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

Final Evaluation
September 2009

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List of Acronyms

American Refugee Committee	ARC
Association for Rural Development	ARD
Bank of Sierra Leone	BoSL
Catholic Organization for Relief and Development AID	CORDAID
Catholic Relief Services	CRS
Community Empowerment & Development Agency	CEDA
Department for International Development	DFID
Food and Agriculture Organization	FAO
Financial Sector Development Plan	FSDP
Government of Sierra Leone	GoSL
Grassroots Gender Empowerment Movement	GGEM
Human Development Index	HDI
International Fund for Agricultural Development	IFAD
International Monetary Fund	IMF
Kreditanstalt für Wiederaufbau	KfW
Lift Above Poverty Organization	LAPO
Marampa Masimera Community Bank	MMCB
Mattru Community Bank	MCB
Microfinance Coordinating Committee	MCC
Microfinance Institution	MFI
Microfinance Investment and Technical Assistance Facility	MITAF
Microfinance Program	MFP
Ministry of Economic Development and Planning	MODEP
Ministry of Finance	MOF
Ministry of Finance and Economic Development	MoFED
National Commission for Social Action	NaCSA
Non Governmental Organization	NGO
Partner Lending Institution	PLI
Poverty Reduction Strategy Paper	PRSP
Project Document	ProDoc
Resident Technical Advisor	RTA
Salone Microfinance Trust	SMT
Segbwema Community Bank	SCB
Sierra Leone Association of Microfinance Institutions	SLAMFI
Technical Service Provider	TSP
Terms of Reference	TOR
European Union	EU
United Nations Capital Development Fund	UNCDF
United Nations Development Programme	UNDP
United States Agency for International Development	USAID
Yoni Community Bank	YCB
Youth Employment Secretariat	YES

Project Data Sheet

County: Sierra Leone

Programme Title: Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone

Programme nbr: SIL/03/C01

Financial Breakdown (by donor)

UNCDF **UNDP** **KfW** **Cordaid** **Government**	$3,564,989 $2.5 million €6.0 million €1,017,516 No financial contribution
Delivery to date (per donor): **UNCDF** **UNDP** **KfW** **Cordaid** **Government**	 $3,481,952 $2,311,800 $3,484,612 $1,758,584 Not applicable
Total project Budget	$13.4 million

Executing Agency: UNCDF
Implementing Agency: Enterprising Solutions Global Consulting
Approval Date of project: July 2004
Project Duration 2004-2009

Project Amendment: March 14, 2008
Evaluation Date: Mid term 2006, Final 2009

1 Executive Summary

1.1 Project Design

When UNCDF prepared the project in 2003, analysis indicated that Sierra Leone had a thriving informal sector with limited access to financial services. Despite numerous microcredit NGOs, projects and programs there was a significant estimated unmet demand for financial services. In order to build a competitive, sustainable, inclusive financial sector, the project addressed two major constraints: the absence of professional microfinance institutions to drive the development of a microfinance sector and the lack of an enabling environment shaped to optimally develop the growing sustainability and outreach of the young microfinance industry.

The project addressed these issues by concentrating on four mutually reinforcing program outputs. The first two outputs were related to the development of the microfinance industry at the micro or retail level while outputs three and four were related to the development of an enabling environment at the meso and macro levels. Specifically, the stated program outputs were:

1) Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach within a competitive environment.
2) Strategic partnerships are built with other donors, equity investors and commercial banks in joint support of a sustainable pro-poor financial sector.
3) A professional microfinance unit has been established in the Bank of Sierra Leone to ensure an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system.
4) Sound microfinance principles have been disseminated and are widely accepted and adopted.

A number of specific targets were set for each of the four outputs, although the only quantifiable targets were those related to outreach (number of active loan clients), Partner Lending Institution (PLI) financial performance (level of financial self-sufficiency), and the amount of additional financial resources to be mobilized for the sector through the project. Project activities designed to achieve the outputs and targets included: capacity-building services for PLIs at the micro level; grant funding to support PLI operating costs and the acquisition of fixed assets; grant and loan funding to finance PLI portfolio growth; and, capacity-building services for local counterparts at the meso and macro levels.

