessment and evaluation of the designated roles, functions and tasks of the different parties involved in the project (as named above) within the project, within MITAF, within the Investment Committee as well as within the microfinance sector of Sierra Leone in general as well as the distribution between them.
  - Assess the coordinating mechanism and its effectiveness of enhancing project performance.

Project management:

- Are the management arrangements for the programme adequate and appropriate?
- How effectively is the project managed at all levels? Is project management results-based and innovative?
- Do management systems, including M&E, reporting and financial systems function as effective management tools, facilitate effective implementation of the project, and provide

a sufficient basis for evaluating performance of the programme?

- Regarding financial systems: assess any bottlenecks in the system of financial disbursement between the project partners and beneficiaries.
- Regarding M&E, does the project monitoring system include:
    a. A baseline that enables a good understanding of the target populations and market for financial services.
    b. Appropriate and cost-effective indicators and related targets linked to the baseline that will enable monitoring of process, output and outcome level performance.

Technical backstopping: Is technical assistance and back-stopping from programme partners appropriate, adequate and timely to support the project in achieving its objectives?

Other: Are there any other project-related factors that are affecting successful implementation and results achievement?

3.3. Strategic Positioning and Partnerships

3.3.1. Are the programme partners, through this project and any other engagement in the country, optimally positioned strategically, with respect to:

- UN/donor/government efforts in the same sector in Sierra Leone?
- Implementing national priorities, as reflected in national development strategies (including the PRSP)?
- Corporate priorities, and leveraging its comparative advantages to maximum effect?

3.3.2. Is the selection of project partners optimal given the stated objectives of the project? Are actual/potential partnerships being leveraged to maximum effect.

3.3.3. What level of value added and consequence can be attached to the partners' intervention in the area of microfinance in Sierra Leone?

3.4. Sustainability of Results and Exit Strategy/Post Project Planning

3.4.1. What is the likelihood that the project results will be sustainable, in terms of systems, institutions, financing, and in terms of anticipated poverty reduction impact?

3.4.2. Are planned exit/handover strategies appropriate and timely?

3.4.3. Ownership: Is sufficient capacity being built so that local actors will be able to manage the process by the end of the programme without continued dependence on international expertise? Are the necessary steps owned and driven by the people?

3.4.4. Is there an added value role for programme partners to play beyond project completion?

In addition to assessing the evaluation questions above, the team should analyze any other pertinent issues that need addressing or which may or should influence future project direction and partners' engagement in the country.

4.0. Organization of the Evaluation

4.1. Consultant profiles and responsibilities

The Mid-Term Evaluation is to be conducted by a team of two consultants, with the profiles outlined below.

External Lead Consultant
Profile

- Minimum of ten years accumulated experience in microfinance
- A minimum of five years of microfinance management and/or consulting experience
- Must have evaluation experience in microfinance
- Extensive microfinance training and technical assistance experience
- Comprehensive knowledge of CGAP benchmarks and industry best practices
- Advanced report writing skills
- Experience at the country wide sector level/understanding of building inclusive financial sectors, preferably in Africa

Responsibilities

- Documentation review
- Leading the evaluation team in planning, conducting and reporting on the evaluation.
- Deciding on division of labour within the evaluation team
- Use of best practice evaluation methodologies in conducting the evaluation
- Leading presentation of the draft evaluation findings and recommendations in-country
- Conducting the debriefing for UNCDF HQ and regional staff
- Leading the drafting and finalization of the evaluation report

Local Consultant
Profile

- A minimum of three years of management experience with a Sierra Leonean MFI
- Microfinance training and technical experience
- Knowledge of CGAP benchmarks and industry best practices

Responsibilities

- Documentation review
- Contributing to the development of the evaluation plan and methodology
- Conducting those elements of the evaluation determined by the lead consultant
- Contributing to presentation of the evaluation findings and recommendations at the evaluation wrap-up meeting
- Contributing to the drafting and finalization of the evaluation report.

4.2 Evaluation methodology

The evaluators will determine the methodology for the evaluation, using best practice evaluation planning and methodologies, which will include, among other things, key informant interviews, focus group discussions with clients, questionnaires, documentation review, as appropriate. As far as possible the Evaluation Team will triangulate evaluation findings, using multiple sources/methodologies. Wherever possible, all evaluation data should be disaggregated by gender. Whilst this mid-term evaluation does not focus on achievement of outcomes or impact, indications of such should be sought using qualitative methods, including consultations with the intended clients of the project. The evaluation should include all key stakeholders. It is guided by but not limited to the list of interviewees in Annex 2.

The evaluators will interview the MFI program directors, senior management and clients of all five MITAF financially supported MFIs. Time is scheduled for a light review of financial statements and MIS reports. Time has been allotted to interview four MFIs in Freetown and the provinces that have not received funding through MITAF. Two of the four rural community banks will be visited, for the other two, time is allotted for meeting with Board members in Freetown.

4.3. Evaluation Plan

An indicative workplan detailing the schedule and number of workdays for the evaluation can be found in **Annex 1**. The workplan is based on a six-day workweek.

Specifically the evaluation will comprise the following stages:

