UNCDF

EVALUATION SYNTHESIS REPORT

FINAL REPORT

Building Inclusive Financial Sectors in Africa (BIFSA)
Phase I: 2005 – 2007

May 2009

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Evaluation Synthesis Report: FINAL REPORT Building Inclusive Financial Sectors in Africa (BIFSA) - Phase I: 2005 – 2007

Design: Partnerships Unit, UNCDF.

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List of Acronyms

APIM	Association Professionnelle des Institutions de Microfinance du Togo
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BIFSA	Building Inclusive Financial Sector Approach
CAS-IMEC	Cellule d'Appui et de Suivi des Institutions Mutualistes ou Coopératives D'Épargne et de Crédit
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
CO	UNDP country office
CORDAID	Catholic Organization for Relief and Development
CNMF	Coordination Nationale de la Microfinance
CRA	Country Resident Advisor (UNCDF)
CTA	Country Technical Advisor (UNCDF)
DRC	Democratic Republic of Congo
FSP	Financial Service Provider (including MFIs and Credit Unions)
HQ	Head Quarters
IF	Inclusive Finance
IFC	International Finance Corporation
MFIs	Microfinance Institutions
MIS	Management Information Systems
MOU	Memorandum of Understanding
PARMEC	Projet d'Appui à la Réglementation sur les Mutuelles d'Épargne et de Crédit
PTMs	Portfolio Technical Managers (UNCDF)
ROAR	Results-Oriented Annual Report
SIPEM	Société d'Investissement pour la Promotion de l'Entreprise
TA	Technical Assistance
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
WCA	UNCDF's West and Central Africa Regional Office

DISCLAIMER

This report's evaluation and recommendations do not necessarily reflect the view of the United Nations Capital Development Fund (UNCDF), its Executive Board or the United Nations Member States. This is an independent report commissioned by UNCDF and reflects the views of its authors, Joan Hall, Geetha Nagarajan, Graham Owen and Nathalie Assouline.

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The evaluation team was very impressed with the dedication and professionalism of the UNCDF staff. It was clear from their input and efforts that they are passionate about their work and that the results of the evaluation are of great interest to them.

The international consultant team would also like to express its appreciation for the work of the regional consultants Georges Yaoussi and Joyce Manu, and the national consultants, Charlot Razakaharivelo and Dina Randrianasolo (Madagascar), Foley Freeman (Liberia) and Noufo Yaba Ouadja and Mauril Kokou Koudoha (Togo), without whom this effort would not have been successful. Our sincere thanks to Sherri Haas at IRIS who took care of all our travel logistics, and for editing the document. Errors in the report are, however, attributed to the authors of the report.

PROJECT DATA SHEET

Countries:	1. Regional Programme 2. Togo 3. Madagascar 4. Liberia
Programme Titles:	1. Building Inclusive Financial Sectors in Africa (BIFSA) 2. Programme d'Appui à la Stratégie Nationale de Microfinance du Togo (PASNAM - Togo) 3. Programme d'Appui à la Stratégie Nationale de Microfinance de Madagascar (PA/SNMF) 4. Launch of an Inclusive Financial Sector in Liberia (2005 - 2007)
Programme numbers:	1. 45789 2. 47823 3. 52417 4. 44310

Financial Breakdown (by donor)

1. Building Inclusive Financial Sectors in Africa – BIFSA UNCDF UNDP Joint Programme Funding UNCDF/UNDP	$42.6 million ---------------------- $2.9 Million $1.5 Million $29.5 Million
2. Togo - Programme d'Appui à la Stratégie Nationale de Microfinance (PASNAM) UNCDF UNDP	$ 3,261,050 ----------------------- $ 1,461,860 $ 1,799,190
3. Madagascar - Programme d'Appui à la Stratégie Nationale de Microfinance (PA/SNMF) UNCDF UNDP	$ 4,080,800 ---------------------- $ 1,625,800 $ 2,455,000
4. Launch of an Inclusive Financial Sector in Liberia (2005 - 2007) UNCDF UNDP Cordaid	$2,031,081 and € 500,000 --------------------------------- $ 891,107 $ 1,139,974 € 500,00

Executive Summary

The Building Inclusive Financial Sector in Africa (BIFSA) Programme is based on a financial sector development approach that is focused on the three levels of the financial sector: the micro (retail) level, the meso (advisory and support services to the retailers) level, and the macro (policy) level.

The BIFSA programme was jointly funded by UNCDF and UNDP, with additional funds to be raised from other donors. The total budget of the programme was USD 42.6 million. The first phase of BIFSA took place from 2005 through 2007. It was part of a three-phase project (a start-up year and two phases) to build financially inclusive sectors in Africa. By 2008, BIFSA comprised two regional centers in Senegal and South Africa and 11 countries with BIFSA programmes. In addition to implementing BIFSA projects in the 11 countries, BIFSA staff also provide technical assistance (TA) to 16 UNDP countries. BIFSA is also supported from the UNCDF headquarters in New York City, USA.

The IRIS Center at the University of Maryland, College Park was hired by UNCDF in November 2008 to conduct an evaluation of the first phase of the BIFSA programme (2004 to 2007). Three countries - Liberia, Madagascar, and Togo - that were due for evaluations (mid-term or final) were included in the evaluation framework as indicative BIFSA countries. The evaluation team included Senegal as a “mini-case study” country, at the request of regional office staff.

The evaluation was conducted from November 2008 to April 2009, with field visits conducted from November 2008 to January 2009. The following key issues were examined to understand the effectiveness of BIFSA I strategy, structure, and activities:

- Is the strategic choice (Building Inclusive Financial Sectors by broadening focus from retail microfinance) an appropriate niche for UNCDF? Does UNCDF have comparative advantages in this sector?
- How effective was UNCDF’s implementation of the strategic choice?
    - Has UNCDF been effective as a facilitator to build an inclusive financial sector in the region?
    - Has the decentralized approach using regional offices to provide quality and timely assistance to the project countries been successful?
    - Is the UNCDF’s monitoring system able to track outputs to understand results that are associated with the inclusive finance approach?
    - How satisfactory is UNCDF’s Technical Assistance (TA) to UNDP microfinance country programmes?

The evaluation methodology, established in the Evaluation Inception Report and approved by UNCDF in November 2008, consisted of conducting semi-structured interviews with key stakeholders in each country and at the regional offices, including more than 150 stakeholders ranging from government, donors, financial service providers (FSPs) such as microfinance institutions (MFIs) and credit unions, professional microfinance associations, universities, MFIs, banks, audit firms, UNDP and UNCDF staff and some MFI clients. Relevant documents were reviewed and appropriate tools were used to collect and analyze the information to draw conclusions.

Major Findings and Recommendations

The strategic choice, made by UNDCF in 2004, to broaden its focus from microfinance to building inclusive finance sectors was appropriate and is in line with current trends in improving financial access for the poor and excluded in LDCs. UNCDF has to be especially congratulated on being one of the few development donors to work on building inclusive financial sectors in the least developed countries, and the post-conflict countries, in Africa. There are design and implementation issues to be resolved, but overall the strategic change in focus is appropriate and the progress UNCDF has made in implementing the change is commendable. Both the complexity and magnitude of the task of building inclusive financial sectors in difficult areas in Africa require diligence, patience, ample funding, and lots of staff intensity. UNCDF, in undertaking this task with its BIFSA I programme, aimed in the right direction. This, by itself, is an accomplishment and exhibits significant donor commitment. However, challenges remain for BIFSA to fully attain the objectives. This evaluation emphasizes what still needs to be achieved and how to achieve it as BIFSA II moves forward. Thus, the recommendations discussed below, based on our findings from the evaluation of BIFSA I, are intended for UNCDF to improve its current implementation of BIFSA II.

1) **Is the strategic choice (Building Inclusive Financial Sectors) an appropriate niche for UNCDF? Does UNCDF have comparative advantages in this sector?**

UNCDF has a niche in building inclusive financial sectors, because it has many comparative advantages:

UNCDF has the first mover advantage in post-conflict countries and countries with nascent inclusive finance sectors. Liberia is an example. Most donors were involved in reconstruction and stabilization efforts, while only UNCDF/UNDP and CORDAID (in partnership) were involved in building inclusive financial sectors. This allowed the project to promote best practice microfinance from the very start. In Togo, UNCDF's BIFSA project was unique during its first phase due to the donor boycott of the country, and UNCDF's activities arrived at an opportune time to set standards for the industry and build a foundation.

UNCDF has the reputation among governments of being an "honest broker". This allows UNCDF to establish a relationship with governments for promotion of inclusive financial sector activities. In Liberia, for example, the Central Bank provided an office building as an in-kind contribution to the Project. The Bank posted two high-level staff to the Microfinance Unit. Other ministries sent mid- to high-level staff to the investment committee and national task force meetings.

UNCDF has wide experience to contribute to learning. The BIFSA programme is building a core of knowledge from different countries and the BIFSA context. This will contribute to learning in the industry.

There are some limitations, however, that reduce the effectiveness of UNCDF's niche: limited funds and skills at macro and meso levels. One of these is the amount of money that UNCDF provides for building the sector. In Liberia, the amounts ran out before the end of the project. In Madagascar, the funds for FSPs were too small to have leveraging or additionality. There was a donor perception that the amount of funds that UNCDF provided was too small to make it a leader in the sector.

Recommendations:

- Improve mechanisms and processes for mobilizing funds. Engage with other donors,

investigate the possibilities of establishing professionally managed regional loan funds, and establish a matching grant fund with other donors for innovations in inclusive financial sector approaches.
- Build UNCDF's human resource capacity in the meso and macro level skills over time. In the meantime, work jointly with other stakeholders who currently have these skills.

2) How effective was UNCDF's implementation of the strategic choice, made in 2004, to broaden its focus from retail microfinance to inclusive finance?

Micro Level: BIFSA Investments in Promising Financial Service Providers

At the micro level, UNCDF aimed to invest in promising financial service providers (FSPs), that is, microfinance institutions and credit unions, by using grants and loans.

Choice of FSPs and use of instruments (amounts, terms and conditions, activities funded)

The application of project directive to identify promising FSPs that could grow in numbers and portfolio, reach poorer clients, and offer a larger range of products was weak. In Madagascar, five MFIs and two credit unions accessed funds from the Project. In general, the FSPs funded are representative of the diversity of the sector, both for-profit commercial MFIs and mutualist entities, targeting urban and rural populations. But some of these entities were too large to receive significant benefit from the funds. For example, SIPEM received a loan that was equivalent to only ten days of loan disbursements. This finding is relevant also for the other funded MFIs in Madagascar, except Fivoï.

In Togo and Senegal, programme support went mainly to the largest FSPs that have access to capital markets as well as large sized donor funds.

The use of instruments had mixed results. In Madagascar, 45 % of the available funds were used as grants and the rest as loans. The MFIs were charged the market rate of loans in the sector, which is a best practice. But, the amounts were too small to have significant impact on the some MFIs' loan portfolios. On the other hand, in Togo, a loan was provided to an MFI (Wages) at lower than market rate, which has the possibility of distorting the market. Very little guidance was provided to the investment committees on the use of these different instruments.

In some evaluation countries, funds have not been used to increase product lines or reach marginalized populations and in general do not demonstrate value addition. In Madagascar, funds invested in MFIs did not exert any leveraging effect, in other words, it did not increase the amount of investments from other sources into these MFIs.
In Togo and Senegal, a larger percentage of funds could have gone to rural or regional MFIs reaching marginalized populations. In Togo, however, UNCDF funding did have a leveraging effect, since large local MFIs used their BIFSA loans to leverage funding from commercial banks (ECOBANK Togo and Togo-FUCEC).

Recommendations:
- Ensure that loans are made at market rates.
- Develop and disseminate a series of guidance notes on: 1.) additionality criteria, 2.) the appropriate use of grants, loans 3.) exclusions, i.e. types of projects that should not be funded by UNCDF. Ensure, through supervision visits and review of quarterly and annual progress reports that the guidance notes are being followed.

- Develop a systematic way of monitoring additionality, with indicators and targets for each country.

Process for Investing in FSPs (investment committee formation, FSP application, due diligence, approval, disbursement)

The process for investing in FSPs was mostly positive in the evaluation countries. Due diligence was performed, and was thorough. The process was transparent and there was no sign of politicization. Performance contracts were used with FSPs in Madagascar and Liberia. These contracts contained an appropriate number of best practice MF indicators linked to the FSPs' business plans. The performance contracts were helpful in pushing FSPs to improve their performance.

The process could be improved in BIFSA II, however. In Liberia, the Investment Committee is very dependent on the expertise of the project staff. The project staff are responsible for assisting the MFI in preparing a business plan, then doing the due diligence on the MFI's application for BIFSA funds, then providing advice to the (inexperienced in microfinance) members of the IC on whether to fund the MFI. UNCDF should be concerned about this consolidation of power and responsibility in the staff of the project unit, and should find ways to divide up these responsibilities. (It should be noted that there were no problems in Liberia; the investments were sound). In Madagascar, the Committee was a passive partner in the approval of the dossiers that were already approved by UNDP. Disbursements were not always done in a timely manner

Recommendations:
- One way is for the project unit to contract local or regional TSPs to help MFIs improve their business plans, and/or to do the due diligence, while the project unit staff continue to provide their expertise to IC members on the investment. This also protects the staff from outside criticism in case the investments are not successful.
- Ensure competent due diligence by an independent local or regional consultant or firm.
- Improve timing of disbursements.

Impact of the Investments

The evaluation finds that there were mixed results from the investments. As mentioned earlier, not enough of the investments were done from the viewpoint of additionality. In general, the investments did not contribute to product innovation or reaching poorer clientele.

Recommendations:
- Ensure that additionality is used by the Investment Committees to assess investments.
- Consider the idea of creating an innovation matching grant fund at the regional or field level, which will provide support for market studies, product development, pilot testing, and rollout of new and innovative products

Meso Level: Improving the quality of the sector/Building a sound IF sector: New Product Development

The evaluation finds that while potential exists, there were a limited number of activities in new product development. In Togo, for example, there is limited supply of different types of loan and savings products, even by much older FSPs who have had the time to develop them. Some MFIs and savings and loans associations have almost no medium term savings products which would give them a greater access to medium term funds for lending to avoid a maturity mismatch. In Madagascar, UNDP promoted and financed Credit with Education within credit unions, to the exclusion of other products. The sustainability of this product is still challenging, specifically in rural areas.

Recommendations:

- Give priority to supporting the development of new products and services, especially savings and loan products applicable in rural areas and for the population segments whose needs are still not covered by the current offerings. Ensure that products promoted by UNCDF respond to a demand from FSPs and fit their context via market research before piloting.

Meso Level: Improving the quality of the sector/Building a sound IF sector: Improving Quality of the Meso Sector

Activities aimed at improving the quality of the inclusive finance sector through meso level activities in the evaluation countries had mixed results. In Liberia, the project devoted considerable time to disseminating best practice inclusive finance concepts, and it was successful at raising the level of knowledge of many stakeholders on these concepts. Also in Liberia, MFIs were suffering high staff losses due to poaching. A university MF training programme supported by UNCDF gave staff-constrained MFIs new interns and staff. In Madagascar, training has concentrated on national coordination and UNDP staff, and not enough on FSPs. In Senegal, although UNCDF has promised training materials and tools, these have not yet been provided, and demand continues to be expressed.