The project “Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone” was signed between the Government of the Republic of Sierra Leone, the UNDP and the United Nations Capital Development Fund (UNCDF) in December 2003.

1.2 Project Implementation

Project implementation was ensured by a consortium of donors through an Investment Committee (IC) comprising donors that contributed US$ 1 million or more and by a Technical Service Provider (TSP) contracted to ensure that project services were designed and delivered and that project targets were met.

Project implementation began in July 2004 when Enterprising Solutions Global Consulting was contracted as the TSP. The TSP set up the Microfinance Investment

and Technical Assistance Facility (MITAF), which enables the project to function legally in Sierra Leone under the auspices of UNDP.

The initial IC comprised the United Nations Capital Development Fund (UNCDF) and the United Nations Development Program (UNDP), with Kreditanstalt für Wiederaufbau (KfW) committing funding and joining in August 2004. A fourth donor, Catholic Organization for Relief and Development (Cordaid), committed sufficient funding to the project to become a member of the Investment Committee in 2005. No other donors joined the IC, although additional financing was channeled through the project structure.

As of September 2009, the four donors had committed US$ 17.2 million in funding for the project, had approved US$ 13.4 million and disbursed US$ 11.7 million. A breakdown of project funding is found in Table 1 below:

Table 1: Breakdown of Project Funding in millions of US$

	Approved by Donors	% of Total Budget	Disbursed at 9/30/09	Pending
TSP	**2.9**	**22%**	**2.9**	
PLI Training	1.1	8%	1.1	
TA for PLIs	3.5	26%	3.5	
Sub-Total Training & TA	**4.6**	**34%**	**4.6**	
Grants to PLIs for Operating Costs and Fixed Asets	**1.4**	**10%**	**1.4**	
Grants to PLIs for Loan Funds	1.4	11%	0.6	0.8
Loans to PLIs	3.1	23%	2.2	0.9
Sub-Total Portfolio Funding	**4.5**	**34%**	**2.8**	**1.7**
TOTAL	**$13.4 million**	**100%**	**$11.7 million**	**$1.7 million**

Project funding was supporting 13 partner lending institutions as of September, 2009. These 13 institutions, by type of legal structure, are:

- *Local NGO MFIs*: Hope Micro, Association for Rural Development (ARD), Community Empowerment & Development Agency (CEDA), Salone Microfinance Trust (SMT), Grassroots Gender Empowerment Movement (GGEM)

- *International NGO programs*: CARE Village Savings and Loan program

- *For-profit MFIs (Limited Liability Companies):* Finance Salone, Lift Above Poverty Organization (LAPO)

- *Banks*: ProCredit Bank, Marampa Masimera Community Bank, Mattru Community Bank, Segbwema Community Bank, Yoni Community Bank

The project was slated to end on July 2, 2009. However, the donors agreed to extend the project for at least 6 months through December 31, 2009 with the possibility of

extension through June 2010 if a follow-up project is not in place to ensure the continuation of services.

1.3 Key Project Results

MITAF has exceeded project outreach targets. At September, 2009, 13 the partner lending institutions financed by MITAF were serving close to 120,000 clients: 79,610 active loan clients served by 8 MFIs and 39,573 clients (savings and loans) served by 5 banks. Taken together, the PLIs have achieved very broad geographic coverage throughout the country, although only one covers a major part of the country itself. This is particularly impressive considering the difficulty of reaching rural areas of the country.

One of MITAF's key achievements was to help ensure that microfinance is seen as an integral part of the financial sector in Sierra Leone, both through discussions held with government at the Investment Committee level and by its work with the Bank of Sierra Leone (BoSL). Interviews with representatives of the BoSL and the Ministry of Finance and Economic Development (MOFED) during the evaluation showed that government understands the key role that microfinance can play as part of the financial sector. Indeed, strategies to continue to build the microfinance sector are an integral part of the recently approved Financial Sector Development Plan (FSDP).