- Partners consultations and briefing: The lead consultant will be briefed by telephone prior to the fieldwork by the relevant evaluation, technical and programme staff.
- Review of relevant documentation: A list of key reference documents and people to be interviewed is provided in **Annex 2.**
- Finalization of evaluation work plan: On the first day of the evaluation mission, the Evaluation Team will review the draft evaluation workplan (**Annex 1**), and make any adjustments they see fit, taking into account practical and logistical considerations.
- In-country briefing: The Evaluation Team will be briefed on the first day of the evaluation mission by programme stakeholders. All relevant documentation not already sent in advance to the Evaluation Team will be provided by MITAF.
- Evaluation fieldwork: Conducted in Freetown, and locations where supported MFIs are based. As far as possible, the Evaluation Team should discuss findings with beneficiaries and stakeholders at each stage of the evaluation and obtain their feedback.
- Preparation of Aide Mémoire and presentation for evaluation consultation meeting: On the basis of its findings, the Evaluation Team will prepare an aide mémoire, which will be shared, through the in-country evaluation focal point, with all key stakeholders and with the UNCDF Evaluation Unit prior to the in-country evaluation consultation meeting as a basis for discussion.
- Evaluation consultation meeting: At the meeting, the Evaluation Team will present their key findings and recommendations to key stakeholders for discussion. The minutes of the meeting will be submitted promptly to the UNCDF Evaluation Advisor, all key stakeholders, and to the Evaluation Team, for their consideration in drafting the evaluation report.
- Draft evaluation report and Evaluation Summary: The lead consultant will submit a Draft Evaluation Report and Evaluation Summary to the UNCDF Evaluation Adviser, which will be circulated to all key stakeholders for comment.
- A phone evaluation debriefing for UNCDF Microfinance and management staff will be provided by the lead consultant. The Evaluation Advisor will take minutes of the debriefing, which will be submitted promptly to the lead consultant, for his/her consideration in finalizing the evaluation report and summary.
- The Final Evaluation Report and Evaluation Summary will be submitted by the lead consultant to the UNCDF Evaluation Adviser, who will disseminate it to all key stakeholders.

5.0. Deliverables

The lead consultant is responsible for preparing and submitting the following deliverables:

- Aide Mémoire: A summary of key evaluation findings and recommendations prepared towards the end of the evaluation and submitted to MITAF and the UNCDF Evaluation Unit before the Evaluation Consultation Meeting.
- Draft Evaluation Report and Evaluation Summary: The lead consultant is responsible for consolidating the inputs of team members, and taking into consideration comments received at the in-country evaluation consultation meeting, to produce a coherent Draft Evaluation Report and Evaluation Summary, according to the format in **Annex 3**. The Draft Report and Summary

is to be submitted electronically to the UNCDF Evaluation Advisor.

- Final Evaluation Report and Evaluation Summary: Based on comments received on the Draft Evaluation Report, and at the UNCDF evaluation debriefing, the lead consultant will finalise the evaluation and summary, with input from other evaluation team members, as required, and submit the Final Evaluation Report and Summary to the UNCDF Evaluation Advisor within five days of the receipt of the minutes of the UNCDF evaluation debriefing, or by the agreed date.

The Evaluation Team's contractual obligations are complete once the UNCDF Evaluation Advisor has reviewed and approved the Final Evaluation Report for quality and completeness as per the TOR.

6.0. Management, Reporting Arrangements, and Administrative/logistical support of the Evaluation

6.1. Management Arrangements

To ensure full independence and that the evaluation meets U.N. standards, the Evaluation Unit of UNCDF have foremost responsibility for managing the evaluation. The Evaluation Unit of UNCDF reports directly to the Executive Secretary of UNCDF, a key criteria for independence of U.N. evaluations.

6.2. Reporting Arrangements

Overall, the Evaluation Team reports to the UNCDF Evaluation Advisor in New York. MITAF will act as the in-country evaluation focal point and will ensure that the evaluation team is provided with all necessary administrative and logistical support to arrange and carry out the evaluation.

Annex 1: Draft Evaluation Workplan

Dates	Time	Activity	Consultants / # workdays
Prior to evaluation		HQ phone briefing for Evaluation Team Leader by UNCDF Evaluation Advisor, Technical Advisor covering Sierra Leone. Phone briefing with KfW. Begin reviewing documents.	Team leader: 1 work day
		Documentation review, telephone interviews and preparation of evaluation tools (interview guides, questionnaires, etc)	Team Leader: 5 work days Local Consultant: 3 work days
		Team leader travels from XX to Freetown, Sierra Leone	Team leader: 1 work day
Day 1: Sierra Leone Sunday September 17		Team leader arrives in Sierra Leone. To be met at airport by MITAF Chief of Party. Rest and dinner with Chief of Party for Programme briefing.	
Day 2: Sierra Leone Monday September 18	8:00 - 9:45	Meeting with local consultant and MITAF to review evaluation, methodology and finalize workplan. Internal meeting of Evaluation Team to define division of labour.	All consultants: 1 work day
	10:00 - 11:00	UNDP Country Director Nancy Asanga	
	11:00 - 12:00	UNDP Senior Economic Advisor Graham Chipande	
	1:00 - 2:00	UNDP Program Specialist Ibrahim S. Kamara	
	2:00 - 3:00	UNDP Microfinance Program Coordinator Bob Conteh	
Day 3: Sierra Leone Tuesday September 19	10:00 - 12:00	MITAF Chief of Party Craig Feinberg	All consultants: 1 work day
	1:00 - 2:00	MITAF Deputy Director Sanusi Deen	
	2:00 - 3:00	MITAF Technical Advisor/Trainer Pearson Kalungulungu	
	3:00 - 3:30	MITAF Monitoring and Evaluation Officer Hassan Conteh	
Day 4: Sierra Leone Wednesday September 20	10:00 - 11:00	BoSL Governor Dr. J.D. Rogers	All consultants: 1 work day
	11:00 - 12:00	BoSL Deputy Governor Mohamed P. Fofana	
	1:00 - 2:00	BoSL Deputy Director Private Sector Development Unit Rosaline Gobio-Lamin	
	2:00 - 3:00	BoSL Microfinance Unit Manager Davidson Kormoi	
	3:00 - 4:00	BoSL Community Bank Coordinator Edmund Kamaju	
Day 5: Sierra Leone Thursday September 21	9 - 10	MODEP Development Secretary Konah Koroma	All consultants: 1 work day
	10 - 11:00	MODEP Principal Planning Officer James Koroma	
	11: 30 – 12:30	Ministry of Finance EPRU Alimamy Bangura	
	2:00 - 3:00	Microfinance Program Director Kenyeh Barlay	
	3:00 - 4:00	MFP Program Manager Alphonso Campbell	