Recommendations:

- UNCDF needs to encourage the private sector actors and private sector partnerships, to provide professional microfinance training.
- Ensure that associations are supported with capacity building activities, business and strategic planning, fundraising, and small grants tied to performance indicators to ensure that these organizations are effectively meeting members' needs on key issues and are sustainable in the medium term (Liberia, Madagascar, Senegal).
- Improve internal capacity to assess and to carry out adequate market and feasibility analysis at the country and regional level to ensure that initiatives that it plans to support have a reasonable chance of become self-sustaining with adequate national outreach in the medium term.

Macro Level: Improving Government Capacity

There has been considerable effort by the project units in evaluation countries to build government capacity to coordinate the sector, but uncertainty remains on the sustainability of the results. In Liberia, interviews revealed that the government knowledge of best practice IF has improved significantly. Government (the Central Bank and various ministries) has been involved in developing a national IF strategy and action plan, now in draft form and awaiting government ratification. In Togo, project activities led to positive improvements with CAS-IMEC performance and its ability to supervise the sector. However, results are likely to be unsustainable because the additional supervision staff, UN volunteers, were not offered paid employment after their volunteer service ended. In Madagascar, clear commitment from the government is still needed for the sector's development through an accrued responsibility and autonomy given to the coordination unit.

Recommendations:

- Establish MOUs with government agencies to ensure commitment and establish joint responsibilities.
- Focus project activities on areas where CDF has comparative advantages for building government capacity (such as policy area and not strengthening of the regulatory environment).
- Partner with other stakeholders to provide capacity building support to governments
- Realistically assess government's budgetary capacity to continuing activities after project ends.

3) Has UNCDF been effective as a facilitator to build inclusive financial sector in the region?

The evaluation finds that facilitation role of UNCDF in building inclusive financial sectors needs clarity in terms of strategies, activities, and desired outcomes. This needs to be specifically addressed in BIFSA II.

Building Consensus

In general, in the evaluation countries, consensus building activities were appropriate, and the outputs solid. However, the focus on achieving a national IF strategy and action plan seems too ambitious and prescriptive. It may not be the best use of the project's time and resources to build a national IF strategy and action plan, if this will not be carried out by the government. The diagnostics used appear too descriptive and weak on assessments of challenges at meso and macro levels.

There appears to be no systematic mechanism for regularly capturing feedback about the facilitation process in each country. In general, more peer and stakeholder feedback is needed during early implementation stages to quickly reengineer the projects well. While UNCDF is to be commended for expanding peer reviews and exercises such as CGAP's Smart Aid Index done at the end of 2007 and in early 2009, there was a need for a more formal review of the programme including feedback from national level partners, other key stakeholders, and a review of market conditions prior to the start of BIFSA II.

Recommendations:

- Before the project starts up, UNCDF needs to ensure that the facilitation /coordinator role being prepared for government is realistic and sustainable.
- Develop a strategic framework for UNCDF's facilitation role, similar to the one found in the Table 1. Evaluate UNCDF's comparative advantages and disadvantages in each category of facilitation role.
- Using the country diagnostic, develop a gap analysis for each BIFSA country, that includes three parameters: 1) where are the facilitation needs? 2) where does UNCDF have the comparative advantages to fill the need? 3) where does UNCDF need to partner with other actors to address the needs?
- From this information, develop a facilitation strategy for each country, with objectives, indicators and targets. Keep it simple, flexible, and achievable within the timeframe of the project.
- Develop a mechanism for capturing stakeholder feedback on UNCDF facilitation. This could be an indicator with a survey that is taken once per year, or it could happen through roundtables of stakeholders (project and non-project) in the sector.

Raising Funds

CDF's goal for BIFSA was to leverage additional donor funds, partly through its facilitation role, and partly through the establishment of investment committees made up of donors (voting) and government representatives (non-voting) in BIFSA countries, whose role was to identify investment opportunities in leading MFIs.

Currently fundraising is being done at the country, regional and headquarters level, without clear division of responsibility, and not very effectively. Liberia did not receive sufficient funding necessary for the ambitious workplan. Madagascar lacked adequate credit funds and capacity building grants. For both countries, lack of funds affected MFIs' abilities to scale up, project units' ability to fulfill their goals, and investment committee cohesion. In Togo, no efforts were made to attract other donor resources outside of the Roundtable. In Senegal, there was some success: gaining a national consensus and a governmental letter has had some impact on donors' willingness to be involved in the sector. While there are large amounts of donor funding for a potential fund they do not want to invest in a project fund. As such the majority of large donors are looking for solutions outside of the project investment funds.

Recommendations:

- Conduct market studies with other donors to identify funding requirements and put into place a fund structure with an implicit exit plan.
- Clarify fundraising responsibilities at each level of BIFSA operations: country, regional, and NY offices.
- Update and finalize the credit manual. Streamline the procedures and ensure that FSPs receive their funds in a timely manner.
- Look into other options to realize appropriate funding levels. This could include maintaining a more flexible investment committee for smaller capacity building grants and smaller credits to the 2nd and 3rd tiers FSPs to bring them up to commercial specifications while outsourcing medium to large amounts to a private autonomous fund with professional management that can attract both donors and private sector participants.
- Explore/expand regional and country level staff roles in helping FSPs to network alternative funding sources.

The Investment Committee (IC) as a Mechanism for Raising Funds

The IC mechanism was supposed to attract new donors due to the leveraging potential and the transparency of the process. But, the investment committee mechanism for fundraising did not seem effective in the evaluation countries. In Liberia, it was not clear whether donors appreciate the IC mechanism and would be willing to participate. Those donors who are very recently exploring the idea of microfinance seem to be more interested in the expertise of the project staff, rather than the IC itself. In Madagascar, the investment committee does not carry out the financial analysis, and appeared to be playing a passive role in the approval of investments. In Senegal, large donors are generally not willing to place their funds in a multi-lateral project level fund. They are looking for professionally run funds with a timeframe that is not linked to the project cycle.

Recommendations:

- Survey potential co-donors to see if the IC mechanism remains attractive.
- Actively pursue a private sector approach where UNCDF is participating in regional funds or country funds that provide a longer term access to funds and which can better attract other donors

- Re-assess the functioning of the Investment Committee and improve procedures.
- Ensure better communications with donor members outside the country.

4) Has the decentralized approach using regional offices to provide quality and timely assistance to the project countries been successful?

The decentralized approach, using regional offices in Dakar and Johannesburg to provide quality and timely assistance to the project countries, and technical assistance to UNDP, is important and is a work in progress. The decentralization of UNCDF HQ functions to two regional offices was important in achieving the growth in the number of BIFSA countries. The goal now should be to improve their capacity to address issues that are surfacing in BIFSA countries, and to ensure that UNDP is satisfied with services provided by regional office staff.

The evaluations of the regional offices find that:

- There is an adequate number of personnel in each office, but many are new, and many are overworked.
- Staff lacks the full range of skills for implementing BIFSA, especially in the meso and macro level areas. There is no formal staff training programme for addressing this.
- Regional office staff devoted a good amount of time to starting up BIFSA programmes in new countries, but were less involved in providing assistance to existing BIFSA countries. This created problems with funding adequacy, disbursements and reconciliation of funds, among other things.
- Regional office staff have excellent MF technical skills, good meso level skills, but are weak in macro level skills.

Recommendations:

- Ensure that there are sufficient numbers of staff with appropriate skills to handle all BIFSA programme activities (recruitment has been ongoing since 2007).
- Develop a formal staff training programme for regional and country staff in building the following skills: Ability to analyze strategic and business plans, market demand, feasibility analysis, including scenario analysis, and inclusive financial sector analysis, with particular focus on sustainability.
- Work with other donors, such as CGAP, to fill existing gaps in staff skills.
- Evaluate the feasibility (costs vs. benefits) of a distance training course vs. intense face-to-face training for regional managers and their staff.
- Encourage country staff to participate in existing distance learning courses (in business, microfinance, management, or international development) and allocate time to staff to undergo training and obtain certification.
- Ensure that technical assistance, backstopping, and administrative support are provided to existing BIFSA countries. Make adequate visits to BIFSA countries to ensure quality control.
- Build regional managers' management skills for improving systems for monitoring staff performance. Improve reporting formats to capture outputs and outcomes of the work of PTMs.

5) Is UNCDF's monitoring system able to track outputs to understand results that are associated with the inclusive finance approach?

In all countries, country staff has put in place standard best practice FSP indicators for monitoring FSPs that are funded by the project. However, the collection, quality, and use of data from the FSPs was very weak during BIFSA I and continues to be a problem in 2008.

The project has taken a number of positive steps with the help of CGAP including i) fine tuning indicators, ii) creating Excel sheets in 2008 that help automate some of the calculations based on the MIX Market indicators, iii) creation of a guide, post-BIFSA I, to help the portfolio managers to better carry out their role as portfolio managers and iv) delegating a regional point person to work on improving indicator quality. Much work still remains:

- For the meso and macro levels, indicators are weak.
- There are no indicators for monitoring technical assistance to UNDP.
- Indicators for adequately monitoring risks of investments are missing.
- There are a limited number of outcome indicators and targets for projects in-country, and because of this, UNCDF is not able to determine the impact of its activities. Outcome indicators are indicators that help measure the results of the activity. For example, the project in-country may promote meetings between Central Bankers and MFIs. The outputs are the number of meetings, or the number of participants who met. The desired outcome, depending on the purpose of the meeting, might be "improved understanding of MF by Central Bankers". A tool, such as a questionnaire, would be used to determine if the result has been achieved.

Recommendations:

- Continue to build on efforts in 2008 and 2009 to improve data collection,
- Develop progressive indicators for the macro and meso levels that better measure outcomes and impact rather than just outputs for those BIFSA country projects that are implementing activities at these levels. Build these indicators into the project's performance framework. Continue to work with CGAP in this effort.
- Develop indicators or use prudential indicators (liquidity, capital adequacy) for reporting to BCEAO for on-going risk assessment for investments in FSPs, and monitor the FSPs on a quarterly basis for external funds use). UNCDF might develop some standardized criteria for evaluating its investments, such as: for investments greater than US $250,000 in any single institution, the institution must report quarterly using the CAMEL indicators.
- Train UNCDF BIFSA staff and MFIs in the use of the indicators.
- Enable FSP management and staff to attend workshops on the indicators and their use to better manage their FSPs.

6) How satisfactory is UNCDF's Technical Assistance (TA) to UNDP country microfinance programmes?

The evaluation team finds that there were no objectives, indicators or targets for activities relating to UNCDF provision of TA to UNDP country MF programmes in the project documents. This makes it impossible to evaluate the TA given to UNDP microfinance programmes.

Recommendations:

- Add an objective, indicators and targets to project performance frameworks for each country where BIFSA staff will be providing TA to UNDP or other UN organizations' microfinance activities.
- Put into place a mechanism for regional PTMs and country-level CTAs to report on their activities in support of UNDP country microfinance programmes. This should be part of their workplans and reporting on project activities.
- Put into place a new mechanism for gathering feedback from staff of UNDP country programmes who have received TA from UNCDF BIFSA staff. This could be an "end of

TA" report filled out by UNDP staff, or a survey by email every six months to those countries who are receiving TA, or some other cost-effective feedback mechanism.

CONCLUSIONS

The changes that UNCDF embarked upon in 2004, were timely but, nonetheless, were probably ambitious given the enormous challenges in ever-changing financial sector environments in a large number of countries on a continent known for its changing contexts. While UNCDF has succeeded in many aspects, the results of this evaluation indicate that UNCDF should now focus in designing more context-specific programmes where UNCDF has a clear comparative advantage and can create additionality in reaching vulnerable populations without crowding out the private sector. In doing so, pragmatic and flexible approaches are called for to work effectively with the stake holders recognizing and utilizing their strengths. It is now imperative that UNCDF assess the opportunity costs of amounts of investments it makes in one country versus another, and within countries assess the most important initiatives and if funds are most efficiently allocated among these alternatives.

UNCDF is aware of many of the concerns raised in this evaluation regarding capacity building, <u>new product development and monitoring indicators, and is taking action since 2008 to rectify many of the problems</u>. For example, fine tuning monitoring indicators, strengthening staff skills by sending them to training programs, initiating talks with FSPs piloting new products such as savings and insurance, conducting SWOT analysis during staff retreats to identify partners to work with and to rectify weaknesses are concrete steps taken to improve the programme. Future evaluations of BIFSA should assess the effectiveness of these activities in terms of results.

I. Introduction

The Building Inclusive Financial Sectors in Africa (BIFSA) programme draws its origin and finds its justification in the experience gained and lessons learned from the microfinance programmes funded and implemented by UNDP and UNCDF over the years to build inclusive finance sectors in developing countries.

The first phase of Building Inclusive Financial Sector in Africa (BIFSA) programme took place from 2005 through 2007. It was part of a three-phase project (a start-up year and two phases) to build financially inclusive sectors in Africa. The IRIS Center at the University of Maryland College Park was hired by UNCDF in November 2008 to conduct an evaluation of the first phase of the BIFSA programme (2004 to 2007) during which two regional centers in Senegal and South Africa were working with 11 countries with BIFSA programmes, and provide technical assistance to 16 countries where UNDP has microfinance programmes. The evaluation was conducted from November 2008 to April 2009.

In this synthesis report, major findings and recommendations of the first phase of BIFSA programme are discussed. The report is based on field visits carried out by The IRIS Center in the selected countries from November 2008 to January 2009.

1. The BIFSA Programme

The BIFSA programme's strategic objective is to contribute to the achievement of the Millennium Development Goals, particularly the specific goal of cutting poverty in half by 2015, by increasing sustainable access to financial services in Sub-Saharan Africa for poor and low income populations in general and for small and micro enterprise in particular.

BIFSA is based on a financial sector development approach that is focused on developing the three levels of the financial sector: the micro (retail) level, the meso (advisory and support services to the retailers) level, and the macro (regulatory and policy) level. Therefore, BIFSA continues the shift from focusing only on retail level microfinance to focusing on developing inclusive financial sectors by engaging at macro, meso and micro levels. To that end, the BIFSA programme is structured around five strategic pillars: (1) Invest in and facilitate investments in the development of microfinance sectors, (2) Invest in promising microfinance institutions (MFIs), (3) Improve UNDP microfinance programmes' quality, (4) Facilitate the development and diffusion of new microfinance products and services, (5) Encourage diffusion and application of sound microfinance practices.

Specific goals to be achieved by BIFSA following a financial sector development approach are:

- Development of viable microfinance sectors integrated into competitive and sustainable financial markets;
- Development, growth, and professionalism of promising financial service providers (FSPs);
- Encouragement and diffusion of sound microfinance sectors using microfinance best practices;
- Development and diffusion of new products;
- Facilitation of effective partnerships and collaboration with donors and organizations operating in the microfinance sector.

The programme was jointly funded by UNCDF and UNDP, with additional funds to be raised from other donors. The total budget of the entire programme from 2004 to 2010 was USD 42.6 million. The BIFSA I programme was implemented from two decentralized regional offices: Dakar, Senegal and Johannesburg, South Africa, with support from UNCDF headquarters in New York City, USA.