1.4 Key Evaluation Findings

1.4.1 MITAF has been instrumental in building an inclusive financial sector in Sierra Leone.

When the project started in 2004, there were a handful of relief and development agencies providing credit but there was no real microfinance sector. At the end of 2009, there are about 30 microfinance institutions and commercial and community banks offering financial services to the poor and underserved. Many of these have benefited from MITAF's financial and non-financial assistance, without which they would not have been able to achieve the impressive results they have. Because it has adhered to and promoted internationally-recognized good practice, MITAF has served as a catalyst for developing not just quantity but quality throughout the sector as a whole.

1.4.2 The operating environment in Sierra Leone remains a challenge to the continued growth and sustainability of project results.

Financial institutions in Sierra Leone face significant challenges in providing services to microentrepreneurs. These include: continued pervasive poverty, further exacerbated by the recent economic downtrend, that severely constrains the effective market for clients' goods and services; limited infrastructure throughout the country, particularly the lack of adequate roads, electricity and communication systems, that further limits client market opportunities and the ability of institutions to offer sustainable, quality services, particularly in rural areas; a limited pool of qualified staff, particularly managers, available to fill key functions; lack of a credit culture that would foster client willingness to repay loans and a high degree of corruption resulting in lending fraud; a high incidence of client illness, accidents and death. When combined with a lack of sufficient institutional structures and systems, the result has been serious problems of portfolio quality that continue to plague the entire financial sector. In 2008, the percentage of

non-performing loans in the commercial banking sector was 23%, and at June 2009, only two of MITAF's PLIs were meeting the criteria of Portfolio at Risk more than 30 days (PAR>30) of 5% or less, with the overall average of the 13 PLIs exceeding 10%.

1.4.3 Despite clear improvement in institutional capacity at the micro, meso and macro levels, internal weaknesses continue to jeopardize sustainability

The significant resources devoted by the project to providing capacity-building services through training and technical assistance to the PLIs and to local institutions at the meso and macro levels have had a positive impact. Nevertheless, while project services have contributed to improved institutional strength in many PLIs, most continue to demonstrate significant internal weaknesses in governance, management, staffing, systems and internal controls (please refer to Section 8 for a detailed analysis of PLI capacity). Institutional weaknesses in meso and macro level institutions, such as the Sierra Leone Association of Microfinance Institutions (SLAMFI) and the Banking Supervision Department of the BoSL also raise questions about the ability of these institutions to continue to fulfill their key roles after the project ends. SLAMFI has not met since 2007 and was essentially non-functional as of September 2009, while the Banking Supervision Department is severely under-staffed.

1.4.4 Project targets provided incentives for significant outreach but also had unintended negative impact on the PLIs and the sector as a whole.

It is clear that the project outreach targets were set by the donors and the Government of Sierra Leone (GoSL) with the sincere desire to help to reduce poverty by building an inclusive financial sector. Nevertheless, the targets did not reflect an adequate analysis of the capacity of the microfinance sector at project inception nor realistic expectations about the speed with which sufficient capacity could be built. Further, some of these targets created an incentive system that was detrimental to sustainable results. In particular, the two key quantifiable project targets – increasing numbers of clients served and covering all operating and financial costs through income (financial self-sufficiency) – create conflicting incentives for PLIs. Indeed, in order to reach both targets, most PLIs grew without sufficient investment in internal structures needed to support their rapid growth. Operating costs in many PLIs are inflated by the high levels of PAR and write-offs, making it difficult to reach financial self-sufficiency expectations. Therefore, in addition to containing costs by not investing in sufficient staff and systems to manage their growth, many PLIs charge extremely high effective interest rates.

Another unintended result of project funding that promoted the development of a number of PLIs and a fast-paced growth in outreach has been a contribution to increasing saturation of urban microcredit markets. There are almost 30 commercial and community banks and MFIs providing services in a country with a population of about 5.5 million, 23 of which operate in the same urban centers. Of these, at least 16 provide microloans to poor entrepreneurs and MITAF has supported the development of 13 of these. Recent studies have indicated a level of demand that the evaluation team believes to be unrealistic (see Section 3.3.4). Nevertheless, these studies indicate an expressed demand for microloans from 120,000 households in urban areas throughout the country; the 13 PLIs supported by MITAF alone report 120,000 outstanding loans at June 2009, and most of these loans are in urban areas. Sector stakeholders consistently report that fierce competition for clients and increasing multiple lending is

becoming their biggest challenge, contributing to problems of portfolio quality and potential client over-indebtedness.