Day 6: Sierra Leone Friday September 22	10:00 - 11:00	Christian Children's Fund Program Manager Regina Sulla	All consultants: 1 work day
	11:00 - 12:00	ARD Executive Director Alie Forna	
	12:00 - 1:00	ARD MIS Manager David Kamara	
	2:00 – 4:00	ARD client interviews and review of MIS reports and financial statements	
Day 7: Sierra Leone Saturday September 23	10:00 - 11:00	Hope Micro Executive Director S.D. Kanu	All consultants: 1 work day
	11:00 - 12:00	Hope Micro Branch Manager George Younge	
	1:00 - 4:00	Hope Micro client interviews and review of MIS reports and financial statements	
Day 8: Sierra Leone Sunday September 24	Rest		
Day 9: Sierra Leone Monday September 25	10:00 - 11:00	Finance Salone CEO Ben Noballa	All consultants: 1 work day
	11:00 - 12:00	Finance Salone Operations Manager Abu Vandy	
	1:00 - 4:00	Finance Salone client interviews and review of MIS reports and financial statements	
Day 10: Sierra Leone Tuesday September 26	8:00 - 12:00	Travel to Bo	All consultants: 1 work day
	1:00 - 2:00	CEDA Director Mohamed Jalloh	
	1:00 - 2:00	CEDA Resident Technical Advisor Sunil Khanal	
	2:30 - 5:00	CEDA client interviews and review of MIS reports and financial statements. Sleep in Bo.	
Day 11 Sierra Leone Wednesday September 27	8:00 - 3:00	Travel to Mattru and interview Community Bank Manager Vandy Jaa, client interviews and review of MIS reports and financial statements and return to Bo	All consultants: 1 work day
Day 12: Sierra Leone Thursday September 28	8:30 - 10:30	Travel from Bo to Yoni Community Bank	All consultants: 1 work day
	10:30 - 11:30	Bank Manager Aliesious Sesay	
	11:30 - 12:30	VSO volunteer Lorisa Canillas	
	1:30 – 5:00	Client interviews and review of MIS reports and financial statements	
	5:00 - 7:30	Return to Freetown	

Day 13: Sierra Leone Friday September 29	10:00 - 11:00	Association of Community Banks and Board member of Marampa Masimera Community Bank Ahmid M Fofanah	All consultants: 1 work day
	11:30 - 12:30	Board Chairman of Segbwema Community Bank F.M.B Sawi	
	1:30 – 5:00	Preparation of Aide Memoire and presentation for Evaluation Consultation Meeting. Follow up on interviews. Assess MFIs financial statements for sustainability.	
Day 14: Sierra Leone Saturday September 30	9:00 - 12:00	Preparation of Aide Memoire and presentation for Evaluation Consultation Meeting. Follow up on interviews. Assess MFIs financial statements for sustainability.	All consultants: 1 work day
	1:00 - 4:00	Evaluation consultation meeting to present key findings and recommendations to MITAF, UNDP, MODEP, BoSL and MoF	
Day 15: Sierra Leone Sunday October 1		Team leader returns home.	
		Drafting of the evaluation report, taking into consideration comments from Consultation meeting as appropriate.	Team leader: 6 days Local consultant: 2 days
		Submission of comments on draft evaluation report by stakeholders and sent to evaluation team.	
TBD		Preparation of presentation for UNCDF evaluation debriefing	Team leader: 1 work day
TBD		UNCDF evaluation debriefing by teleconference	Team leader: 1 work day
TBD		Prepare Final Evaluation Report, taking into consideration comments on draft report as appropriate. Submit to UNCDF Evaluation Advisor by **DATE TO BE DETERMINED** for final approval and dissemination.	Team leader: 2 work days
TOTAL			**Lead consultant: 30 days** **National consultant: 17 days**

Annex 2: List of Key Documents and People to be Interviewed

Preparation in home country

- Thoroughly review the following documents:
  - Memorandum of Understanding (MoU) between UNDP and UNCDF
  - MoU between the UNDP, UNCDF, the Ministry of Development and Economic Planning (MODEP), and the Bank of Sierra Leone (BoSL)
  - Separate Agreement between the Ministry of Development and Economic Planning (MODEP), and the Bank of Sierra Leone (BoSL) and KfW
  - Government of Sierra Leone National Micro-Finance Policy
  - 2003 Assessment of Microfinance Sector Development in Sierra Leone
  - Microfinance Policy Review, Sierra Leone, CGAP/World Bank, June 2002
  - The Role of Governments in Microfinance, CGAP June 2004
  - Microfinance, Grants and Non-Financial Responses to Poverty Reduction: Where Does Microcredit Fit? CGAP
  - Building Inclusive Financial Systems, (primarily section III) CGAP 2004
  - Promoting Linkages for Livelihood Security and Economic Development – The LINKS Program Performance Report
  - Conflict and Post- Conflict Environments: Ten Short Lessons To Make Microfinance Work, SEEP Network, 2004
  - Enterprising Solutions Global Consulting and Micro Service Consult proposal to UNCDF/ UNDP/ KfW and the GoSL
  - Government of the Republic of Sierra Leone and United Nations Capital Development Fund "PRODOC" with special emphases on attached terms of references for the TSP, Investment Committee, MODEP and BoSL
  - UNDP microfinance policy
  - UNDP Microfinance Portfolio Review (CGAP)
  - Sierra Leone PRSP
  - Evaluation of Microfinance Guichet
  - MITAF budget, work plan, financial reports and quarterly reports from July 16 – December 31, 2004; January 1 – March 31, April 1 – June 30, July 1 – September 30, October 1 – December 31 2005, January 1 – March 31 2006, and the Annual Report.
  - MITAF Investment Committee summaries of MFIs
  - Minutes to Investment Committee and Technical Committee meetings
  - Written reports, letters, correspondence from MITAF and government stakeholders including:
    - Document entitled "Government Position on the Implementation of the Micro-Finance Programme in Sierra Leone."
    - MITAF response to "Government Position on the Implementation of the Micro-Finance Programme in Sierra Leone."
    - Document entitled "Request for Assistance to Develop the Capacity of the Microfinance Unit in the Ministry of Development and Economic Planning"
    - Meeting of the Microfinance Coordinating Committee and MITAF's response.
    - Funding proposals submitted by MODEP and the BoSL
  - MFI monthly reports to MITAF
  - Summaries of Investment Committee applications presented to IC members
  - Enterprising Solutions CVs (Pearson Kalungulungu, Madeleine Klinkhamer, Eileen Miamidian)
  - MITAF CVs (Craig Feinberg, Sanusi Deen, Angella Leslie Jones, Hassan Conteh)