2. Evaluation Focus

In order to explore the overall effectiveness of BIFSA I, the evaluation package combined the evaluation of the two regional offices of BIFSA with the evaluation of three country projects that were eligible for mandatory evaluations in 2008. The three country evaluations covered the Inclusive Finance projects in Togo, Madagascar and Liberia and these evaluations were considered by UNCDF as case studies that demonstrate the effectiveness of the BIFSA programme at the national level. The evaluations for the regional BIFSA support offices in South Africa and Senegal and the country programme in Madagascar were conducted at approximately mid-way through their programme cycle, while the country programmes in Togo and Liberia were conducted during or after their final year of implementation. During the visit to the Senegal regional office, regional office staff requested the consultant team to also assess the Senegal country programme. While the Senegal country programme is relatively young, is not mandated for an evaluation yet, and was not examined in depth relative to the other three countries, the Senegal study nonetheless provides some valuable insights to complement findings from the three country studies of Togo, Madagascar and Liberia.

The primary evaluation objectives were to: 1) assess programme effectiveness, 2) document key findings and lessons learned, and 3) provide recommendations for BIFSA II. The following key issues were examined to understand the effectiveness of BIFSA I strategy, structure, and activities:

- Is the strategic choice (Building Inclusive Financial Sectors by broadening focus from retail microfinance) an appropriate niche for UNCDF? Does UNCDF have comparative advantages in this sector?
- How effective was UNCDF's implementation of the strategic choice?
    - Has UNCDF been effective as a facilitator to build an inclusive financial sector in the region?
    - Has the decentralized approach using regional offices to provide quality and timely assistance to the project countries been successful?
    - Is the UNCDF's monitoring system able to track outputs to understand results that are associated with the inclusive finance approach?
    - How satisfactory is UNCDF's Technical Assistance (TA) to UNDP microfinance country programmes?

The purpose of the evaluation was to assess BIFSA I accomplishments in terms of outputs, results and outcomes, the challenges (external and internal) faced in implementing the programmes, and changes that may have taken place, during the implementation period, to adapt BIFSA's strategy to country environments. The evaluation was not intended to: i) conduct a complete portfolio review of BIFSA I activities, ii) conduct in-depth financial and operational assessments of the MFI sector nor of the MFIs supported by BIFSA, nor iii) assess client-level impacts.

3. Evaluation Methodology

The current evaluation of BIFSA includes evaluation of the regional offices and also three country programmes selected by UNCDF. While the evaluation only of the regional offices can provide pertinent information, the effectiveness of the regional programmes and UNCDF's approach to building inclusive finance in Africa through facilitation and decentralized structures can be best validated by also examining the performance of the country programmes. The syntheses of findings by triangulation of evidence from evaluations of regional offices and the three country programmes helps in examining the effectiveness of the UNCDF approach in building inclusive finance.

Field missions were conducted between November 2008 and February 2009 by three teams of international, regional, and local consultants (see Annex A for team composition). Each mission in the case study countries was carried out for two weeks. In each country, the evaluations focused only on the quality and effectiveness of the services that have been provided by the programme at the level of the financial sector and the institutions in it. Therefore, the methods used for the evaluation combined evaluation of programme performance with field visits, interviews, document reviews and data-based analysis. During field visits, semi-structured interview guidelines were used to interview more than 150 stakeholders ranging from government, donors, microfinance associations, Universities, MFIs, Banks, Audit firm, UNDP and UNCDF staff and some MF clients (see Annex B for a complete list of contacts made).

II. Major Findings and Recommendations

> *The strategic choice, made by UNDCF in 2004, to broaden its focus from microfinance to inclusive finance was appropriate and in line with current trends in improving financial access for the poor and excluded in LDCs.*

UNCDF has to be especially congratulated on being one of the few development donors to work on building inclusive financial sectors in the least developed countries, and in the post-conflict countries, in Africa. There are design and implementation issues to be resolved, but overall the strategic change in focus is appropriate.

The recommendations discussed below, based on our findings from the evaluation of BIFSA I, are intended for UNCDF to improve its current implementation of BIFSA II. The findings and recommendations are discussed under seven issues that reflect the terms of reference for the evaluation. They include:

1. Is the strategic choice (Building Inclusive Financial Sectors) an appropriate niche for UNCDF? Does UNCDF have comparative advantages in this sector?
2. How effective was UNCDF's implementation of the strategic choice, made in 2004, to broaden its focus from retail microfinance to inclusive finance?
3. Has UNCDF been effective as a facilitator to build an inclusive financial sector in the region?
4. Has the decentralized approach using regional offices to provide quality and timely assistance to the project countries been successful?
5. How satisfactory is UNCDF's Technical Assistance (TA) to UNDP microfinance country programmes?
6. Is UNCDF's monitoring system able to track outputs to understand results that

are associated with the inclusive finance approach?
7. Cross cutting issues: Sustainability of Results and Exit Strategy, and Diagnostics

The findings are summarized in Annex C for each of the evaluation countries. The information was distilled from the three country and two regional office reports submitted to UNCDF (see Annex D for a list of reports produced and submitted to UNCDF).

1. Is the strategic choice (Building Inclusive Financial Sectors) an appropriate niche for UNCDF? Does UNCDF have comparative advantages in this sector?

The evaluation concludes that UNCDF has a niche in building inclusive financial sectors.

The evaluation team finds that UNCDF has many comparative advantages for engaging in inclusive financial sector initiatives.

UNCDF has the first mover advantage in post-conflict countries. For example, UNCDF is one of the few development donors who will implement inclusive finance projects in countries emerging from conflicts. Liberia is an example where most donors were involved in reconstruction and stabilization efforts, while only UNCDF/UNDP and CORDAID (in partnership) were involved in building an inclusive financial sector. This allowed the project to promote best practice microfinance in an environment where there was little or no "bad practice" microfinance that needed to be undone. In Togo, UNCDF's BIFSA project was unique during its first phase due to the donor boycott of the country, and UNCDF's activities in support of the sector arrived at an opportune time.

UNCDF has the reputation among governments of being an "honest broker". This allows UNCDF to establish a relationship with governments for promotion of inclusive financial sector activities. In Liberia, for example, the Central Bank provided an office building as an in-kind contribution to the project. The Bank posted two high-level staff to the Microfinance Unit. Other ministries sent mid- to high-level staff to the investment committee and national task force meetings.

UNCDF has wide experience to contribute to learning. The BIFSA programme is building a core of knowledge from different countries and the BIFSA context. If the results are analyzed, and shared both internally and externally, it will likely contribute to valuable learning in building financial sectors to serve the poor.

There are some limitations, however, that reduce the effectiveness of UNCDF's niche: limited funds and skills at macro and meso levels. One of these is the amount of money that UNCDF "brings to the table". One donor representative interviewed during the evaluation commented on the small size of the UNCDF funds, questioning whether UNCDF should have a leading role in facilitating the growth of the sector given the small size of its contribution.[1]

Since the approach is relatively new to UNCDF, it lacks experience in building the meso and macro levels of financial sectors. UNCDF staff have a proven track record and strong skills in retail microfinance, but are not as strong in building the meso level (associations, technical

[1] The team has agreed to keep interview details confidential.

service providers, audit and IT firms) and the macro level (national inclusive financial sector policy and regulation).

The following recommendations are offered to strengthen the niche:
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- Continue to build on the "honest broker" reputation for engaging governments in IF initiatives.
- Continue to work in post-conflict countries and countries with underdeveloped inclusive financial sectors
- Continue to promote consensus with other donors through facilitation (fostering connections and convening), rather than trying to coordinate donor activities (setting policy agendas and monitoring).
- Build UNCDF's human resource capacity in the meso and macro level skills over time. In the mean time, work jointly with other stakeholders who currently have these skills. In other words, where skills are missing (maybe in diagnosing the macro level issues, for example), then partner with those stakeholders who have those skills (i.e. CGAP).

2. How effective was UNCDF's implementation of the strategic choice, made in 2004, to broaden its focus from retail microfinance to inclusive finance?

To answer this question, the evaluation team examined the effectiveness of the activities that were implemented at micro, meso and macro levels. The UNCDF project units implemented activities at all three levels in the evaluation countries.

2.1 Micro Level: BIFSA Investments in Promising Financial Service Providers

At the micro level, UNCDF aimed to invest in promising financial service providers, (microfinance institutions and credit unions) through grants and loans. Grants were the primary instruments used in these three countries, and loan were also used. The term "promising" was understood to mean those institutions that had the potential to grow in numbers and portfolio, reach poorer clients, and offer a larger range of products.

The evaluation team examined the following factors to assess effectiveness at the micro level:

- Choice of financial service providers
- Use of instruments (amounts, terms and conditions, activities funded)
- Process of awarding the investment
- Rationale for the investment
- Monitoring of the investment
- Impact of the investment on the FSP

Illustrative examples are given in each category from the evaluation countries.

2.1.1 Choice of FSPs

The evaluation concludes that the application of the directive to identify promising FSPs that could grow in numbers and portfolio, reach poorer clients, and offer a larger range of products was weak.

In Liberia, a post-conflict country, funds were used to build two start-up non-profit MFIs operating in the capital city of Monrovia. This was an appropriate use of BIFSA funds. There were no other FSPs that could have been supported, since the credit union movement had been essentially destroyed during the civil conflict. There were no commercial microfinance operators.

In Madagascar, five MFIs and two credit unions accessed funds from the project. In general, the FSPs funded are representative of the diversity of the sector, both for-profit commercial MFIs and mutualist entities, targeting urban and rural populations. But, some of these entities were too large to receive significant benefit from the funds. For example, SIPEM received a loan that was equivalent to only ten days of loan disbursements. This finding is relevant also for the other funded MFIs in Madagascar, except Fivoï.

In Togo and Senegal, however, programme support went mainly to the largest FSPs that have access to capital markets as well as large-sized donor funds. With this trend, there is a potential to crowd out private sector engagement in the sector.

Recommendations:

- Develop better criteria for identifying "promising" FSPs where BIFSA funds can have significant value addition. Value addition can be found by supporting rural institutions, institutions reaching the poorer segments of populations, and institutions developing new products.
- Ensure that the list of criteria contains "exclusions", i.e. criteria for ranking FSPs by the value added due to UNCDF funding.
- Ensure that the majority of programme support goes to promising FSPs with limited access to commercial funding and other sources of donor funding.
- Ensure that the majority of programme support goes to 2nd and 3rd tier institutions (less mature) rather than mature 1st tier institutions.[2]

2.1.2 Use of Instruments (amounts, terms and conditions, activities funded)

The evaluation concludes that the use of financial instruments had mixed results.

Itn Liberia, amounts were appropriate to the needs of the two MFIs during the time that funds were available. Each MFI received approximately US$500,000 in several tranches over the approximately 3-year period. The terms and conditions of the grants were based on each MFI's business plan. The activities that were funded ranged from training, to loan portfolio, to MIS support. The activities were determined by the MFIs themselves, with support from the BIFSA project unit, and there was flexibility in the use of the funds after disbursement. These grant activities followed best practices and were helpful in achieving the objectives of the project. Unfortunately, funding ran out by early 2007 and MFIs did not receive further funding at a time when they could have used it to achieve breakeven. (Generally, MFIs tend to breakeven between 4 – 6 years after start-up.)

In Madagascar, 45% of the available funds were dispersed as grants and the rest as loans. The MFIs were charged the market rate for loans in the sector, which is a best practice as it helps prevent "crowding out" of the private sector. As mentioned above, the amounts were too small to have significant impact on the some MFIs' loan portfolios. However, the

[2] Second tier MFIs are close to becoming microfinance banks and are nearly profitable. Third tier MFIs are NGOs that approach profitability. Source: http://www.socialfunds.com/news/article.cgi/article2448.html

flexibility in the use of the funds was very positive as was the medium term of the loans.

On the other hand, in Togo, a loan was provided to the MFI Wages at a lower than market rate, which has the possibility of distorting the market.[3]

Also in Togo, grants were used for reinforcing specific activities of FSPs – building their Management Information Systems (MIS) and audits. Funding for external FSP audits was a very positive step because it provided feedback on performance, especially to the weaker FSPs. But, the support for MIS activities had mixed results. The support to IT software providers was a good initiative, however, management and staff capacity and the ability to pay for service post-financing limited the impact of this initiative.

Recommendations:

- Ensure that loans are made at market rates.
- Continue to fund audit activities.
- Develop and implement guidelines for project staff and investment committee members for the appropriate use of grants and loans.

The evaluation concludes that, in the majority, funds have not been used to increase product lines or reach marginalized populations and in general do not demonstrate the concept of additionality (value addition).

In Madagascar, funds invested in MFIs did not exert any significant leverage effect for the sector. In other words, they did not increase the amount of investments from other sources into these MFIs nor they did not contribute to disseminate new approaches or instruments. This was also true for FSPs in Togo and Senegal, where a larger percentage of funds could have gone to rural or regional MFIs reaching marginalized populations.

Recommendation:

- Support MFIs that reach rural and marginal populations outside of capital cities, and those that are developing new products, rather than investing in FSPs where no potential for value addition exists.

2.1.3 Process for Investing in FSPs (investment committee formation, FSP application, due diligence, approval, disbursement)

The country project mechanism for investing in promising FSPs was:

- Establishment of an Investment Committee (IC) comprised of co-donors, with non-voting government observers
- Applications from interested FSPs to the IC
- Due diligence by BIFSA project staff or independent consultants
- Review by the IC
- Approval or rejection of the application by the IC members
- Signing a performance contract
- Disbursement

There is a Terms of Reference (ToR) for the Investment Committee in each of the study countries, which is best practice. The ToRs could, nonetheless, be improved with regards to

[3] Please see the Togo Country Report for details.

minimum number of members, quorum, proxies, and investment criteria. The evaluation team is concerned about the appropriateness of the participation of the governments in the Investment Committees, since government actors are primarily responsible for regulation and oversight, rather than making investment decisions.

The application process required the presentation of a five-year business plan to the IC. FSPs in the study countries received project assistance in the preparation of these plans, which was positive.

Due diligence was performed of the investments in all the evaluation countries. There is a concern on the part of the evaluation team, however, about the concentration of power and responsibility in the project unit when the project staff conduct the due diligence. This is due to the fact that they then recommend the application to the IC, and the IC depends heavily on their advice to make the decision, since the IC members are not IF experts. In Madagascar, the Committee did little more than passively approve the dossiers that were already approved by UNCDF/UNDP.

UNCDF should be concerned about this consolidation of power and responsibility in the staff of the project unit, and should find ways to divide up these responsibilities. In Togo, the investment committee has required external audits of the FSPs, which is positive.

Regarding issues of transparency and politicization, the evaluation found that the process was transparent and there was no sign of politicization. As to IC decision-making, as mentioned above, the Committee is very dependent on the expertise of the project staff. If this expertise is not adequate, this could be problematic.

Performance contracts were used with FSPs in Madagascar and Liberia. These contracts contained an appropriate number of best practice MF indicators linked to the FSPs' business plans. The performance contracts were helpful in pushing FSPs to improve their performance. In Madagascar, for the smallest MFIs, such as Fivoy, the necessity to comply with the performance contract did play a role in taking measures to improve their loans portfolio. In Togo and Senegal, however, there was no indicator for measuring the risk of large investments.

With regards to disbursement, the main issue in Togo was that the majority of funds through the promotion fund created by the IC was used to issue loans to one MFI which has access to large amounts of funding from many donors. In Senegal, the IC seems to focus on the larger MFIs rather than smaller MFIs that operate outside the capital city. Also, the evaluation finds that disbursements were not always done in a timely manner. In Liberia, there were months-long delays in disbursing funds to MFIs, which made it difficult for those MFIs to respond to client needs. In Madagascar, on the other hand, funds were disbursed quickly.

In Liberia, the IC met only twice in-country, making it difficult to assess its overall effectiveness.