Despite the saturation of urban microcredit markets, there is some room for financial institutions to extend services to under-served rural areas. However, the rural market for credit is much more limited than the urban market due to the severity of constraints faced by rural clients and financial institutions alike. With already stretched institutional structures, most PLIs do not have the capacity to expand into the difficult rural market; indeed, their poor performance with regard to portfolio quality indicates that they are struggling to manage their existing, largely urban, portfolios.

1.4.5 The project implementation structure did not promote optimally efficient and effective delivery of funding and other services

The chosen project structure has not proved optimal in practice, with an Investment Committee that retained the authority to approve each project investment and allowed donors to contract directly with the PLIs, but delegated all other roles to one consulting firm. Although the IC was intended to ensure coordination of donor funding, in practice it enabled each donor to finance the type of institutions it prefers without regard to the microfinance market as a whole (please see Section 5.1.2 for further discussion). One result has been the proliferation of fairly weak institutions providing financial services to the poor, in a market that likely cannot support most of them in the long term. Because donor funds were never pooled and as each donor contracted separately with each PLI, efficient disbursement and tracking of donor funds remained a challenge through the project.

The TSP performed very well, enabling the project to meet most of its targets, and donors and MFIs alike appreciate the services that the TSP has provided. However, there has always been a conflict of interest for the TSP on the ground between the roles of “financier” and “capacity-builder”. This conflict of interest was exacerbated by the fact that the TSP’s contract was performance-based and its compensation was contingent upon achieving project targets; an inherent tension was created between encouraging PLIs to expand and helping them to build capacity. Further, ambitious project goals dictated that the TSP also identify and ensure capacity-building for numerous other local recipient institutions at meso and macro levels as well as administer the project overall. Fulfilling these multiple roles exceeds the capacity of one consulting firm and contributed to limited results at the meso and macro levels.

1.5 Lessons Learned

1.5.1 It is important that financing of a microfinance sector be market-driven.

Project objectives and targets need to be based on valid and realistic assessments of the absorptive capacity of the market, both at the customer and the service provider level. As markets develop, it should be incumbent on project funders and managers to continue to monitor the effect of funding on growth in outreach, to ensure that market over-saturation does not occur and that service provider capacity is not surpassed.

1.5.2 It is imperative to understand, promote and monitor overall institutional capacity within the providers of microfinance services.

When project incentives promote increasing outreach while expecting growing levels of cost-recovery, but the project provides little operational subsidy and does not set clear and measurable expectations about institutional capacity, long-term institutional sustainability is likely to be compromised.

1.5.3 It takes a long time to build institutional capacity; this process is about people, not numbers and is often a question of changing hearts and minds.

It is a process that works most effectively when it is demand-driven. Assistance provided "for" rather than "with" is much less likely to be adapted by the recipient institutions. Further, it cannot be expected that all institutions will be able to take advantage of capacity-building assistance regardless of its quality; such institutions should not be able to access continued funding that would help expand their portfolios.

2 The Evaluation

2.1 Purpose

The Project Document (ProDoc) calls for an independent final evaluation of the project. The general objectives of the Final Evaluation are to assess: its overall performance in terms of contribution to sustainable financial sector development and the outputs and outcomes produced against its initial/revised targets, with particular attention to progress made since the mid-term evaluation and to the meso and macro level project interventions; the factors affecting implementation and results, with a focus on changes that have taken place since the mid-term evaluation; the sustainability of results in light of imminent project closure; the options being considered for a follow-on project and suggestions for UNCDF consideration.

This final evaluation complements the mid-term evaluation of the project that was carried out by the same evaluation team in September 2006[1]. As part of the final evaluation, the team reviewed the extent to which the mid-term recommendations were implemented. Please refer to ***Annex A: Review of Mid-Term Recommendations*** for a summary of all mid-term evaluation findings and conclusions, recommendations, and actions taken by stakeholders as a result of the evaluation since the mid-term review.

2.2 Methodology

The evaluation team comprised Ann Duval, international consultant and team leader, and Franklin Bendu, local consultant. The final revised TOR for the evaluation are presented in ***Annex B***.