- Telephone interviews with:
  - UNCDF Deputy Director John Tucker
  - UNCDF West Africa Regional Technical Manager Makarimi Adechoubou
  - UNCDF West Africa Technical Manager Madina Assouman
  - KfW Senior Project Manager for Sub-Sahara Africa Christian Dörner
  - KfW Project Manager Claudia Kerscher
  - Cordaid Resident Representative Finance Business Unit Mildred Kolk
  - ES Director of Microfinance Madeleine Klinkhamer
  - MITAF Task Manager Eileen Miamidian
  - Micro Service Consult Managing Director Michael Steidl
  - American Refugee Committee Technical Advisor Tim Nourse
  - World Hope Technical Advisor Michael Ossege
  - Hope Micro Financial Advisor Esther Lee
  - Christian Children's Fund Regional Technical Advisor Lloyd McCormick
  - FAO Rural Finance Officer Michael Marx

Personal interviews in Sierra Leone

- BoSL Governor Dr. J.D. Rogers
- BoSL Deputy Governor Mohamed P. Fofana
- BoSL Deputy Director Private Sector Development Unit Rosaline Gobio-Lamin
- BoSL Microfinance Unit Manager Davidson Kormoi
- BoSL Community Bank Coordinator Edmund Kamaju
- MODEP Development Secretary Konah Koroma
- MODEP Principal Planning Officer James Koroma
- Ministry of Finance staff Dr. Fatmata Sesay
- MITAF Chief of Party Craig Feinberg
- MITAF Deputy Director Sanusi Deen
- MITAF Technical Advisor/Trainer Pearson Kalungulungu
- MITAF Finance Manager Angella Leslie Jones
- MITAF Monitoring and Evaluation Officer Hassan Conteh
- UNDP Country Director Nancy Asanga
- UNDP Senior Economic Advisor Graham Chipande
- UNDP Program Specialist Ibrahim S. Kamara
- UNDP Microfinance Program Coordinator, Bob Conteh
- Microfinance Program (MFP) Director Kenyeh Barlay
- MFP Program Manager Alphonso Campbell
- Senior staff from the Ministry of Agriculture and Food Security
- Senior staff from the Ministry of Trade & Industry
- CEDA Program Director Mohamed Jalloh
- ARD Executive Director Alie Forna
- ARD MIS Manager David Kamara
- Hope Micro Executive Director S.D. Kanu
- Hope Micro Branch Manager George Younge
- Finance Salone Finance Manager Leslie Williams
- Finance Salone Technical Advisor and ARC LINKS Advisor Ben Nobala
- ARC Country Director Barbara Whitmore
- Christian Children's Fund Program Manager Regina Sulla
- Bank Managers and board members of the community banks in Yoni, Lunsar, Segbwema and Mattru Jong.

- Directors of non funded MFIs such as FICLES, MAPCO and ReMFI in Bo, KENDDRA in Kenema and PRIMED, CES, GGEM and NOW in Freetown.

Annex 3: Format for Mid-Term Evaluation Report

Length: To better support use of the evaluation, the report should not exceed 40 pages, plus annexes.

1. **Executive summary**

2. **Purpose of the evaluation**
   - Restate the purpose of the mid-term project evaluation
   - How this evaluation fits into project cycle and project planning/review activities

3. **Evaluation methodology**
   - Methods used
   - Workplan
   - Team composition

4. **Background**
   - Country context (policy, institutional environment with relevance to UNCDF programme intervention)
   - Project rationale (local demand, market niche, partners' comparative advantage, expected added value of project, partnerships, etc – as foreseen in project document)
   - Project status (implementation, financial)

5. **Evaluation**

   This section of the report to be structured as per the scope of the evaluation outlined in TOR (Section 3).

   5.1 Results achievement
   - Include table listing development and immediate objectives, outputs and indicators. Include end-of-project targets and latest data on target achievements to date.
   - Output achievements (with reference to Annual workplan, and evaluative evidence)
   - Likelihood of outcome/immediate objective and development objective achievement
   - Other critical issues related to results achievement

   5.2 Factors affecting successful implementation and results achievement
   - External factors
   - Project-related factors

   5.3 Strategic positioning and partnerships

   5.4 Sustainability of results and exit strategy/post project planning

   5.5 Lessons

   Extract critical lessons at two levels:
   - Project-level lessons
   - Partner-specific lessons

   5.6 Recommendations

   Make recommendations to improve the project based on the evaluation and lessons.
   Structure according to sections 4.1-4.4, plus any additional recommendations.

Annexes

To include, at minimum:
- Evaluation Follow-up Matrix (template to be provided)
- TOR
- List of people interviewed/focus group discussions, etc
- References

Format for the Evaluation Summary

This is a 4-5-page summary of the Evaluation Report. This is distinct from the Executive Summary, and should serve as a self-contained summary that may be read without reference to the main report. The Evaluation Summary should follow this outline:

1. Project data sheet
2. Background to the project
3. Description of the project
4. Purpose of the evaluation
5. Key findings of the evaluation mission
6. Lessons learned
7. Recommendations of the mission
8. Evaluation team composition

Annex 2: List of people interviewed off-site

UNCDF

John Tucker, Deputy Director, Microfinance (previously responsible for the project and UNCDF representative on the Investment Committee)

Makarimi Adechoubou, Regional Technical Manager, West Africa

Madina Assouman, Portfolio Manager, West Africa

KfW

Christian Doerner, Vice President, KfW IPEX Bank, Rail and Road (previously responsible for the project and KfW representative on the Investment Committee)