Recommendations:
- Revise the ToR for the IC in each country and add missing elements.
- Review the issue of government participation on the Investment Committee.
- Ensure competent due diligence by an independent consultant or firm.
- Use performance contracts with all grants and loans.
- Improve timing of disbursements.
- Ensure that, for large investments, there is an indicator that measures risk. UNCDF

might develop some standardized criteria for evaluating the risk of its investments, such as: for investments greater than US $250,000 in any single institution, the institution must report quarterly using the CAMEL indicators. Capital adequacy and liquidity ratios, plus aging reports, are three basic indicators that can be used in addition to those that are currently collected.

2.1.4 Monitoring of Beneficiary FSPs at the Country Level

Monitoring of BIFSA investments to FSPs occurred through quarterly and annual reports from the FSPs to the project unit, and by field visits of project staff to the FSPs. FSPs reported on the indicators in their performance contracts. These indicators are then transmitted to the relevant BIFSA regional office. In Liberia, the project staff were correctly tracking the indicators in Excel, and withheld funds for one MFI when there was no compliance with the performance contract. But, in Togo and Senegal, there were some issues with production of timely and accurate data. Overall, the quality of portfolio indicators and the lack of adequate response by the PTMs was an issue throughout BIFSA I and appears to be an ongoing issue up to the end of 2008. While management has put into effect a guide for PTMs to take appropriate actions if MFIs are not meeting their targets towards the end of BIFSA I, this was lacking during most of the project period.

> *The evaluation concludes that monitoring needs to be done in a more comprehensive manner, and that it should be used more effectively to ensure performance.*

Post-BIFSA I, the management has hired an additional staff person at the regional office in Senegal to ensure higher quality data from MFIs. This is still a work in progress since as of December 2008, the data from FSPs were uneven in their quality. There is also a need for additional prudential indicators such as those being provided to central banks to ensure adequate risk management.

Recommendation:
- Investment committees should take into account other funds that participating FSPs are receiving from other donors and external sources in the approval process.

2.1.5 Impact of the Investments

> *The evaluation concludes that there were mixed results from the investments.*

As mentioned earlier, not enough of the investments were done from the viewpoint of additionality. In general, the investments did not contribute to product innovation or reaching poorer clientele.

Recommendations:
- Ensure that additionality is used by the Investment Committees to assess investments.
- Consider the idea of creating an innovation matching grant fund at the regional level, which will provide support for market studies, product development, pilot testing, and rollout of new and innovative products.

2.2 Meso Level: Improving the Quality of the Sector/Building a Sound IF Sector

As part of its mission to build inclusive financial sectors, UNCDF intended to use BIFSA to improve the quality of the sector at the meso level. The BIFSA initiative at meso level involved the strengthening of microfinance associations, providing information and training to the entire sector, and building or strengthening training institutes, technical assistance (TA) providers, and audit firms.

2.2.1 New Product Development

The evaluation concludes that while potential exists, there were a limited number of activities in new product development.

UNCDF's mission with BIFSA was to expand its focus from retail microfinance to inclusive finance. One of the objectives to support this mission was to broaden and deepen the sector.

The issue of deepening was discussed above in relation to support to promising FSPs. This section deals with new product development.

New products and services include new ways of service delivery, or new to the targeted clientele. In microfinance, examples of new products and services include flexible savings products, health insurance, long term financing, remittance and pensions, payment services, business development services, etc. New product development involves supporting the MFIs in creating and offering client-focused products and services developed through action research. In Togo, for example, there is a limited supply of different types of loan and savings products, even by much older FSPs who have had the time to develop them. Some MFIs and savings and loans associations have almost no medium term savings products which would give them a greater access to medium-term funds for lending to avoid a maturity mismatch. There has been some new product development, but not by the BIFSA project: a lot of 1st and 2nd tier MFIs and savings and loan associations have money transfer businesses and the "*supertontin*" product. In Madagascar, UNDP promoted and financed Credit with Education within credit unions. The sustainability of this product is still uncertain, specifically in rural areas.

Recommendations:

- Give priority to supporting the development of new products and services, especially savings and loan products applicable in rural areas and for the population segments (eg. youth, displaced and resettled populations) whose needs are still not covered by the current offerings
- Ensure that products promoted by UNCDF fit their context via market research before piloting and respond to a demand from FSPs.
- Consider the development of an innovation grant fund to provide funding for new products.
- Continue to support market studies, and build support for product design and testing.

2.2.2 Improving Quality of the Meso Sector

The evaluation concludes that activities aimed at improving the quality of the inclusive finance sector through meso level activities in the evaluation countries had mixed results among the study countries.

In Liberia, the project devoted considerable time to disseminating best practice inclusive finance concepts, and it was successful at raising the level of knowledge of many stakeholders on these concepts. Also in Liberia, during the early stages of BIFSA I, MFIs were suffering high staff losses due to poaching. A university MF training programme supported by UNCDF gave staff-constrained MFIs new interns and staff. In Madagascar, training has concentrated on national coordination and UNDP staff, but not enough on FSPs. In Senegal, although UNCDF has promised training materials and tools, these have not yet been provided, and there are complaints from some stakeholders interviewed for this study. In Togo, one stakeholder said that the CGAP modules that were provided were too theoretical. Stakeholders interviewed expressed an urgent need to receive career training and capacity building. There appears to be a demand to develop a strategy and budget to deal with the influx of new members of Association Professionnelle des Institutions de Microfinance du Togo (APIM) who need training, and to develop high-level professional training for the sector, preferably in partnership with the Togolese Bank Training Center. There are encouraging initiatives from the local MIS software providers and audit firms. There is large unmet demand for microfinance career training, adapted to the demands of the different levels of MFIs. In Togo, FSPs need training on programme indicators and delinquency control. National associations (Madagascar, Liberia) need help with their sustainability strategies, which should include training in conducting adequate market assessments and developing their business plans.

Recommendations:

- Provide high quality professional staff training for MF practitioners in management, governance, human resources, product development, internal control and other practical and relevant topics via BIFSA II. Encourage private sector actors and private sector partnerships, such as the one initiated by APIM with the profitable Togolese Bank Training Center, and adapt the training to country and regional contexts.
- Ensure that associations are supported with capacity building activities, business and strategic planning, fundraising, and small grants tied to performance indicators to ensure that these organizations are effectively meeting members' needs on key issues and are sustainable in the medium term (Liberia, Madagascar, Senegal).
- Increase UNCDF internal capacity to assess and to carry out adequate market and feasibility analysis at the country and regional level to ensure that initiatives that it plans to support have a reasonable chance of become self-sustaining with adequate national outreach in the medium term.
- Develop ways to extend regional and national access to low-cost training for FSPs and other IF actors. Provide training of trainers and technological tools (web-based). Provide tools and materials as promised by project staff, and ensure that these are practical rather than theoretical.
- Train FSPs, especially in delinquency control, risk management, financial indicators and compliance with new legal and regulatory environments.

2.3 Macro Level: Improving Government Capacity

The evaluation concludes that the project units in evaluation countries have made considerable effort to build government capacity to coordinate the sector, but uncertainty remains on the sustainability of the results.

In Liberia, our interviews revealed that the government knowledge of best practice IF has improved significantly. Government (the Central Bank and various ministries) has been involved in developing a national IF strategy and action plan, now in draft form and awaiting government ratification. There is no assurance that the government will ratify the plan. In terms of the regulatory environment, this has improved slightly due to some new guidance issued by the Central Bank on commercial microfinance due in part to the involvement of an IFC consultant and not due to BIFSA. In Togo, project activities led to positive improvements with CAS-IMEC performance and its ability to supervise the sector. However, results are likely to be unsustainable because the additional supervision provided by the "UN volunteers" was not integrated into the Togolese civil service. The Togolese government has not ensured adequate financing for CAS-IMEC to retain high-quality staff, and staff turnover is a significant issue. In Madagascar, the government has approved the national strategy and its action plan. It has implemented a national coordination unit, the Coordination Nationale de la Microfinance (CNMF), within the Ministry of Finance, which is supported by the IF program. An organizational study was conducted to recommend how to make it more effective. Staff has been recruited to reinforce the CNMF. But, clear commitment from the government is still needed for the sector's development through responsibility and autonomy given to the coordination unit.

Recommendations:

- Establish Memorandums of Understanding (MOUs) with government agencies to ensure commitment.
- Focus project activities on areas where UNCDF has comparative advantages for building government capacity (which may be in policy area)
- Partner with other stakeholders to provide capacity building support to governments
- Realistically assess government's budgetary capacity to continuing activities after project ends.

3. Has UNCDF been effective as a facilitator to build an inclusive financial sector in the region?

This section deals with the third key question of the BIFSA evaluation: the facilitation role. The definition of the facilitator role is a complex one. For the purposes of this evaluation, the "facilitator role" framework was conceptualized as shown in the following table:

Table 1 Facilitation Role Framework

Level	Phases	Stakeholders	Processes	Expected Results
Regional/programme	On-going/general	Regional office staff, NY staff, Donors	Building consensus; Convening; Mobilization of resources; Dissemination of Best Practices; Setting Industry Standards	Consensus on strategies and approaches; New funding; Improving Sectors and Practices; Monitoring and Evaluation
Regional/programme	Start-up	Regional office staff, NY-HQ staff, Donors, Governments	Building consensus; Diagnostics	A comprehensive diagnostic of the sector; A plan for developing the sector; A vision on a national

				strategy and policy
Country/programme	Implementation	Project Staff Regional and NY staff, Governments, Co-donors, Private Sector, IF practitioners and providers	Convening Donor Roundtable; Meetings with donors; Developing a plan for the sector; Building consensus for a national plan; Improving the regulatory environment; Supporting micro and meso level actors; Building government capacity for supervision;	National Plan; More funding; Involvement of the private sector; A better regulatory environment and supervision; Stronger actors; Coherence in approach among donors

This is a very comprehensive framework, and it was beyond the scope of this evaluation to assess the effectiveness of all of these elements of the framework. The evaluation however looked at two key components out of the framework: building consensus and raising funds.

The evaluation concludes that facilitation role of UNCDF in building inclusive financial sectors needs clarity in terms of strategies, activities, and desired outcomes. This needs to be specifically addressed in BIFSA II.

3.1 Building Consensus

Activities aimed at building consensus were sometimes “one-off” events, such as donor roundtables. At other times they were ongoing activities, such as convening national task forces for developing national strategy papers.

In general in the evaluation countries, the activities were appropriate, and the outputs solid. In Madagascar, UNCDF has contributed to building a shared vision of the sector and the expected role of different stakeholders. The BIFSA programme has played a facilitating role in helping MFIs to comply with the new legal and regulatory framework. In Togo, the donor facilitation process did not take place because the project was funded entirely by UNCDF and UNDP. The UNDP country director provided strong support to moving the project forward with the government. However, when new and more donors enter Togo in the future, the unit needs to develop a clear facilitation role to ensure results.

The expected outcomes of the activities were too broad and ambitious for the time period of BIFSA I. The focus on achieving a national IF strategy and action plan seems too ambitious and overly prescriptive, i.e. it may not be the best use of the project’s time and resources to build a national IF strategy and action plan, if this will not be carried out by the government. The diagnostics used appear too descriptive and not analytical enough, and are weak on assessments of challenges at meso and macro levels. This was noted especially in cases where the project Country technical Advisors (CTA) was hired late (e.g. Liberia, Madagascar). In Liberia, consensus was achieved in the formulation of a national strategy and action plan, but this has been in draft form for nearly two years (since July 2007), and does not seem to be a government priority for ratification. The project start-up documents had envisioned this being approved by January 2006.

There is a mismatch between stated objectives and perceptions on UNCDF's facilitation role in Senegal. Some issues have surfaced with donors that will need to be addressed in the future.[4] Particularly for some co-donors in Senegal in the BIFSA project, UNCDF is perceived to be functioning like the leader rather than the facilitator, despite its limited resources compared to major donors. As a result, facilitation has not worked well in Senegal where there is a very large donor presence. Some stakeholders feel that there are too many non-productive meetings and that the large stakeholders mainly ignore the consensus.

There appears to be no systematic mechanism for regularly capturing feedback about the facilitation process in each country. In general, more peer and stakeholder feedback is needed during early implementation stages to quickly reengineer the projects well. While UNCDF is to be commended for expanding peer reviews and exercises such as CGAP's Smart Aid Index done at the end of 2007 and in early 2009, there was a need for a more formal review of the programme including feedback from national level partners, other key stakeholders, and a review of market conditions prior to the start of BIFSA II. The evaluation team captured much feedback from donor and government stakeholders that the Country Technical Advisors should be capturing and channeling to the regional offices and HQ, but a mechanism is lacking for on-going feedback. This feedback is essential for quality control and for adaptation to local contexts. The feedback could have helped in getting government buy-in, clarifying credit committee roles and responsibilities, stimulating fundraising and ensuring common objectives for the programme.

Recommendations:
- Establish a mechanism to gather feedback from co-donors and other actors so that implementation of the project is not jeopardized. This could be an indicator with a survey that is taken once per year, or it could happen through roundtables of stakeholders (project and non-project) in the sector.
- Ensure before the project starts up, that the facilitation /coordinator role being prepared for the government is realistic and sustainable, given the governments' limited human and financial resources. This could be done through a feasibility and market study with five year projections and scenario analysis based upon key risks.
- Adjust UNCDF's facilitation role based upon each country's characteristics and on the role that UNCDF sees itself playing in the sector, and ensure that facilitation is a team effort with other stake holders from the start, beginning with the diagnostics and going beyond. In doing so, goals for changes to the macro sector should be realistic and within the project timeframe.
- Create more flexiblity about the final result, which is currently a national consensus and a government strategy paper.

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4 These issues were gathered during interviews with donors, and represent their perceptions rather than facts *per se*. The evaluation team treats these perceptions and opinions as facts, since they influence the relationship between UNCDF and the donor, and may have a negative impact on programme implementation. The team has withheld the names of these interviewees in respect for the confidentiality promised to freely express the donors' opinions.

- Ensure balanced support between the government and the private sector. The programme may want to sign MOUs with government entities that state responsibilities and performance indicators for each partner. In the event that there is no compliance or that government does not consider the initiatives to be a priority, UNCDF may consider shifting funds to private sector initiatives.
- Develop pragmatic responses sufficient to put off a project or significantly readjust the overall approach if a critical mass of donor support is not realized.
- Consider following options to focus existing UNCDF funds or expand programme funds: i.) Reduce the number of countries to work to increase the funding that is available for each country; ii.) Mobilize additional resources for country-level projects outside those already available in country; iii.) Create a matching grant regional continent-wide facility to further leverage UNCDF/UNDP funds.

3.2 Raising Funds

One of UNCDF's goals for BIFSA was to leverage additional donor funds, partly through its facilitation role, and partly through the establishment of investment committees made up of donors (voting) and government representatives (non-voting) in BIFSA countries, whose role was to identify investment opportunities in promising MFIs.

The evaluation concludes that collaboration with other donors has not occurred to the extent envisioned, and fundraising for in-country programmes has consequently suffered.

Currently fundraising is being done at the country, regional and headquarters level, without clear division of responsibility, and not very effectively. Some countries (Liberia) did not receive sufficient funding necessary for their ambitious workplan. Madagascar did not use much of its operations money, but lacked adequate credit funds and capacity building grants. For both countries, lack of funds affected MFIs' abilities to scale up, project units' ability to fulfill their goals, and investment committee cohesion. In Togo, no efforts were made to attract other donor resources outside of the Roundtable. There was some success in Senegal: gaining a national consensus and a governmental letter has had some impact on donors' willingness to be involved in the sector. While there are large amounts of donor funding available to feed into the BIFSA programme in Senegal, many large donors are hesitant to invest in UNCDF project fund and are looking for solutions outside of project investment funds.