The Final Evaluation of the project began on August 17, 2009 with a desk review of key documents, discussions with the UNCDF Evaluation Office, telephone interviews with representatives of most of the donor agencies and revisions to the work plan in consultation with the MITAF office in Sierra Leone. The evaluation team leader then traveled to Sierra Leone on August 24 and spent 24 days in Freetown, Sierra Leone, carrying out the field portion of the evaluation.

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[1] Duval, Ann and Bendu, Franklin. Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone: Mid-Term Evaluation. November 2006.

The approach to the final evaluation included a variety of methodologies and tools, including:

- Extensive document review, including the 2008 amendment to the Project Document (ProDoc), numerous project reports on results since the mid-term evaluation, partner lending institution (PLI) assessments conducted by MITAF staff, audited and other financial reports and business plans from the PLIs financed, contracts signed with the MITAF-financed PLIs, minutes from the Investment and Advisory Committee meetings since September 2006, microfinance regulations developed by the Bank of Sierra Leone (BoSL), the Companies Act revised in August 2009, articles of incorporation of the Sierra Leone Association of Microfinance Institutions (SLAMFI), recent studies of the financial sector, the draft Financial Sector Development Plan (FSDP) and documents about the end of the MITAF project and a possible successor. A list of reference documents external to the project are presented in ***Annex C***.
- Telephone interviews with donor representatives and senior management of the Technical Service Provider (TSP) senior management, who are not in Sierra Leone.
- On-site interviews with key project stakeholders in Sierra Leone including donor and government representatives, MITAF staff and managers of selected MITAF-financed PLIs.
- On-site interviews with key actors in the microfinance sector who are not MITAF stakeholders including: commercial banks lending to MFIs and/or entering the micro market themselves; donors who are supporting or planning to support microfinance or rural/agriculture finance initiatives; and MFIs new to the microfinance sector since the mid-term evaluation.
- A written survey instrument sent to all 13 MITAF-funded PLIs to obtain quantitative data to compare with MITAF reports and to solicit their assessment of the quality and impact of the services they received from the project.
- Two workshop/focus groups, one held for the four community banks financed by MITAF and one for the other nine PLIs financed by MITAF who are also all members of SLAMFI.

Standardized questionnaires were used to interview similar groups of stakeholders (such as members of the Investment Committee, government representatives, non-MITAF donors, commercial banks, etc). This enabled the evaluation team to effectively compare, tabulate and analyze responses. A standard approach was also used for visits to the MFIs financed by MITAF, including standard questionnaires for interviews with senior management and a system for quickly checking the accuracy of financial data produced by their Management Information Systems (MIS).

The use of the variety of methods and tools to gather information listed above enabled a triangulation of data in most cases and allowed the evaluation team to draw valid conclusions. For example, financial results for the MFIs visited were cross-verified through a comparison of project reports, audited financial statements, information gathered on-site and answers to the written survey.

At September 2009, the project was supporting the following 13 institutions:

- *Local NGO MFIs*: Hope Micro, Association for Rural Development (ARD), Community Empowerment & Development Agency (CEDA), Salone Microfinance Trust (SMT), Grassroots Gender Empowerment Movement (GGEM)

- *International NGO programs*: CARE Village Savings and Loan program

- *For-profit MFIs (Limited Liability Companies):* Finance Salone, Lift Above Poverty Organization (LAPO)

- *Banks*: ProCredit Bank, Marampa Masimera Community Bank, Mattru Community Bank, Segbwema Community Bank, Yoni Community Bank

It was not possible within the evaluation time frame to visit all PLIs, so it was decided to visit only a representative number of them. In choosing the PLIs to visit, the number of active clients, size of portfolio and portfolio quality were taken into account, and an attempt was made to capture both the high and low performers. In addition, it was decided that it would be important to visit some MFIs that are new to MITAF since the mid-term evaluation. Finally, it was decided to try to incorporate visits to a mix of institutional types (NGOs, for-profit companies and banks).