Claudia Kerscher, Project Manager

Cordaid

Mildred Kolk, Regional responsable credit programmes Africa, Central and Eastern Europe, Finance Business Unit

Enterprising Solutions Global Consulting, LLC

Madeleine Klinkhamer, Director of Microfinance
Eileen Miamidian, MITAF Task Manager

Annex 3: Final Evaluation Work Plan

Dates	Time	Activity
September 6-15, 2006		Documentation review, telephone interviews with UNCDF, KfW, Cordaid and Enterprising Solutions staff, preparation of evaluation tools
September 16-17, 2006		Team leader travels from Philadelphia, PA (USA) to Freetown, Sierra Leone
Monday September 18	8:00 - 10:45	Briefing for consultants Ann Duval and Franklin Bendu by Craig Feinberg, MITAF Chief of Party
	11:00 – 12:00	UNDP Briefing: Samuel Harbor, Deputy Resident Representative; Nancy Asanga, Country Director; Bob Conteh, Microfinance Officer; Craig Feinberg and Sanusi Deen of MITAF; evaluation consultants
	12:00 - 13:00	UNDP Program Specialist: Ibrahim S. Kamara
	13:00 - 15:00	UNDP Microfinance Program: Coordinator Bob Conteh
Tuesday September 19	10:45-15:45	Hope Micro Freetown HQ and Branch: meetings with staff and client interviews
Wednesday September 20	10:00 – 10:45	BoSL Banking Supervision Department: Yeabu Kamara, Director; Dorothy Johnson, Deputy Director
	11:00 – 11:45	BoSL Deputy Governor Mohamed Fofana
	12:00 - 12:45	BoSL Development Coordination Department: Rosaline Gobio-Lamin, Acting Director
	14:30 - 15:00	Grassroots Gender Empowerment Movement (GEMM): Cecilia Decker, Executive Director
	16:00 - 17:00	MITAF: Sanusi Deen, Deputy Director
Thursday, September 21	11: 30 – 12:00	Union Trust Bank: Emile Davis, Director Banking Operations; Bockarie Kalokoh, Director Finance & Administration
	13:45-15:15	Microfinance Program: Kenyeh Barlay, Director; Alphonso Campbell, Program Manager
	15:30 - 16:00	ProCredit Holding: Thomas Lendzian, Project Manager

Friday September 22	9:00 - 10:00	MITAF: Hassan Conteh, Monitoring Specialist
	11:00 - 15:00	Association for Rural Development (ARD) Freetown HQ and Branch: meetings with staff and client interviews
	16:00-16:30	MITAF: Angella Leslie Jones, Finance Manager
Saturday September 23	10:00 – 13:30	Finance Salone Freetown HQ: meetings with staff
Sunday September 24	Rest	
Monday September 25	8:30 – 11:45	Travel to Mile 91
	11:45 – 14:00	Yoni Community Bank: meetings with staff and technical advisor
	14:00 – 16:30	Travel to Bo
	16:30 – 17:00	Community Empowerment & Development Agency (CEDA): Mohamed Jalloh, Executive Director
	19:30 – 21:00	Dinner with Mohamed Jalloh and Sunil Khanal, technical advisor to CEDA
Tuesday September 26	9:00 - 12:30	CEDA: meetings with staff and technical advisor, and client interviews
	12:30 – 16:00	Travel to Makeni
	16:15 – 16:45	Christian Children's Fund (CCF): Kewulay Moses Kargbo, acting Program Manager
Wednesday September 27	9:00 – 12:00	CCF: meetings with staff and client interviews
	12:00 – 12:45	Travel to Lunsar
	12:45 – 14:30	Marampa Masimera Community Bank: meeting with Bockarie H. Fomba, Manager
	14:30 – 16:30	Travel to Freetown
Thursday September 28	8:00 – 10:30	Documentation review, evaluation team discussions
	11:00 – 11:30	BoSL Microfinance Division: Davidson O. Kormoi, Manager
	11:30 - 12:00	BoSL Community Development Division: Edmund Kangaju, Coordinator
	12:00 – 15:30	Evaluation team discussions, work on Aide Memoire
	16:00 – 16:30	Ministry of Development and Economic Planning (MODEP): Konah Koroma, Development Secretary
	17:00 – 17:30	Mattru Community Bank: Smith Sam, Secretary of the Board of Directors
Friday September 29	8:00 - 14:00	Preparation of Aide Memoire and presentation for Evaluation Consultation Meeting
	15:00 – 16:00	Evaluation consultation meeting to present key findings and recommendations to MITAF, UNDP, BoSL and MODEP

Sunday October 1		Team leader returns home.
October 4 – 14, 2006		Drafting of the evaluation report, taking into consideration comments from Consultation meeting as appropriate.
		Submission of comments on draft evaluation report by stakeholders and sent to evaluation team.
		Preparation of presentation for UNCDF evaluation debriefing
		UNCDF evaluation debriefing by teleconference
		Prepare Final Evaluation Report, taking into consideration comments on draft report as appropriate. Submit to UNCDF Evaluation Advisor by **DATE TO BE DETERMINED** for final approval and dissemination.