Recommendations:

- Clarify the role that the country and regional offices and HQ should play in cases like Liberia and Madagascar where funding levels are inadequate.
- Revise and simplify the sector process approach to better attract donor and private sector support and funds.
- Conduct market studies in coordination with other donors to identify funding requirements and put into place a fund structure with an explicit exit plan.
- Revise the funding strategy for BIFSA II and ensure that funding is in line with revised strategic goals, adequate and streamlined systems and sufficient staff capacity.
- Look into other options to realize appropriate funding levels. This could include maintaining a more flexible investment committee for smaller capacity-building grants[5] and smaller credits to the 2nd and 3rd tiers to bring them up to commercial specifications while outsourcing medium to large amounts to a private autonomous

[5] At the FSPs, meso and macro levels.

fund with professional management that can attract both donors and private sector participants.
- Explore/expand regional and country level staff roles in helping FSPs to network alternative funding sources.
- Update and finalize the credit manual. Streamline the procedures and ensure that FSPs receive their funds in a timely manner.

3.3 The Investment Committee (IC) as a Mechanism for Raising Funds

The IC mechanism was supposed to attract new donors due to the leveraging potential and the transparency of the process.

The evaluation concludes that the investment committee mechanism for increasing fundraising was not effective in the evaluation countries.

In Liberia, it was not clear whether donors appreciate the IC mechanism and would be willing to participate. Those donors who are very recently exploring the idea of microfinance seem to be more interested in the expertise of the project staff, rather than the IC itself. CORDAID appreciated the mechanism but was not satisfied with the poor communications. Progress reports were not delivered to CORDAID and its requests regarding meeting logistics were not honored. A private sector investor in Liberia expressed that it was easier to make investment decisions by himself. KfW found the investment committee to be cumbersome and time-consuming, and the qualifications of the partners to make decisions to be questionable. In Madagascar, the investment committee did not carry out the financial analysis (it was done by project staff), and appeared to be playing a passive role in investment approvals. In Senegal, large donors are generally not willing to place their funds in a multi-lateral project level fund. They are looking for professionally run funds with a timeframe that is not linked to the project cycle.

Recommendations (Investment Committees):
- Survey potential co-donors to see if the IC mechanism remains attractive.
- Pursue a private sector approach where UNCDF is participating in regional funds or country funds that provide longer term access to funds and which can better attract other donors
- Develop a guide for the investment committee for guiding investments, if not already done.
- Re-assess the functioning of the Investment Committee and improve procedures.
- Improve communications with members outside the country.

In addition, for clarifying facilitation roles and expected outcomes and impact, UNCDF could develop an analytical tool to identify facilitation "gaps", and then build a consensus to address these gaps.

4. Has the decentralized approach using regional offices to provide quality and timely assistance to the project countries been successful?

The evaluation concludes that the decentralized approach, using regional offices in Dakar and Johannesburg to provide quality and timely assistance to the project countries, and technical assistance to UNDP, is important and is a work-in-progress.

The regional offices in Dakar and Johannesburg were established to help with expansion of BIFSA into new countries, to provide support to existing BIFSA programmes in countries, and to provide technical assistance to UNDP microfinance programmes on the African continent.

The decentralization of UNCDF HQ functions to two regional offices was important in achieving the growth in the number of BIFSA countries. The goal now should be to improve their capacity to address issues that are surfacing in BIFSA countries, and to ensure that UNDP is satisfied with services provided by regional office staff.

The evaluations of the regional offices find that:

- There is an adequate number of personnel in each office, but many are new, and many are overworked.
- Staff lacks the full range of skills for implementing BIFSA, especially in the meso and macro level areas. There is no formal staff training programme for addressing this.
- There is some concern about the overlap of roles of the Portfolio Technical Managers and the Country Resident Advisors. The two positions are at the same salary and responsibility levels. UNCDF management has taken some steps to rectify this problem in 2009. Regional offices and HQ management will need to adequately monitor this situation in 2009 and make necessary adjustments.
- Regional office staff devoted a good amount of time for start up of BIFSA programmes in new countries, but were less involved in providing assistance to existing BIFSA countries. This created problems with funding adequacy, disbursements and reconciliation of funds, among other things.
- Regional office staff have excellent MF technical skills, good meso level skills, but are weak in macro level skills.
- In Liberia, there was little interaction between the CTA and the respective regional office for a variety of reasons, and the regional offices are seen as collectors of information rather than providers of funding or technical assistance.
- Disbursements, procurements, and reconciliation were problematic in Togo. There have been significant delays in procurement, payment for services and advances on expenses such as for participation in training activities
- There is not enough regional office support for fundraising for BIFSA country projects.
- The regional staff has found it difficult to hire top consultants in the subject matter, particularly at the macro level, because they are not readily available.
- Regional and country BIFSA staff lack expertise in building profitable private sector meso level entities.
- It was difficult to evaluate the effectiveness of the work of the PTMs because their reporting formats do not give that information.
- Managing turnover of key staff and sudden growth of staff at the end of the project was challenging.

Recommendations:

- Ensure a sufficient number of staff with appropriate skills to handle all BIFSA programme activities (recruitment has been ongoing since 2007).
- Hire and/or train staff in the full range of skills for implementing BIFSA. Build staff capacity in business plan analysis for meso level actors, consensus-building, understanding regulatory environments for commercial microfinance, supporting product development and testing. Develop a formal staff training programme for addressing capacity gaps.
- Continue to build partnerships with other donors such as CGAP for filling capacity gaps.
- Ensure that technical assistance, backstopping, and administrative support are provided to existing BIFSA countries. Make adequate visits to BIFSA countries to ensure quality control.
- Build regional managers' management skills to improve systems for monitoring staff performance. Improve reporting formats to capture outputs and outcomes of the work of PTMs.
- Continue to clarify the roles of Portfolio Technical Managers and the Country Resident Advisors. (UNCDF management has taken some steps to rectify this problem in 2009. Regional and HQ and HQ management will need to adequately monitor this situation in 2009 and make necessary adjustments.)
- Provide regional offices with real time access to reimbursement information made to UNDP's account in NYC.
- Set up policies and procedures for managing the loans in the BIFSA portfolio.
- Develop a simplified set of policies and procedures for financial and administrative management at the regional office level.
- Hold two regional conferences/workshops with key stakeholders mid-year or in the third quarter so that staff and the managers can better assess how they are doing on a regional basis.
- Create realistic plans for regional staff and consultants and ensure that new partnerships are properly managed so that regional staff can adequately carry out the roles that they have been assigned to avoid creating an atmosphere in which the boxes get checked but the real results are not there.

5. Is UNCDF's monitoring system able to track outputs to understand results that are associated with the inclusive finance approach?

The findings in this section are based on examining the monitoring of country-level project activities, and on regional office reporting, both of activities and staff performance.

The evaluation concludes that, in all countries, country staff have put in place standard best practice FSP indicators for monitoring FSPs that are funded by the project. But, reporting and use of data on those indicators was weak.

The collection, quality, and use of data from the FSPs was very weak during BIFSA I and continues to be a problem in 2008. For example, in statistics for the West and Central Africa (WCA) region for June 2008, the majority of the FSPs have missing or questionable data on the indicators that are being tracked by the project, including portfolio at risk data. The timeliness and quality of statistics provided to regional offices has also been very uneven.

The project has taken a number of positive steps with the help of CGAP, including i) fine tuning indicators, ii) creating Excel sheets in 2008 that help automate some of the calculations based on the MIX Market indicators, iii) creation of a guide, post-BIFSA I, to help the portfolio managers to better carry out their role as portfolio managers, and iv) delegating a regional point person to work on improving indicator quality. Much work still remains:

- For the meso and macro levels, indicators are weak.
- There are no indicators for monitoring technical assistance to UNDP country microfinance programmes in the BIFSA project documents.
- Indicators for adequately monitoring risks of investments are missing.
- There are a limited number of outcome indicators and targets for projects in-country. For example, the project in-country may promote meetings between Central Bankers and MFIs. The outputs are the number of meetings, or the number of participants who met. The desired outcome, depending on the purpose of the meeting, might be "improved understanding of MF by Central Bankers". A tool, such as a questionnaire, would be used to determine if the result has been achieved.

Recommendations:

- Develop or **improve** indicators that cover: i.) key prudential norms (capital adequacy, liquidity, and portfolio aging reports), ii.) portfolio quality targets and risk, iii.) outreach (iv.) new product development/use.
- Continue to work with CGAP to develop indicators for the macro and meso levels that better measure outcome and impact rather than just outputs. Indicators need to be progressive rather than absolute. If possible, also take a pro-active and leading stand in suggesting meso and macro level indicators to set industry standards.
- Develop indicators for on-going risk assessment for investments in FSPs (some possibilities include monitoring FSPs on a quarterly basis for external funds use and setting up realistic growth ceilings). UNCDF might develop some standardized criteria for evaluating the risk of its investments, such as: for investments greater than US $250,000 in any single institution, the institution must report quarterly using the CAMEL indicators.
- Develop indicators for monitoring TA to UNDP and other UN agency country microfinance programmes.
- Encourage FSP management and staff to attend workshops on the indicators and their use to better manage their FSPs.
- Ensure that indicators of performance and impact exist for other project outputs besides the credit portfolio, such as strengthening MF associations. A performance indicator for this activity might be "meets the needs of its members", measured by a member survey. An impact indicator might be "members' OSS is improved".

6. How satisfactory is UNCDF's Technical Assistance (TA) to UNDP microfinance country programmes?

This was an area that could not be treated with the depth that it warrants during this evaluation period. Evaluators made an effort to assess satisfaction by using an electronic survey of UNDP offices in Africa, but the response rate was very low.

The evaluation concludes that a monitoring system for evaluating UNDP satisfaction with UNCDF TA does not exist. There were no objectives, indicators or targets for this activity. In addition, there is no standardized system for giving UNDP feedback on UNCDF's satisfaction with its partnering activities.

In Liberia, UNDP was quite satisfied with the funds that it had invested in the BIFSA project, and commented that the project's activities were seen as "best value for money" (small with high impact). One potential issue in Liberia, however, is that UN donors other than UNDP are now becoming interested in microfinance (since the reconstruction phase is over) and are looking to the project unit for advice. Their requests for TA may overwhelm the project unit.

In Senegal, UNCDF needs to better guide UNDP in the allocation of its resources, in order to have a useful impact and not duplicate the existing donor activities at the investment and the coordination levels. In Togo, the partnership between the BIFSA regional office and the country project needs to be improved, particularly with regards to training on indicators, proper use and adjustments/additions of new indicators, clear rules concerning guarantee funds rules and responsibilities including clarification of FSP liability, contract enforcement, and exit financing for the MFI Wages (recently renewed). In Madagascar, UNDP has not internalized the IF approach promoted by BIFSA, and it is still not implementing best practice MF.

Recommendations:

- Put into place a new system for monitoring and reporting on UNDP satisfaction with UNCDF technical assistance on a quarterly basis.
- Add an objective, indicators and targets to performance frameworks for country and regional office staff for TA to UNDP.

7. Cross-Cutting Issues

Several cross-cutting issues such as sustainability, exit strategies and diagnostics were also addressed by the evaluation team. This section discusses the findings and recommendations on those issues.

7.1 Sustainability of Results and Exit Strategy

The evaluation concludes that in order to ensure the sustainability of the results of its activities geared toward strengthening the sector, UNCDF needs to clarify its exit strategy in the countries of investments.

In Liberia, Togo and Senegal, for investments in FSPs, a clearly spelled out strategy for reducing FSP dependence on UNCDF funds by ensuring their sustainability is missing. There seems to be little proactive stance on ending BIFSA programmes in evaluation countries. The goal of "an inclusive financial sector" is almost elusive, and UNCDF needs to be clear about what aspects of the sector it can reasonably influence during the project time periods, and set goals accordingly.

7.1.1 Sustainability of Results

In Madagascar, sustainability of FSPs after grants are withdrawn seems certain. Grant funds have contributed to the expansion of MFIs and the improvement of their MIS. Loans have repayment schedules that allow MFIs to plan their additional fundraising. None of the FSPs funded is in a dependency relationship with UNCDF. In Liberia, the two non-commercial MFIs supported by the project have made great strides towards becoming sustainable. But, they need more funds to reach breakeven, and the availability of more funding is uncertain, from the BIFSA project or from other sources. Once they reach breakeven, a plan for gradually phasing out project support and replacing it with commercial sources would be appropriate.

In Senegal, to create additionality, loan funds and grants should go to smaller FSPs and rural FSPs that have difficulties accessing credit funds from the private sector, and not to the sector's largest FSPs which can already access funds from a variety of sources. The largest players are already sustainable; the issue in the coming years is how to mitigate the effects of the new microfinance law on rural areas' financial inclusion and whether the multiple smaller FSPs will be able to regroup and survive in the short to medium term.[6]

In Togo, the sustainability of results at the CAS-IMEC in the medium term is unclear because staff have not been hired. There is very weak buy-in from government, which has not integrated the UN volunteers who were involved in the project into the civil service and is not paying competitive salaries, which results in a very high turnover of auditors. Also in Togo, the microfinance association APIM is currently profitable but their business plan is not realistic in the medium term. APIM's ability to provide professional training programs in partnership with the Togolese Banking Center will be key to reach sustainability, along with the ability to carry out adequate feasibility studies, including realistic market studies for new services. APIM's decentralization strategy to better reach and provide services to its growing membership base will also affect sustainability. More work is needed in adjusting the FSP software installation programme and extending the financing of quality audits and training by private sector audits firms.

Recommendations:
- Create a clear strategy for ending financial support to FSPs (and other entities funded) within a reasonable amount of time. This should be spelled out in performance contracts with FSPs, monitored, and enforced.
- Ensure no funds go to organizations that do not have a viable business plan.
- Support training for business plan preparation.
- Assist qualifying FSPs to access funds (grants/loans) from other non-BIFSA donors.
- Ensure that FSPs move toward accessing hard loans as they become more financially sustainable.
- Build the private sector national and regional meso level and encourage partnerships with national associations to provide support for the micro level, post-BIFSA.
- Consider ending or phase out BIFSA activities when the private sector begins to support the inclusive financial sector; evaluate this option in terms of opportunity costs (such as

[6] The changes in the PARMEC law will have an important impact on the sector. These changes include : i) A unique licensing agreement with all actors, allowing the formation of limited liability companies (LLBs), ii) Encouraging the consolidation of savings and loan networks, iii) Increasing the BCEAO's responsibilities for giving their non-objection on all licenses issued at the national level iv) Increased BCEAO involvement in the supervision of the larger MFIs and savings and loan networks, v) Requiring that village banks register and consolidate as savings and credit unions or close their doors. All of these changes present challenges to FSPs, especially to the smaller ones.

needs in other countries). If the BIFSA programme remains, ensure that it focuses on additionality.

7.1.2 Exit from Projects and Post-Project Sustainability

The evaluation concludes that there is little proactive stance on ending BIFSA projects in evaluation countries.