Based on these factors, the evaluation team chose to visit the following 5 PLIs: Finance Salone, Hope Micro, ARD, LAPO, and ProCredit. These PLIs presented an interesting mix for the evaluation. Finance Salone is the only NGO MFI that has attempted to transform into a for-profit company and at March 2009, led the sector in active numbers of clients and geographic outreach. Hope Micro is a local NGO that leads the sector in terms of active clients, is third in terms of size of portfolio, but falls in the bottom tier of PLIs with respect to portfolio quality. ARD is also a large local NGO, third in the sector in terms of number of clients and performing adequately with respect to portfolio quality. LAPO is a new entrant to the sector, is an international for-profit company and has shown signs of rapid scale-up. ProCredit is a specialized commercial bank that leads the sector in terms of portfolio size but is in the lowest tier in terms of portfolio quality. In addition to these 5 institutions supported by MITAF, it was decided to visit BRAC as well. BRAC, an international NGO with an impressive track record in other countries, only initiated operations in Sierra Leone in 2009 and has not been financed by MITAF but has been approved for financing by the UNCDF LEAP program.

The actual schedule of in-country interviews is attached as ***Annex D***. It should be noted that a number of interviews that were scheduled prior to the evaluation could not take place due to a conflict of schedules or because the people in question were not available. Also attached as ***Annex E*** is a complete list of the people interviewed during the course of the evaluation; the list includes everyone interviewed by telephone or on-site, we well as those who attended the two focus group meetings.

3 Country Context

A comprehensive review of the context in which the project is operating was outside the scope of this evaluation. Nevertheless, the evaluation methodology enabled the evaluation team to review some of the critical external factors that affect the performance of the PLIs financed by the project and thus the ability of the project to

meets its goals. For an extensive situation analysis, please refer to the 2009 study of the options for a second MITAF project commissioned by KfW[2].

3.1 Social and Economic Indicators

In 2002 Sierra Leone was facing the effects of ten years of war, notably a significant decline in social and economic indicators. The country was at the bottom of the UNDP's Human Development Index (HDI) with more than 80% of the population living on less than $1 per day. By 2003, when the project was designed, the improved security situation following disarmament in January 2002 had facilitated the resumption of economic activities. Real GDP was estimated to have risen, the rate of inflation had fallen sharply, the exchange rate was relatively stable and interest rates had declined.

Recent statistics show that the situation has continued to improve, albeit very slowly. According to the UK Department for International Development (DFID) 2009 Annual Report, "Sierra Leone has made significant progress since the end of the civil war and remains largely calm but fragile. Future conflict remains a real risk unless economic growth continues and people's quality of life improves. Poverty remains wide-spread and health indicators are very poor. Amongst the factors causing persistent fragility are: the inability by the Government of Sierra Leone to deliver basic health and education services in rural areas; the threat to economic stability caused by diminishing revenues due to the global downturn; weak accountability to citizens by government and public institutions and lack of employment opportunities for the youth."

These findings are confirmed by current World Factbook[3] statistics: "Sierra Leone is an extremely poor nation with tremendous inequality in income distribution. While it possesses substantial mineral, agricultural, and fishery resources, its physical and social infrastructure is not well developed, and serious social disorders continue to hamper economic development. Nearly half of the working-age population engages in subsistence agriculture. Manufacturing consists mainly of the processing of raw materials and of light manufacturing for the domestic market. Alluvial diamond mining remains the major source of hard currency earnings accounting for nearly half of Sierra Leone's exports. The fate of the economy depends upon the maintenance of domestic peace and the continued receipt of substantial aid from abroad, which is essential to offset the severe trade imbalance and supplement government revenues. The IMF has completed a Poverty Reduction and Growth Facility program that helped stabilize economic growth and reduce inflation. A recent increase in political stability has led to a revival of economic activity such as the rehabilitation of bauxite and rutile mining."

Sierra Leone still falls almost at the bottom of the UNDP's HDI according to the 2009 Human Development Report, ranking 180 out of 182 countries. GDP per capita is less than $700 (calculated with Purchasing Power Parity in US dollars), with 53% of the population living on less than $1.25 a day and 76% on less than $2 a day. Overall, 70% of the population lives below the national poverty line. Adult literacy remains extremely low at 38%, life expectancy at birth is 47 years and the maternal mortality figures are among the worst in the world with 2,100 women per 100,000 dying in childbirth.