Annex 4: People interviewed on-site during evaluation mission

MITAF

Craig Feinberg, Chief of Party
Sanusi Deen, Deputy Director
Hassan Conteh, Monitoring Specialist
Angella Leslie Jones, Finance Manager

UNDP

Bob Conteh, Microfinance Officer, Poverty Unit
I.S. Kamara, Program Specialist, Poverty Unit

Bank of Sierra Leone

Mohamed S. Fofana, Deputy Governor
Yeabu Kamara, Director, Banking Supervision Department
Dorothy Johnson, Deputy Director, Banking Supervision Department
David Bartholomew, Banking Officer, Banking Supervision Department
Rosaline Gobio-Lamin, Acting Director, Development Coordination Department
Claudia Sam, Banking Officer, Development Coordination Department
Edmund Kangaju, Coordinator, Community Development Division
Davidson O. Kormoi, Manager, Microfinance Division

Ministry of Development and Economic Planning

Konah Koroma, Development Secretary
Mohamed Edmond, Assistant Secretary

Hope Micro

S.D. Kanu, Executive Director
Michael Ossege, Technical Adviser
Albert Kamara, Acting Finance Manager
Sullay Conteh, MIS Manager
George Younge, Freetown Branch Manager
10 clients interviewed at their work places

Association for Rural Development (ARD)

Alie Forna, Executive Director
Idriss Koroma, Finance Manager
David Kamara, MIS Manager
Mohamed Conteh, Acting Freetown Branch Manager

10 clients interviewed at their work places

Finance Salone

Ben Noballa, Acting Chief Executive Officer
Ibrahima Bocoum, Acting Finance Manager
Vandi Abu, Operations Manager
Alimamy Conteh, MIS Manager

Yoni Community Bank

Aliesious F. Sesay, Manager
Sheku Kamara, Accountant
Lorisa Canillas, Technical Adviser

Community Empowerment & Development Agency (CEDA)

Mohamed E. Jalloh, Director
Sunil Khanal, Technical Adviser
George P.M. Goba, Acountant
Melsie Massaquoi, Cashier
Ousman Jalloh, Credit Officer
10 clients interviewed at their work places

Christian Children's Fund (CCF)

Kewulay Moses Kargbo, Operations Manager and acting Program Manager
Archibald Shodeke, Program Accountant
Musa Suma, Portfolio Supervisor
10 clients interviewed at their work places

Marampa Masimera Community Bank

Bockarie H. Fomba, Manager

Mattru Community Bank

Smith Sam, Secretary of the Board of Directors

ProCredit Holding

Thomas Lendzian, Project Manager
Christopher Englehard

Union Trust Bank

Emile Davis, Director Banking Operations
Bockarie Kalokoh, Director Finance & Administration

Grassroots Gender Empowerment Movement (GGEM)

Cecilia Decker, Executive Director

Microfinance Program

Kenyeh Barlay, Director
Alphonso Campbell, Program Manager

Annex 5: Suggested Financing Criteria

INSTITUTIONAL / MANAGEMENT

Loan Products and Lending Practices

- A sound and transparent credit policy, with loan products that meet the needs of clients.

Governance

- Board includes members with skills and experience necessary to guide the institution toward sustainability and outreach.
- Board of directors independent of management (have no relatives on the staff, and staff are not members of Board).

Management

- Management team possesses the skills needed for successfully running the institution.

Information Systems and Financial Management

- Computerized accounting system in accordance with international accounting standards and appropriate domestic regulations.
- System must be capable of producing appropriate reports and financial information in a timely, reliable and applicable manner.
- Accounting procedures must be clearly documented.
- Annual external audits conducted.
- If there is a separate portfolio management system, the computerized database able to provide timely (at least weekly) reports on total loan portfolio, including appropriate portfolio classification.
- All systems must meet basic conditions of quality and security, with back-up procedures, and be capable to meet the needs of a growing institution.

FINANCIAL PERFORMANCE

Asset Quality

- Classification of delinquent loans at 30, 60 and 90 days and rescheduled loans, and adherence to adequate write-off policies.
- Portfolio at Risk (PAR) over 30 days of less than 5 percent (5%) (i.e. outstanding principal balance of all loans with one or more payment(s) more than 30 days late divided by the Gross Portfolio Outstanding).

- Loan Loss Ratio of less than three percent (3%) (i.e. loans written off during the year divided by the average Gross Portfolio Outstanding for the year.

Annex 6: References

Christen, Robert Peck; Lyman, Timothy R.; Rosenberg, Richard. *Guiding Principles of Regulation and Supervision of Microfinance.* Microfinance Consensus Guidelines. CGAP, Washington, DC, July 2003.

Littlefield, Elizabeth, Morduch, Jonathan, Hashemi, Syed. *Is Microfinance an Effective Strategy to Reach the Millenium Development Goals?* Focus Note No. 24. CGAP, Washington, DC, January 2003

____________. *Sierra Leone: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone.* Country Report No. 06/183, International Monetary Fund, May 2006

____________. Interim Poverty Reduction Strategy Paper. Republic of Sierra Leone, Freetown, 2001.

____________. *Status Report on Preparatory Activities for the Full Poverty Reduction Strategy Paper for Sierra Leone*. Poverty Alleviation Strategy Coordinating Office (PASCO), Sierra Leone, September 2004

_____________. *Microcredit: One of Many Intervention Strategies*. Donor Brief No. 2. CGAP, Washington, DC. April 2002.

____________. *The Role of Governments in Microfinance*, Donor Brief No. 19, CGAP, Washington, DC, June 2004

Rosenberg, Richard. *Aid Effectiveness in Microfinance: Evaluating Microcredit Projects of the World Bank and the United Nations Development Programme*. Focus Note No. 35. CGAP, Washington, DC, April 2006