In Madagascar, the efforts made in building capacity of the CNMF and the programme of transferring competencies between UNDP and UNCDF technical assistance and CNMF staff is an element of an exit strategy. However, a progressive withdrawal of the technical assistance still needs to be formalized. The government has approved the national strategy and its action plan, and implemented a national coordination within the Ministry of Finance, which is supported by the IF program. An organizational study has been conducted in order to recommend how to make it more effective, with staff recruited to reinforce the CNMF. A clear commitment from the government for sector development is still needed to complete the task. In Senegal, there is no clear exit strategy for ending the programme. There is a significant danger that the massive external donor resources to the microfinance office are creating a "donor mentality". The many programs supported by multiple donors may not be sustainable in the medium term, when donor financing ends.

Overall, the goal of "an inclusive financial sector" is elusive. It would be useful to have achievable objectives for ending a project in country, regardless of whether funding is still available for that project. This goal should be related to the amount of private sector participation in the inclusive financial sector.

Recommendations:
- Develop clear exit strategies and communicate them from the beginning of each project to all stakeholders and staff.
- Ensure that all actors and staff understand that BIFSA is not a permanent programme, but is there as a catalyst to ensure development of a viable inclusive financial sector.
- Consider ending or phasing out BIFSA activities when the private sector begins to support the inclusive financial sector; evaluate this option in terms of opportunity costs (such as needs in other countries). If the BIFSA programme remains, ensure that it focuses on additionality.
- Continue to investigate the possibility of establishing professionally managed funds at the national and regional level.
- Continue to transfer competencies to the partners supported by the project.
- Develop achievable objectives for ending a project in country, and for handing off further responsibilities to governments.
- Support the meso level actors to create a sustainable meso level, post-project.

7.2 The Pre-Project Diagnostic

The evaluation team was asked to comment on the accuracy and the comprehensiveness of the planning diagnostic tool.

The evaluation concludes that the diagnostic tool is overly prescriptive, weak on assessing the challenges at the meso and macro level, and overly optimistic.

In Liberia, the diagnostic was accurate, but did not adequately describe the challenges to creating a regulatory environment for commercial microfinance. The project did not have activities to address this issue, but during the project time period the regulations for commercial microfinance operations have changed slightly. Commercial MF providers are appealing to the government for clarity on a number of issues. In Senegal, stakeholders felt that it was too descriptive and did not adequately address sector issues. In Togo, the diagnostic was very comprehensive in describing the sector. However, it underestimated challenges to getting the new law passed. It did not address how issues with CAS-IMEC would be resolved on a sustainable basis. There was inadequate analysis of potential partnerships with banks and external funding sources, and strategies for dealing with the rural areas where the majority of poor lives. In Madagascar, the diagnostic needed more focus on the obstacles to support to the meso and macro level actors and their projected level of involvement in the MF sector.

Recommendations:

- Improve the diagnostic tool by adding further categories of information, and by making it more of a tool in strategic planning. An example of a revised tool is found in Annex E.
- Train regional and country level staff in assessing financial sector needs more comprehensively, or hire experienced consultants to do so.
- Use the tool with other stakeholders to build consensus around the strategy for building an inclusive finance sector, and to divide responsibilities with stakeholders according to resources and comparative advantages.
- Consider using the tool analytically, to establish a baseline, and then evaluate progress against the baseline.

III. Conclusions

The change in strategy to build inclusive financial sectors was appropriate and in line with current trends in improving financial access for the poor and excluded in developing countries. UNCDF is especially to be congratulated on being one of the few development donors to work on building inclusive financial sectors in the least-developed countries, and the post-conflict countries, in Africa.

UNCDF has broadened its approach to include more levels and more actors in the financial sector and is making efforts to support activities and institutions that will contribute to increasing low income people's access to financial services. There are design and implementation issues to be resolved, but overall the strategic change in focus is appropriate.

The implementation of the new strategy was a gigantic undertaking. With BIFSA I, UNCDF/UNDP sought to implement a major change, from its former focus on strengthening retail microfinance institutions at the micro level of financial sectors, to adoption of a sector approach with interventions at the micro, meso and macro levels in an expanded number of countries. The new strategy necessitated, at the organizational level, creation and staffing of a decentralized management structure in Africa. The change in strategy, along with the creation of the two regional offices, was valid and appropriate. But, implementing the strategy and ensuring adequate management systems and guidance for staff has been weak. At this point in time, management, in particular at HQ but also at the regional level, needs to focus time and funding on efforts that have a direct impact on programme quality and challenges at the regional and country.

UNCDF has succeeded in some aspects of its programme and achieved partial success in other areas. Successes have occurred in terms of the number of countries instituting a BIFSA programme, the existence of two regional hubs, and the accomplishment of many targets. However, the strategy was complex to implement, given the challenging environment in Africa at that time. The limiting factors included adequate funding not materializing on time, additional donors not supporting the initiative to the extent envisioned, and systems and management that needed reinforcement since staff were working on several countries with many actors at various levels of the financial sector. As a result, UNCDF activities in BIFSA countries were focused primarily at the micro level, which was appropriate in some contexts (such as post-conflict countries), but not in others. The sector diagnostic in the planning stage was assessed by this evaluation to be weak at the meso and macro levels. It was also unclear whether all country programmes under BIFSA were effectively serving poorer clients and those in rural areas particularly. In Togo, the majority of loan funds have gone to one FSP, and two of the three recipients are primarily capital city-based FSPs. In Senegal, the credit committee does not have the necessary mechanisms to adequately encourage and service demand from rural areas. As a result, funds go to the largest FSPs which do not appear to need the money and may not add much value at the margin for UNCDF capital.

UNCDF needs to fully assess the opportunity costs of investments it makes in one country versus another, or within countries, determine the most important initiatives and if funds are most efficiently allocated among alternative initiatives. As an example, in Senegal, UNCDF has co-financed support to the microfinance office while there are now two additional projects who are creating their own support projects with the same office. This perhaps points to a lack of coordination with the government programme. In the future, UNCDF money could be better placed into capacity building grants and credit for smaller FSPs in rural areas and/or the creation of appropriate training materials and tools for the sector.

UNCDF is aware of many of the concerns raised in this evaluation regarding capacity building, new product development and monitoring indicators, and has taken action since 2008 to rectify many of the problems. For example, fine tuning monitoring indicators, strengthening staff skills by sending them to training programs, initiating talks with FSPs piloting new products such as savings and insurance, conducting SWOT analysis during staff retreats to identify partners to work with and to rectify the weaknesses are concrete steps taken to improve the programme. Future evaluations of BIFSA should consider assessing the effectiveness of these activities in terms of results.

The changes that UNCDF embarked upon in 2004, were timely but, nonetheless, were probably overly ambitious given the enormous challenges in ever-changing financial sector environments in a large number of countries on a continent known for its changing contexts. While UNCDF has succeeded in many aspects, the results of this evaluation indicate that UNCDF should now focus in designing more context-specific programmes where UNCDF has a clear comparative advantage and can create additionality in reaching vulnerable populations without crowding out the private sector. In doing so, pragmatic and flexible approaches are called for to work effectively with the stakeholders recognizing and utilizing their strengths.

Annex A: The Evaluation Approach

Evaluation team
The composition of the evaluation team can be seen in Annex Table 1 below:

Annex Table 1: Evaluation Team Composition

Evaluation Package	Dr. Geetha Nagarajan – Evaluation Advisor and Director
BIFSA Regional Programme (Mid-term) Senegal: Nov. 27 to Dec. 5, 2008 South Africa: Jan. 27 to Jan. 30, 2009	Graham Owen - Team Leader for Senegal. Georges Kouassi – Regional Team Member for Senegal Nathalie Assouline- Team Leader for South Africa
Togo Case Study (Final) Dec. 8 to Dec. 19, 2008	Graham Owen – Team Leader Georges Kouassi – Regional Team Member Noufo Yaba Ouadja Napo –Local Team Member Mauril Kokou Koudoha – Local Team Member
Madagascar Case Study (Mid-term) Jan. 12 to 27, 2009	Nathalie Assouline - Team Leader Charlot Razaharivelo – Local Team Member Dina Randrianasolo – Local Team Member
Liberia Case Study (Final) Nov. 24 to Dec. 6, 2008	Joan Hall – Team Leader Joyce Manu – Regional Team Member Foley Freeman – Local Team Member

Phases of the Evaluation

The evaluation was conducted in two phases (see Annex Table 2 below).

The first phase ran from October to November of 2008, prior to the site visits to familiarize the consultants with the project, project staff and work on the logistics. During this phase, document reviews, phone and electronic mail conversations were helpful.

The second phase of the evaluation involved site visits between November 2008 – January 2009 to gather information primarily through interviews conducted during on-site visits in Senegal, South Africa, Liberia, Togo and Madagascar. Site visits were deemed essential since important information on accountability and learning can only be obtained by verifying outcomes and interaction between various stakeholders in person. Furthermore, verifying accountability required confidential information that is easier to obtain when good rapport is built between the evaluators and the organization. Also, the evaluation process was flexible and adjustments were made to incorporate field realities.7 A limited number of interviews

[7] For example, examining the technical assistance from the BIFSA regional offices to the UNDP Senegal country programme was done upon request from the regional office in Senegal even though Senegal country programme is not part of the TOR for this evaluation.

were conducted by phone and electronic mail with only BIFSA staff as a follow up after the site visits.

Annex Table 2: Evaluation Phases and Related Activities

PHASES	**ACTIVITIES**

Phase I: Inception Stage
Conducted prior to country visits
October 2008
	- *Desk reviews of published and unpublished documents*
	  - Familiarized with BIFSA programme and operations
	  - Identify who the key stakeholders are for interviewing
	- *Email and telephone consultations with UNCDF and UNDP staff*
	  - Consulted with UNCDF and UNDP staff on defining and planning evaluation activities
	  - Consulted with UNCDF and country offices to prepare for field visits
	- *Drafting the inception report*
	  - Wrote Evaluation TOR
	  - Wrote Evaluation Guidelines containing approach, evaluation methodology, core questions and tools to use relating to evaluation of UNCDF's Inclusive Finance programmes and projects.
	  - Wrote workplans and logistical details for conduct of evaluations.

Phase II: In-country Visits *(for regional and country visits)* *Liberia:* Nov. 24 to Dec. 6, 2008 *Togo:* Dec. 8 to Dec. 19, 2008 *Madagascar:* Jan. 12 to 27, 2009 *Senegal:* Nov. 27 to Dec. 5, 2008 *South Africa:* Jan. 27 to Jan. 30, 2009	- *Briefing with BIFSA* (*case study countries and regional)* - to discuss the terms of reference, the scope of the evaluation, the Evaluation Guidelines, and the schedule of activities and logistics. - *Key informant interviews (case study countries and regional)* - to learn about the relevance, effectiveness, and impacts of programme activities. - *Semi-structured interviews (in case study countries only)* – with individuals and small groups of MFI managers and employees to learn about the relevance, effectiveness, and impacts of programme activities, and challenges faced.
All information collected was triangulated from different sources to validate results. Consultants visited areas within the case study countries where significant programme activities took place, The criteria to choose these areas were done in consultation with UNCDF programme staff.	
Phase III: *Reporting and Learning* *Jan 2009 – April 2009*	- *Prepared an aide memoire* – to provide initial findings for each country evaluation at the end of the visit; - *Held an evaluation consultation meeting in the capital city of each case study country and for each region* - to discuss initial findings and to get input from stakeholders on findings and recommendations. Minutes of the meetings should be recorded. - *Prepared and provided Evaluation Unit with a first draft of Evaluation Report* - to summarize findings,

	develop conclusions, and derive lessons learned and recommendations for each of the region and case study countries. - *Held a global debriefing of the Synthesis Report at UNCDF headquarters in New York City*, after the draft Synthesis Report with findings, conclusions, and recommendations was reviewed by UNCDF and an external panel of five reviewers.

Annex B: Consolidated List of Interviewees

Liberia (Total Interviews: 49)

Kenyeh Barlay	UNCDF Technical Advisor in Liberia	Member of IC
Charles Nyema	Senior Economist, Ministry of Planning	Microfinance Unit, Working Group member, Member of IC
Boimah Kadii	Senior Analyst, Ministry of Finance	Microfinance Unit, Working Group Member
Kolli S. Tamba	Sr. Advisor Multilateral Projects	CBL Microfinance Unit, Member of IC
J.C.N. Howard	Sr. Analyst	CBL Microfinance Unit, Member of IC
Maria Threase-Keating	DRR/Programme	UNDP/Programme
Enamul Sarkar	Programme Manager	Liberty Finance
Francisco Pastoral	Executive Director	LEAP
Dr. William Saa Salifu	Vice President for Academic Affairs	Cuttington University
Joseph Sadyue	Professor	Business Dept., Cuttington Univ.
Dr. Breka	Dean Business School	Cuttington University
R. S Kawolo	Adm. Asst.	Cuttington University
Jacob Boimah	Country Head/Microfinance	Ecobank
Allan	ED	LEAD
D. Maxwell Kemayah	Microfinance Network of Liberia Chairman	
Prof. Geegbae A. Geegbae	Acting Dean/Business College	University of Liberia
Rev. Brown	LEAP Board of Directors	
Saad Karim	Country Director	American Refugee Committee
Mohammed Abdoul Salam	Country Manager BRAC	
Farhad	BRAC	
Richard Reeyah	Executive Director	LCUNA
Henry G. Valhmu	Consultant	LCUNA
Christoph Ziegler	LFS Financial Systems GmbH	Acting President, Access Bank

Mr. Francis A. Dennis	President	LBDI
Country Representative	UNIFEM	
Ben Matranga	Country Manager	OSIWA
Nyanfore Nimely	Nimely and Associates, Inc	and professor at Cuttington University
Saki	Liberty Branch Manager, Kakata	Kakata
Liberty Clients	Kakata - Kumba Bari, Gaima, Julius Flomo, Musu Reeves, Cecelia Quayquay	
Forkpa	Leap Kakata Branch Manager	
Leap Clients	Kakata - Cynthia Dehkpah, Jimmy Mulbah	
Olivaia Jones	Branch Manager (Monrovia)	Liberty MFI
Mosiah	Credit manager	Liberty
Sekou Beysolow	MIS Officer	Liberty
Mr Magnus Gayflor Sr.	Operation Director	Leap
Mr. Henry Gayflor	Finance director	Leap
Gabriel Jackson	HR Director	Leap
Jhon Manning	CHF-LEDFC	
William Freeman	IFC	
Tak and Katino	UNIFEM	
Honorable Varbah Gayflor	Minister	Ministry of Gender
Francis Dennis	Manager	LBDI
George Kolli	Assistant Programme Manager	Community Services, Ministry of Internal Affairs
Milton Weeks	Chair	Bankers' Association

Madagascar (Total interviews: 42)

Institution / organisme	Catégorie	NOM	FONCTION
APIFM	Association professionnelle	Saholy Janis RASOARIMALALA	SG
SOAHITA / AIM	Association professionnelle	Judith RATIARISON	Présidente