Annex 7: Evaluation of MITAF Outputs and Targets

Current Outputs and Targets	Evaluation Findings re: Outputs and Targets that Need Modification	Evaluation Recommendations re: Modifying Outputs and Targets
<u>Output 1</u>**: Potential leaders of MF industry have reached sustainability** and have considerably increased their outreach to develop a competitive, sustainable pro-poor financial sector. **Targets**: 1) Increase, from the baseline 13,000 the number of active clients of selected MFIs to 15,000 by end 2004, to 20,000 by end 2005, 30,000 by end 2006, 50,000 by end 2007, 75,000 by end 2008, and to 93,000-100,000 at project completion in 2009 2) At least 1 MFI has reached financial self-sufficiency at project completion 3) At least 3 MFIs have adopted international standards in governance, systems and policies 4) At least 2 MFIs have a large branch network that covers a major part of Sierra Leone.	Target 1) The target was overly ambitious and unrealistic in that it assumed that the MFIs financed under the project would be able to cover 58% to 63% of the highest estimate of the total market within 5 years. Pushing to achieve this target now without further strengthening institutional structures and systems is likely to have an adverse effect on the MFIs and therefore on overall project results. This is particularly important in this project as most of the NGO MFIs are likely over-extended, as evidenced by the low quality of their existing portfolios. One of the implications of the chosen project strategy – building sustainable financial institutions – is that it takes time to achieve results such as increasing the number of poor people who have access to financial services. Target 3) While this is a reasonable expectation, this target is not quantifiable and is subject to many interpretations. Target 4) Given the institutional strength of MFIs at project inception, this target was overly ambitious. It is also not sufficiently quantified and is open to various interpretations.	Target 1) The targets for the number of active clients between now and the end of the project should be reduced to more accurately reflect the partner lending institutions' ability to grow sustainably, and to reflect more modest coverage of the total potential market. Target 3) This target should be eliminated altogether; instead, more explicit performance criteria and goals should be included in the funding agreements with partner lending institutions and monitored individually (see Annex 5 for suggestions about non-financial performance criteria). Target 4) This target relating to geographic coverage, should be modified to reflect a) more specific and realistic goals and b) to take into account that the strategy to achieve this target has shifted from expecting several MFIs to establish extensive branch structures to supporting community banks.

Current Outputs and Targets	Evaluation Findings re: Outputs and Targets that Need Modification	Evaluation Recommendations re: Modifying Outputs and Targets
<u>Output 2</u>: Strategic partnerships are built with other donors and the private sector in joint support of a sustainable pro-poor financial sector. **Targets:** 1) Strategic partnerships that enable MFIs access to capital (grants, loans and commercial equity) are established in 2005, then expanded 2) Coordination amongst donors/investors from the outset as donors/investors utilize investment committee framework 3) Resources mobilized for MFIs as cost-sharing, parallel financing or savings mobilization (an additional $12 million cumulative during the project life)	Targets 1) and 2) The difference between and intent of these two indicators, both of which relate to additional resource mobilization, is not clear and the two seem to overlap. The mobilization of an additional US$ 12 million in five years also seems unrealistic, nor are there targets for each type of resources (savings managed by the banks, additional donor funding, etc.).	Targets 1) and 2) These targets should be re-worked so that the intent of each and the difference between the two is clear, so that the amount of additional resources to be mobilized is realistic, and so that specific indicators for types of additional financing are set. For example, a realistic goal should be set for the amount of savings to be mobilized by partner lending institutions, and a goal could be established for the number of MFIs that MITAF should assist to access loans from local banks.

Current Outputs and Targets	Evaluation Findings re: Outputs and Targets that Need Modification	Evaluation Recommendations re: Modifying Outputs and Targets
<u>Output 3</u>: A professional microfinance unit in the Bank of Sierra Leone is operational and capable of ensuring an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system. **Targets**: 1) A MF unit in the BoSL established as a professional focal point for the development of the microfinance industry; 2) Industry standards developed with MFIs including efficient and transparent information exchange 3) A microfinance sector database developed 4) The support infrastructure for the sector has improved (audit, credit reference bureau) 5) A conducive regulatory and supervisory framework for microfinance has been established. This framework stimulates integration of the microfinance sector into the financial system.	Target 2) This target is not clear, particularly because exchange of information is not necessarily an industry standard, nor does it specify who will be responsible. Target 3) This target does not specify the purpose of a data base nor who should develop and maintain it. Target 4) This target is not quantifiable, nor is it clear whether "audit" and "credit reference bureau" are listed as indicative of improved support overall or whether there are specific targets with regard to each of them. Target 5) The purpose of this target is not clear, in that a conducive framework already existed at project inception.	**Output 3**: It is recommended that the output itself be modified to read as follows, "An enabling environment for the development of the microfinance industry and its eventual integration into the financial system has been developed." Within this revised output, the existing targets should be modified as follows: Target 2) The Sierra Leone Association of Microfinance Institutions (SLAMFI) has developed country-specific industry standards and serves as the forum for regular and transparent reporting on industry performance and outreach. Target 3) This target should be eliminated; the MITAF data base is to be turned over to the BoSL, so is part of Target 1. Target 4) This target should only specify training for local audit firms in microfinance-specific auditing techniques and norms; the decision to establish a credit reference bureau should lie with the MFIs and will likely eventually grow out of SLAMFIs activities. Target 5) This target should be modified to be more specific and include only those financial institution regulations that need to be developed or clarified.

Current Outputs and Targets	Evaluation Findings re: Outputs and Targets that Need Modification	Evaluation Recommendations re: Modifying Outputs and Targets
<u>Output 4</u>**: Sound microfinance principles have been disseminated** and are widely accepted and adopted. **Targets**: 1) MODEP NGO-MFI conducive registration and monitoring process established 2) Government, donors, consultants and practitioners have access to and utilize best practices in microfinance.	Target 1) This target is not appropriate with regard to MODEP's role. Target 2) This target is vague and unquantifiable. Information on best practices in microfinance is widely available throughout the world, both through on-line resources and written publications; it is not clear why or how additional access should be provided by the project. Further, it is beyond the scope of any project to ensure that anyone accepts and utilizes best practices. Finally, it can be argued that all project activities are in fact designed to introduce best practices to the sector as a whole.	This output should be eliminated altogether.

Annex 8: Evaluation Follow-up Matrix for Mid-Term Evaluation of Project SIL/03/C01

Key Findings/Conclusions and Recommended Actions

Areas of Focus (as per Terms of Reference)	Key Findings/Conclusions	Recommendations	Responsible Party	Timeline
Results Achievement	• Project is on track with regard to achieving project goals.	• None		
Project Design	• The project concept is sound. • Some of the expected results are overly ambitious, particularly given the state of the sector at project inception, and some of the targets are unclear, vague or inappropriate	• None • Revise the project's outputs and targets (see recommendations for Investment Committee).		
Project Implementation	• The MITAF strategy appropriately includes interventions at the micro (retail lending institutions), meso (support infrastructure), macro (policy) levels. • The market may not be able to support the 10 MFIs in the longer term; even so, the decision to finance a range of types and sizes of institutions was sound. • MITAF capacity-building assistance for MFIs has been effective. Nevertheless, important weaknesses still exist that must be addressed if the partner lending institutions are to become sustainable • Funding disbursement is conditional on meeting minimum conditions, and	• None • Do not finance any additional partner lending institutions. • Focus capacity-building on areas of critical weakness, ensure that capacity-building services become more demand-driven and require partner lending institutions to contribute to the associated cost. • Modify the financing strategy to: increase the budget for training and		

Areas of Focus (as per Terms of Reference)	Key Findings/Conclusions	Recommendations	Responsible Party	Timeline
	funding agreements are tailored to each institution individually. Standardized performance criteria that captures all important aspects of institutional capacity has not been applied uniformly. The PAR criteria is not in line with internationally recognized good practice. • The majority of MFI financing approved by donors has been for loan funds, with insufficient funding for other types of institutional support. About 37% of loan fund financing has been through loans, which is appropriate. The funding has not been distributed equitably among the partner lending institutions • The existing regulatory and supervisory framework in Sierra Leone is reasonably conducive for microfinance, and needs only minor clarification and adjustment. Plans are already under way to assist the BoSL to resolve ambiguities and gaps in licensing, regulation and supervision and to improve its capacity. • MITAF has been instrumental in assisting MFIs to establish the Sierra Leone Association of Microfinance Institutions	individualized technical assistance; allocate more funds to operational subsidies; put in place standard financial and institutional performance criteria, to be applied to all partner funding institutions; link the loan fund disbursement criteria only to portfolio quality indicators, and link the criteria for disbursement of operational subsidies to non-financial institutional performance standards. • Consider adding a loan guarantee to funding mechanisms. • Ensure that the assistance to the BoSL is provided to the Department of Banking Supervision and ensure that the external consultant begins work in early 2007. • See recommendations in Exit Strategy section.		

Areas of Focus (as per Terms of Reference)	Key Findings/Conclusions	Recommendations	Responsible Party	Timeline
	(SLAMFI), has sponsored microfinance-specific training for external auditors, and has worked closely with the Microfinance Program (MFP) within the National Commission for Social Action (NaCSA) on training and the dissemination of best practice materials.			
Institutional Arrangements	• There are two problems with the role of the **TSP** as described in project documents: as a private consulting company, ESGC is not well-placed to raise funds from donors; there is an inherent conflict of interest between providing training and technical assistance to MFIs on the one hand, and assessing capacity and performance and recommending funding and the disbursement of approved funding on the other. • The **BoSL** the appropriate government counterpart, as specified in the project document. The role of **MODEP** vis-à-vis the microfinance sector, as specified in the project document is not in line with internationally accepted good practice with regard to governments' role in microfinance, and a number of the responsibilities are more appropriate to the BoSL.	• Assure that members of the Investment Committee assume partial responsibility for mobilizing additional donor resources for the project as needed. Continue the strategy of contracting and financing external technical advisors and trainers; refocus MITAF staff responsibilities on increased MFI monitoring, supervision and assessment. • In the opinion of the evaluation team, the microfinance function within the BoSL be should be transferred from the Development Coordination Department to the Banking Supervision Department. In addition, the respective roles and responsibilities of the BoSL and MODEP with regard to the microfinance sector should be clarified.		

Areas of Focus (as per Terms of Reference)	Key Findings/Conclusions	Recommendations	Responsible Party	Timeline
	• The role and composition of the **Investment Committee** is appropriate. However, there are fundamentally different visions of the project within the Committee, and the lack of a coherent and shared vision of the project and agreement about the strategy being implemented hinders its ability to operate effectively.	• Hold an extraordinary meeting of the Investment Committee as soon as possible after review of the mid-term evaluation report to confirm the stakeholders' commitment to the project's stated objectives and chosen strategy. As part of the discussion of the project strategy, it is recommended that the Investment Committee modify project outputs and targets and agree on an explicit project exit strategy.		
Project Management	• A complete budget showing all donor commitments by line item is not available. There have been significant delays in the disbursement of some of the committed funding due to internal donor obstacles. The donor disbursement procedures are unwieldy and contribute to unnecessary and disruptive delays in financing. • ESGC has done a good job of managing the project. However, the lack of a centralized and consolidated MITAF financial management system leads to disparities and gaps in the project financial records. MITAF reporting to the Investment Committee is regular and thorough although overly complex.	• Operationalize the concept of the imprest account within all donor agencies. Develop a clear, complete and up-to-date project budget. • Improve the ESGC/MITAF financial tracking system and simplify and consolidate quarterly reporting to the Investment Committee.		

Areas of Focus (as per Terms of Reference)	Key Findings/Conclusions	Recommendations	Responsible Party	Timeline
Strategic Positioning and Partnerships	• The combined and coordinated contributions of the four donors to building an inclusive financial sector complements national priorities and is in line with their respective corporate priorities. While the donors may have different degrees of expertise, objectives and interests, the project has provided a coordination mechanism that is flexible enough to allow donors to finance MFIs and/or types of assistance that are both in line with their corporate priorities and consistent with the overall project objectives.	• None		
Sustainability of Results and Exit Strategy	• Although MITAF has begun work on a draft exit strategy, there was no explicit donor exit strategy clearly outlined in the project document, and it is clear that there are widely diverging opinions among key stakeholders about what aspects of the project should be sustainable after the project ends. • Given the limited size of the market, the progress already made toward achieving end-of-project goals, and the continued progress that can be expected, a second-tier financing and technical assistance structure should not be necessary at the end of the project in 2009.	• Continue the current exit strategy of building local capacity at all levels of the industry: emphasize building the capacity of the existing 10 partner lending institutions, so that they are no longer dependent on donor funding in 2009; implement the revised strategy for providing assistance to the BoSL as soon as possible; provide support to SLAMFI and the MFP so that these institutions are able to meet the sector's continued development and promotion needs after 2009.		