CSBF	Autorité de réglementation	Théodore Rakotondramanga	SG
CSBF	Autorité de réglementation	Emma ANDRIANASOLO	Directeur de la Microfinance
CSBF	Autorité de réglementation	Lalaina R	cadre
BOA Mcar	Banque	Jean Jacques CHUK HEN SHUN	
CNMF	CNMF	Francis Blaise RAJOELINA	Coordonnateur Nationale
SIPEM	IMF	Monique ANDRIANASOLO	Présidente
SIPEM	IMF	Jocelyn RASOLOFO	Chef de département opérations et développement
OTIV TANA	IMF	RANDRIANIAINA RAKOTOARIVELO	Directeur
ADEFI	IMF	Andriamangazato RAMAROSON	Directeur général
MICROCRED	IMF	Michel IAMS	DG
MICROCRED	IMF	Hervé GUYON	DAF
MICROCRED	IMF	François Xavier Posté	Chief Operating Officer
MICROCRED	IMF	Mireille Roberdison	Responsable d'exploitation
SOAHITA / AIM	IMF	Judith RATIARISON	Présidente
FIVOY	IMF	Jean Hervé FRASLIN	Conseiller ICAR
CECAM	IMF	Gisèle RAKOTONDRAMANANA	Directeur Général INTERCECAM SA
CECAM	IMF	Seth Ramanganavalona	Secrétaire Général
URCECAM Tana	IMF	Nirina Rabenarivo	Directeur
CECAM	IMF	Christian Ravelomanana	Chef département exploitation
CECAM	IMF	Julia Rasoambolamanana	Responsable administrative et financière

MAEP	Ministère	Suzelin RATOHIARIJAONA	Directeur
PFI	PFI	Mamy Nirina ANDRIAMAHENINA	Expert en microfinance
PFI	PFI	Fanja RAKOTOMAHARO	Expert en développement de produit
PFI	PFI	Solofo RAKOTOMAVO	Assistant en système d'information et de Communication
PFI	PFI	Ravo RAFENOMANANTSOA	Assistant en Appui et Suivi
PFI	PFI	OLAF Francis	Assistant Commis d'Administration
PFI	PFI	Rado Vaonasolo RAKOTONDRABE	Assistante Administrative et Financière
PROSPERER	Projet de développement	Tovonirina Rakotoseheno	Responsable microfinance
AGEPMF	PTF	Ghislaine BARITOA	Responsable du Département Suivi Bancaire
AGEPMF	PTF	Ihajambolatiana Ranjalahy	Secretaire exécutif
MCA	PTF	Jean Honoré RASAMISON	Finance Project manager
MCA	PTF	RAFANOHARANA Bakoly	Responsable Microfinance
AFD	PTF	Cédric Boulanger	
PNUD	PTF	Louisette RANOROVOLOLONA	Chargé de programme
PNUD	PTF	Agosso Corneil	Représentant résident adjoint
PNUD	PTF	Xavier Leus	Représentant résident
FENU	PTF	Oumou Sidibé VANHOOREBEKE	Conseillère technique - résidente
FIDA	PTF	Haingo Rakotondratsima	Chargé de liaison

Cabinet Mazars	Cabinet	Bruno Dauphiné	Expert-comptable/associé
Cabinet Mazars	Cabinet	Frédéric Randrianarisoa	Expert-comptable/associé

Senegal (Total interviews: 25)

Organization	Name of contact (s)	Title
UNDP	Bouri Jean Victor Sanhouidi	Resident Representative
LUX-Development	Igor Wajnsztok Anne Bastin	Regional Representative Technical Assistant
BCEAO	Konzo Traore Antoine Traore Alice Guedegbe	Director Decentralised Financial Services DFS) Deputy Director (DFS)
Alliance de Credit et d'epargne pour la Production (ACEP)	Pape Aly Ndior Massina Seye	Assistant Director General Comptroller
Partenariat Pour La Mobilisation de l'epargne et le Credit (PAMECAS)	Toure Mamadou	Director General
Ministry of Microfinance	Tafsir Amadou Mbaye	Director of Microfinance
Programme d'appui a la Letter Politique Sectoriel (PALPS)	Cheikh Sadibou Ly	National Technical Advisor
KFW	Suzanne Berghaus	Project Manager Financial & Private Sector
IFC	Margrit Nzuki Paterne Koffi	Investment Officer Associate Investment Officer
Belgian Embassy Belgian Technical Program	Marc de Feyter Corinne Niox Diof Mansa Oualy	Consul Programme Manager Programme d'appui a la microfinance (PAMIF) Project Co-manager PAMIF
Planet Finance	Brice Mbemba Mbemba Cheikh Amadou Diop	Coordinator MFR project MFR Project Microfinance Expert & New Product Development
Oiko Credit	Mr. Sambou Coly	National Director
Regional Office FENU	Issa Barro	Interim Regional Director

	Madina Assouman Souleman Jobo Mariatou Ndiaye Eric Dietz	Portfolio Manager Portfolio Manager Manager Finance and Administration Junior Programme officer

Togo (Total interviews: 31)

Institution	Nom et Prénoms	Fonction
ASJD	Alayi Adjo	Client
	Bossisso Padjombou	Client
	Tchangai Didace	Client
	Panawoe Denise	Client
	Todjro Ayawa	Client
	Ahianta Akou	Client
	Landeja Kossi	Client
	Amouzou Edo	Client
	Date Datevi	Client
	Dolou Pideline	Client
	Agove Sefako	Client
	Agbonon Kayi	Client
	Bassina Anani	Client
	Dovi Edem	Client
	Anika Akossiwa	Client
	Date Pascal	Comptable
IDH	Azianyo Koffi	Chef Comptable
UMECTO	Hougbedji Afi	Membre
	Mote Alikem	Directeur Adjoint
CAVEC	Mensan Ahossivi	Membre
	Abiyi Félix	Directeur Exécutif
AMUPEC	Lenguema Arzoumbila	Membre
	Mensan Gabriel	Membre
	Videgla Hortense	Membre
	Kekeh Kokou	Chef d'agence
Wages Agbodrafo	Akator Dodji	Chef d'agence
	Klidje Maman	Membre

	Kakpo Kwoesi	Membre
	Sossou Kossi	Membre
	Assafogan Kokoe	Membre
COOPEC Solidarité	Koudaya Kossi	Directeur

Annex C: Comparison Matrix of Evaluation Countries

BIFSA I Programme
Evaluation Synthesis

	Liberia	Togo	Madagascar	Senegal
Micro Level: Investing in Promising FSPs: Grant funds use	**Satisfactory.** Funds went to the only two FSPs possible, and were monitored correctly. Recommend using outside consultants for due diligence instead of project staff. The amount of funds were correct, but the disbursement of those funds was slow and may have negatively affected the FSPs' sustainability.	**Needs Work**. Strong points: i. Declining funds for FSP training and audits fine weak points. ii. Funds use for MIS installation and use mixed. iii. Association and CAS-IMEC studies for new efforts and regional office (weak)	**Needs Work.** Funds granted to MFIs did not exert any leverage effect for the benefit of the whole sector. The funds were granted through a demand driven approach and in a quick and effective way, but they were limited in amount.	**Unsatisfactory.** i. Funds which could have gone to FSPs and service sector are being used to coordinate the national sector, two other organizations have set up their own project coordination units at National microfinance office. ii. Funds are going to or being considered for the largest FSPs which do not need the money rather than smaller ones in rural areas
Micro Level: Investing in Promising FSPs: Credit funds use	**N/A.** CORDAID had credit funds that could have been used for soft loans to FSPs, but because of poor communications between the project and CORDAID, these were not used.	**Unsatisfactory.** Credit funds should go to smaller FSPs which have difficulties accessing credit funds not to the sectors largest MFI (Wages) which can already access funds from the private sector.	**Unsatisfactory.** Credit funds should go to smaller FSPs which have difficulties accessing credit funds, even if the banks loans are still difficult to obtain in this country, specifically for a middle term use.	**Unsatisfactory.** Credit funds should go to smaller FSPs which have difficulties accessing credit funds, not to the sector's largest FSP which can already access funds from the private sector
Micro Level: Investing in Promising FSPs: Procurement/Disbursement of funds	**Unsatisfactory.** Delays in disbursements and problems with reconciliations (donor, FSP, project). See Liberia	**Needs Work.** Credit funds have been too concentrated on one FSP (Wages) which for some time has not needed these funds	**Satisfactory.** Good level of institutional evaluation by the programme advisers, performance contract agreed upon and	**Needs Work.** Still at early stage however UNCDF needs to ensure adequate mechanism to get funds to rural towns and areas and

	chronogram for dates of approvals and disbursement to FSPs.	because they have access to capital markets and other donor funds. This includes recently guaranteeing a new and larger loan. Programme needs to focus more on products and services for the poor section on the market. No indicator for measuring the risk of large investments. **Unsatisfactory.** Procurement (payment of services purchases, advances for training, etc)	complied with, disbursement of funds quite quick.	smaller FSPs involved in the consolidation process rather than the largest FSP who have significant access to funds (loans and donors resources. **Unsatisfactory.** Procurement (payment of services purchases, advances for training etc)
Micro Level: Investing in Promising FSPs: Participation of/crowding out of the private sector	**N/A**. Minimal private sector involvement in MF to date. No crowding out.	**Needs work.** i. Banks and FUCEC have been lending to the sector prior to the project, ii. Encouraged local banks to finance through workshop and iii. Creation of a guarantee fund iv. didn't seek to work with external funds Majority of the credit funds through the Promotion Fund given to Wages which has access to millions of dollars in funding from other sources. No effort was made to curtail this when Wages credit was	**N/A**. No crowding out of the private sector due to the size of the funding gap compared with the low amount of UNCDF fund (1 million USD)..	**Unsatisfactory.**. i. UNCDF/UNDP are duplicating grants and funds that can be provided by other sources (private, banks and donors). ii. grants and credit funds are going to the largest players with HQs in Dakar who do not need the funds. iii. there is a large unmet need to help increase capacity and consolidate the sector outside of Dakar.

		recently renewed.		
Meso Level: Improving the quality of the sector, building a sound IF sector	**Very Satisfactory**. A university MF training programme gave staff-constrained MFIs new interns and staff.	**Satisfactory.** There is a need to regionalize training and capacity building, develop a strategy and budget to deal with the influx on new APIM members needing training and to develop high level professional type training for the sector preferably in partnership with the Togolese Bank Training Center. Focus more on new product development particularly savings.	**Satisfactory**. The choice of FSPs to support was correct. The issue raised is related to the relatively low amount of funds lent or granted that can't have a decisive impact on MFIs, except for the smallest. For the smallest MFIs (Fivoy), the necessity to comply with the contract of performances did play a role in taking measures to improve their loans portfolio, for instance.	**Needs Work.** Key stakeholders have raised the need for immediate appropriate training materials and tools from UNCDF and strengthened private sector providers and regional workshops to address how tools and methods to sector coordination. UNCDF needs to ensure that in its support that there are adequate mechanisms to reach rural areas and that support in not focused mainly on the largest FSPs which have access to capital markets as well as millions of dollars in donor funds.
Meso Level: Associations	**N/A**. No activities with associations in BIFSA I. For BIFSA II, ensure that association is effectively meeting members needs on key issues and is sustainable in the medium term	**Needs Work.** Positive elements: i. increased contributions by larger FSPs, ii. Training collaboration with Togolese bank training institute, Weaker Elements to be improved. i. Weak market studies on new initiatives. ii. Sustainability after BIFSA II unclear. ii. Assoc. FSP Training to theoretical dramatic need and demand	**Needs Work.** to ensure that a unique association is going to be implemented in order to comply with the law and to effectively meet members needs on key issues. Initiatives have already been taken by the programme in this direction. Programme support has to be pursued	**Needs Work.** to ensure that association is effectively meeting members' needs on key issues and is sustainable in the medium term. **BIFSA II** Given the large flow of donor funds UNCDF may wish to provide Ta but no funds.

		for professional staff training to compete with banks	and even increased.	
Meso Level: Improving the Quality of the Sector: Project Training (Appropriateness and sustainability)	**Very satisfactory.** Numerous activities, external trainings, bringing in external consultants, etc.	**Needs Work.** i. CGAP modules were considered to be too theoretical. ii. large unmet demand for professional staff training (strongly requested by key stakeholders)	**Needs Work.** Training more concentrated on national coordination and UNDP staff, and less on FSPs. Raises the issue of a sustainable training offer to be build with the participation of the professional association.	**Needs Work.** Still in initial project stage. Key stakeholders are concerned that UNCD talks about training materials and tools but has not presented the materials to date.
Meso Level: Service Providers	**N/A.** Very few in the post-conflict environment. Recommend activities to support this level in BIFSA II	**Satisfactory** (with room for improvement). i. support to software providers was a good initiative however the results at the FSP level are mixed due to management and staff capacity and ability to pay for service post financing. ii. External Auditors. Funding for external FSP audits a very positive step which needs to be increased under BIFSA II. For those FSPs which are weaker may require additional multi year support on a digressive basis to ensure that they use qualified auditors.	See above "Exit strategy from use of financial instruments with FSP (phasing out support to FSPs)"	Too early
Macro Level: Building the Capacity of Government in	**Needs Work.** Government has not approved draft	**Needs Work.** Led to positive improvements with	**Needs Work.** government has approved the national	**Needs Work.** No exit strategy for ending

Inclusive Finance Sectors	National MF Strategy and Action Plan.	CAS-IMEC performance but results are unsustainable because UN volunteers were not hired. Government has not ensured adequate financing for CAS-IMEC. There needs to be higher level access and budget support from government. Time will tell whether the new proposed project management structure will be viable in the long-term.	strategy and its action plan. It has implemented a national coordination within the Ministry of Finance which is supported by the FI program. An organizational study has been conducted in order to recommend how to make it more effective. Staff has been recruited to reinforce the CNMF. Still needed from the government is a clear commitment for the sector development through an accrued responsibility and autonomy given to the coordination.	programme. There is a significant danger in Senegal that the massive external donor resources to the microfinance office are creating a "donor mentality" and multiple programs supported by different donors which are not sustainable in the medium term post donor financing
New Product Development: Broadening the Sector with New products	**Satisfactory.** The products are appropriate in this post-conflict environment. In the next phase, support for credit unions is advised.	**Unsatisfactory**, the FSP sector, particularly the mutual sector, is highly liquid which illustrates that it is possible for viable FSPs to access savings. The project has not adequately focused and given priority to this before encouraging FSPs to go to banks.	UNDP promoted Credit with Education within credit Unions FSPs, but it is subject to questions related to the appropriateness of the approach.	Too early in the project cycle
Facilitation Role: Donor coordination around FI programs: UNCDF as facilitator at the donor and key stakeholders level for achieving consensus (see below for definition of "facilitator")	**Satisfactory.** Project was able to mobilize a good number of ministries and stakeholders and increase knowledge of MF. However, these were not high level staff. The start up phase took too	**Satisfactory**. There were no additional donors to facilitate. UNCDF/UNDP's presence and support was greatly appreciated despite the lack of funds. While FSPs are happy with the creation of a single	**Needs work**. The diagnostic of the sector was shared with key stakeholders as were the national strategy and the revised one. Through these conferences and round tables, UNCDF	**Needs work**. i. The study and startup process took way too long (4 years). The study was considered to be too descriptive; ii. UNCFD perceived to be acting like the leader rather than the facilitator despite their

	long (nearly 3 years until CTA in place). Cordaid, a member of the Investment Committee was not satisfied, and did not use its allocated loan funds. The MFU of the CB increased its knowledge of MF but had little impact on the minimal changes to the regulatory environment that occurred. **Challenges**. Donors mostly involved in reconstruction and not interested in financial services. Recently, donors are approaching Project unit for TA for their socially oriented microfinance programs, which may overwhelm staff.	association smaller FSP feel somewhat marginalized. **Challenges. In BIFSA II** the project will have to deal with a larger private sector (local banks and external funds, donor group and an Association with a mandate the whole FSP sector with 2 professional staff.	has contributed to build a shared vision of the sector and the expected role of different stake holders. But UNCFD is still perceived to be acting like the leader rather than the facilitator despite their limited resources compared to major donors. The location of the FI programme within the CNMF makes its effectiveness less visible because of the strong constraints related to the National Coordination. It seems that the process of building an in country institutional capacity requires more time that it was expected. The FI programme has played a facilitating role in helping MFIs to comply with the new legal and regulatory framework.	limited resources compared to major donors; iii. UNCDF needs to better adjust role depending on country context (donors and private sector) and level of FSP development and its allocation limited resources within a country and within the overall programme to get better impact; iv. Key share holders feel that there are too many non-productive meetings & discussions in meetings are largely ignored by key stakeholders who go off and do what they planned to do in the 1st place; v. There are already 3 different project units at the national microfinance unit (donors jockeying for position); vi. due to the huge flow of funds to the national MF unit and over-expansion of the unit's role, long term sustainability is very unclear. **BIFSA II** UNCDF needs a more targeted approach to avoid what can already be done or funded by others and particularly when they face unmet demand for funds in

				other countries more in need of their help.
Facilitation Role: Central Banks	**Challenges.** CDF had little impact on regulatory environment for commercial MF.	**Needs Work.** New legislation for Parmec II was not signed during BIFSA I	**Satisfactory.** A new legal and regulatory framework has been put in place in 2005 and is still in progress (through instructions publication). The FI programme has played a facilitating role in helping MFIs to comply with it. This role could be deepened in the future.	**Satisfactory.** Senegal has signed the PARMEC II law
Facilitation Role: Donor coordination around FI programs: UNCDF as mobilizer of funds for the sector from other donors and the private sector	**Needs work.** No new funds from new donors have been mobilized and funds were not forthcoming for the very ambitious project agenda. **Challenges**: Very difficult in post-conflict environment.	**Unsatisfactory**. Due to donor boycott. BIFSA I funds limited to UNCDF and UNDP, no efforts were made to attract other donor resources outside of the Round table. BIFSA II efforts more positive	**Needs Work.** No new funds from new donors have been mobilized despite the donors round table. The MCA programme has used the mechanism of the investment comity for its own disbursements.	**Satisfactory**. Gaining a national consensus and governmental letter has had some impact on donors willingness to bet involved in the sector.
Monitoring: Portfolio monitoring Indicators use etc.	**Needs Work.** For the retail level, the project monitored the appropriate indicators for investments in FSPs. For other levels and objectives, indicators were weak. An objective should be added, with indicators, for assisting other UN agencies.	**Unsatisfactory.** i. Major problems exist during and post BIFSA I in reporting and indicator quality, ii Additional indicators are needed to better measure the quality and impact of project efforts and to better measure the risk for FSPs and UNCDF particularly for those larger FSPs like	**Needs Work.** For the retail level, the project monitored the appropriate indicators for investments in FSPs. For other levels and objectives, indicators have to be improved.	**Unsatisfactory.** i. Major problems exist during and post BIFSA I in reporting and indicator quality, ii Additional indicators are needed to better measure the quality and impact of project efforts and to better measure the risk for FSPs and UNCDF particularly for those larger FSPs like

		Wages with millions in funds from a wide variety of banks funds and donors.		Wages with millions in funds from a wide variety of banks funds and donors.
Support for UNDP MF country programmes	No TA. However, UNDP is highly satisfied with the project's activities and impact. Other UN organizations are soliciting project TA in Phase II.	**N.B. Project staff paid by UNDP**. Project Joint UNDP/UNCDF partnership **Needs Work**. Partnership between regional office and project needs to be improved particularly with regards to i. training on indicators, proper use and adjustments/additions of new indicators, new contract with FSPs and contract enforcement exit financing for Wages (recently renewed).	**Needs Work.** Madagascar FI programme is a joint programme UNDP/UNCDF. The approach of building an Inclusive Finance sector adopted by UNCDF needs still to be spread among UNDP staff in the country. UNDP procedures are taking time and generate delays in the programme activities implementation.	**Unsatisfactory**. UNCDF needs to better guide UNDP in the allocation of its resources in a much more developed, highly financed sector to have a useful impact and not duplicate existing funds.
Cross-Cutting Questions: Sustainability of Results and Exit Strategy/Post Project Planning: Exit strategy from programmes in-country	**Needs Work.** No exit strategy for ending programme.	**Needs Work.** Sustainability of results at the CAS-IMEC and APIM (association) in the medium term is unclear. APIM has made some progress however its ability to provide professional training programs in partnership with the Togolese banking Center will be key as well as carrying out adequate feasibility studies, including realistic market studies for new services, as well as a decentralized strategy to better reach and provide	**Needs Work.** The efforts made in building capacity of the CNMF and the programme of transferring competencies between UNDP and UNCDF technical assistance and CNMF staff is an element of an exit strategy. But a progressive withdrawal of the technical assistance still needs to be formalized.	**Needs Work.** No exit strategy for ending programme. There is a significant danger in Senegal that the massive external donor resources to the microfinance office are creating a "donor mentality" and multiple programs supported by different donors which are not sustainable in the medium term post donor financing.

		services to their growing membership base will be key. More support is needed for the meso level private sector partners. Needs a clear exit strategy for 2nd phase.		
Cross-Cutting Questions: Sustainability of Results and Exit Strategy/Post Project Planning: Exit strategy from use of financial instruments with FSP (phasing out support to FSPs)	**Needs Work.** 2 FSPs supported by CDF still need grants and soft loans, but no clear strategy exists for phasing these out.	**Needs Work.** Discussed above	**N/A .** Granted funds have contributed to the extension of MFIs and the improvement of their MIS. Loans have repayment schedules that allow MFIs to plan consequently their additional fundraising. None of the FSPs funded is in a dependency relation with UNCDF.	**Needs Work.** Credit funds should go to smaller FSPs which have difficulties accessing credit funds, not to the sector's largest FSP which can already access funds from the private sector. The largest players are already sustainable the issue in the next years is whether the rural areas will suffer in response to the new PARMEC law and whether the multiple smaller FSPs will be able to survive in the short to medium term.
Cross-Cutting Questions: Ownership: Government involvement (buy-in, appropriateness of government participation, etc)	**Needs work**. Post-conflict government has many other priorities. Some involvement by mid-level staff in MF activities (National Task Force and Investment Committee). CB provided in-kind support for Project (space and equipment and vehicle). Question has been raised among evaluation team as	**Satisfactory.** At project mid-level (Coordinator CAS-IMEC) while project funded volunteers unsatisfactory at Minister and Presidential level. No funding support for CAS_IMEC to hire and retain qualified staff. **Challenge for BIFSA II.** Garner stronger support for	**Needs work.** See above "Sustainability of Results and Exit Strategy/Post Project Planning – Government". Government's commitment to the sector development is not sufficient and has still to be proved through practical measures. Interest rates issues, granted loans for	**Satisfactory**. At mid-level (national coordinator). **Unsatisfactory.** At higher level (key issues interest rates and taxes)

	to whether government involvement in Investment Committee is appropriate?	the sector (allocation of resources from government). Willingness on the projects part to have and apply performance contract with government and to be willing to shift resources to private service sector if contract is not being met.	agriculture are still current issues.	
Cross-Cutting Questions: Deepening the Sector: Reaching the poor and excluded	**Satisfactory**. The target groups are appropriate in this post-conflict environment.		**Satisfactory**. The MFIs funded are representative of the diversity of the FSP in the sector, commercial and ruled as mutualist, targeting urban and rural population.	
Cross-Cutting Questions: Quality of diagnostics	**Satisfactory.** Accurate, but need particularly more focus on the obstacles to commercial microfinance and support to the meso and macro level actors	**Needs Work.** **Positive elements**: very comprehensive in describing the sector. **Weaker elements**: Underestimated challenges to getting the new law passed. Didn't address how issues with CAS-IMEC associations would be resolved on a sustainable basis, inadequate analysis of potential partnerships with banks and external funding sources, strategy for dealing with the rural areas where the majority or poor exists was not	**Needs Work.** Particularly more focus on the obstacles to support to the meso and macro level actors and their projected level of involvement in the MF sector.	**Needs Work.** Stakeholders felt that is was too descriptive and did not adequately address sector issues.

		adequately developed.		
Cross-Cutting Questions: Capacity of programme staff, stakeholders in-country to implement the programme	**Very Satisfactory.** Project staff –. Improvement of Stakeholders' Capacity. **Very Satisfactory.** (minimal at baseline, improved after project activities).		**Very satisfactory.** Project staff. **Needs Work.** Improvement of Stakeholders' Capacity – because of the very newly recruited CNMF staff.	
Cross-Cutting Questions: Programme flexibility (see definition below)	Not relevant in phase one (post-conflict environment)		**Satisfactory.** Changes in the programme have occurred during the past related to changes in the political, legal and regulatory environment. But strategic changes at UNDP level have affected the consistency of the FI approach and its effectiveness.	
Cross-Cutting Questions: Scope of National Inclusive Finance Strategy and Action Plan (AP), priorities and accountability	**Satisfactory**. The National Task Force (Mid-level ministry staff, MFI management and Project staff) oversaw the writing of a comprehensive national strategy and action plan by a consultant, but this is not yet approved by the Government after one year.		**Satisfactory**. Reflects the situation of the sector, but could be improved by a set of indicators to measure its effects and by the clear identification of key policy constraints for the development of the sector (interest rate, labour laws, taxes, judiciary environment, etc.).	

Notes: Senegal was not selected as a case study country. However, during field visit to then regional office, a request was made by the UNCDF staff to also look at the Senegal country program. Although the programme is relatively young and not mandated for an evaluation, the insights were valuable to compliment the learning from the three case study countries.

Definitions for terms used in the matrix:

Scores: Very satisfactory, satisfactory, needs work, unsatisfactory, highly unsatisfactory.

Very satisfactory: Exceeds targets and stakeholder feedback are very positive
Satisfactory: On target and appropriate action
Needs work: Below target or deviates from objectives. But, is moving in right direction and need some adjustments.
Unsatisfactory: Below target and problems exist that needs to be fixed to move forward.
Highly unsatisfactory: Below target and major problems exist.

Facilitator Role

During Programme Preparation:
Sector study
Consensus on National Plan
Donor Round Table
Other Funding Efforts

During Project:

Meetings
Support to National Coordinator Committee
Coordinating investments in the sector
Coordinating donors' activities in MF
Promotion and diffusion of new products
Support to government to help create an enabling environment
Coordination of development and promotion of national strategies / action plans

Programme flexibility

Is the programme flexible enough to accommodate the changing microfinance environment with diverse and dynamic actors that are radically changing the way people access financial services within short timeframes (i.e. cell phones companies entering the remittance market, partnerships between non-financial commercial actors and MFIs for the provision of financial services).
Is the programme able to minimize the time lag between a sector assessment and the implementation of its programs in the field?

Annex D: List of Reports Produced by the Evaluation Team

Assouline, Nathalie, " Evaluation à mi-parcours du programme BIFSA I (2005-2007) Bureau régional de Johannesburg," College Park: IRIS center, the University of Maryland, Feb. 2009.

Assouline, Nathalie, "Évaluation de la phase I du programme (2005-2007) et études de cas des projets financés au Madagascar," College Park: IRIS center, the University of Maryland, Feb. 2009.

Hall, Joan, Geetha Nagarajan and Graham Owen, "Evaluation of the "Building Inclusive Financial Sectors in Africa" Phase I 2005-2007 (BIFSA) and Case Studies of Projects Supported by BIFSA in Liberia, Togo and Madagascar Inception Report, College Park: IRIS center, the University of Maryland, Nov. 2008.

Hall, Joan and Joyce Manu, "Liberia Final Evaluation, LIB/04/C01, Launch of an Inclusive Financial Sector in Liberia (2005-2007)," College Park: IRIS center, the University of Maryland, Jan. 2009.

Hall, Joan, Graham Owen, Nathalie Assouline and Geetha Nagarajan, "BIFSA I Evaluation Consolidated Report for BIFSA Programme and UNCDF Decentralized Regional Offices: Dakar and Johannesburg," College Park: IRIS center, the University of Maryland, March, 2009.

Hall, Joan and Geetha Nagarajan, "Evaluation Guide for the 'Building Inclusive Financial Sectors in Africa(BIFSA)' Phase I (2005-2007) With Case Studies of Projects Supported by BIFSA in Liberia, Togo, and Madagascar," College Park: IRIS center, the University of Maryland, Mar. 2009.

Hall, Joan, Graham Owen, Nathalie Assouline and Geetha Nagarajan, "BIFSA – Phase I – Evaluation: Syntheses Report", College Park: IRIS center, the University of Maryland, March 2009.

Owen, Graham and Yao Georges Koussi, "Mid-Term Evaluation of BIFSA I (2005-2007) Senegal Regional Office (West and Central Africa)," College Park: IRIS center, the University of Maryland, Jan. 2009.

Owen, Graham and Yao Georges Koussi, "Rapport D'Evaluation Finale Programme d'Appui à la Stratégie Nationale de Microfinance PASNAM TOGO," College Park: IRIS center, the University of Maryland, Jan. 2009.

Annex E: Country Financial Sector Diagnostic Checklist

Country:
Date:
Person(s) Collecting Data:

Financial Sector Policy:	Baseline	Comments	Other Actors working in these areas	UNCDF niche?	UNCDF strategy based on the data collected
MF Association exists					
Has National MF Strategy or MF strategy is included in some other national strategy					
Banking laws updated (when:)					
Has clear regulations or guidelines in place for non-deposit-taking finance companies doing MF					
Has clear regulations or guidelines for deposit-taking financial institutions doing MF in place					
Has clear regulations in place for cooperative/credit unions					
Cooperatives should be regulated by the CBL but supervised under a separate body than commercial MFIs.					
Should minimally prudentially regulate credit-only commercial					

MF providers (NBFIs).					
Shouldn't regulate small commercial NBFIs doing MF.					
Shouldn't have interest rate caps.					
Prudential standards for commercial banks should be adjusted for commercial microfinance providers: **reserves**.					
Should be no limits on loan terms or loan amounts for commercial MFIs.					
Prudential standards for commercial banks should be adjusted for commercial microfinance providers: **provisioning for bad loans.**					
Prudential standards for commercial banks should be adjusted for commercial microfinance providers: **start up capital**.					
Foreign investment in commercial microfinance providers should be allowed.					
Uncollateralized lending should be permitted at some level for commercial MFIs.					
Regulation of entities should not be burdensome in terms of cost for commercial MFIs.					

No restrictions/limitations on opening new branches for commercial MFIs.					
Licensing or registering of commercial MFIs should be simple and not costly.					
Credit bureaus exist and commercial MFIs can access them.					
NGO MFIs are not taxed, others are.					
AML/CFT laws exist but do not exclude those without identification					
Government subsidies do not encourage inefficiencies or corruption					
Commercial MFIs are not limited to group lending					
Central Bank has sufficient capacity to supervise commercial MF					
Consumer protection laws exist (e.g. mandatory publication of APR, consumer information protection)					
Other Policies and Issues that impact inclusive financial sectors:					
Enforcing Contracts (from WB's Doing Business)					

Registering Asset Titles (from WB's Doing Business Liberia 2009)					
Infrastructure, in particular, commercial bank branches in rural areas					
Telecommunications, in particular, mobile banking regulations					
Gender, in particular, female ownership of property					

Additional Information: You may also use/adapt the CGAP's CLEAR process/tool. The CLEAR ToR can be found at http://www.cgap.org/gm/document-1.9.2192/clear_terms.pdf.