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[2] Miamidian, Eileen and Rauf, Khalaf. Restructuring of MITAF (final draft for comments). 2009.
[3] Available at www.cia.gov

According to recent IMF figures[4], economic growth in 2008 was lower than projected but inflation had decelerated. The economy came under pressure from slowing global demand and falling export prices, particularly for diamond and bauxite. On the positive side, growth was solid in agriculture and the service sector. Inflation remained in the double digits with average CPI inflation reaching 14.8% in 2008. After remaining fairly stable for several years, the leone has been gradually depreciating since the beginning of the fourth quarter of 2008. By the end of the first quarter of 2009, it had depreciated against the U.S. dollar by about 6 percent, reflecting a drop in the availability of foreign exchange as export receipts and remittances continued to decline.

These social and economic challenges have a direct effect on the ability of any business to operate profitably; continued pervasive poverty, further exacerbated by the recent economic downtrend, severely constrains the effective market for goods and services.

3.2 Infrastructure

Limited infrastructure throughout the country, particularly the lack of adequate roads, electricity and communication systems, further limits market opportunities already severely constrained by social and economic conditions. While the lack of adequate infrastructure affects the ability of the entire private sector to operate profitably, it presents a particular challenge for small economic operators in rural areas.

As cited in a recent study on access to finance in Sierra Leone[5], “The rural areas, however, face particular challenges. Poor roads and limited infrastructure result in lack of transportation, lack of information and, thus, limited market access.” Most of the rural population depends on agricultural production for its livelihood and the report continues with an examination of particular constraints facing agricultural producers: “The most critical is infrastructure. Inadequate road infrastructure makes it difficult, expensive or impossible for vehicles to reach many farms. This serious gap in the value chain often leads farmers to sell locally at highly discounted prices due to lack of an alternative… Market linkages, already weakened by infrastructure, are further challenged by information gaps … These information gaps limit the capacity of farmers and traders to accurately assess the market and take advantage of opportunities.”

3.3 The Financial Sector

3.3.4 Offer and Demand for Microfinance Services

While the operating environment has not improved much since project inception, the number of institutions providing financial services has grown significantly, with almost 40 banks, microfinance institutions (MFIs) and other programs providing some form of financial services in a country with a population of about 5.5 million.

The number of commercial banks has increased to 14 with the entry of a number of new banks in the last two years, particularly Nigerian banks that have set up shop in Sierra Leone. Several of the commercial banks have piloted microfinance schemes in the past year (Ecobank, First International Bank, Union Trust Bank) in direct competition with microfinance institutions. There are now at least 9 independent MFIs in the country:

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[4] Sierra Leone: A Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding. International Monetary Fund, June 4, 2009.

[5] Miamidian, Eileen. Access to Finance and Rural Finance in Sierra Leone, November 2008.

ARD, BRAC, CEDA, Finance Salone, GGEM, Hope Micro, LAPO SL, Luma, and SMT. The 23 banks and MFIs have concentrated their lending in urban areas.

In addition to the commercial banks, there are 6 community banks created by the Bank of Sierra Leone primarily serving rural populations. The number of international NGOs and donor projects providing financial services has also continued to grow. These programs focus on providing rural finance through informal savings and loan mechanisms. A partial list of these includes CRS, CARE, World Vision, Concern, Africare, IFAD, FAO and the World Bank.

Recent studies have indicated that the demand for microfinance services, particularly credit, has grown dramatically since the analysis done at project inception; in 2003 it was estimated that the unmet demand for financial services was between 76,000 and 145,000 customers needing US$ 20 to 40 million in loans, while the 2008 studies estimate the demand for loans is US$ 239 million for almost 375,000 households.

These estimates were derived from a field survey of 2,500 households throughout the country conducted in 2008.[6]. The survey found that 58% of the sampled households indicated an interest in obtaining a loan in 2008 (63% of respondent households in rural areas and 45% in urban areas). Further, it found that whereas respondent households had in the past applied for an average loan of Le 0.9 million (USD 316), they planned to apply for an average of Le 1.79 million (USD 616) in 2008. Subsequent studies[7] extrapolated these survey findings to the entire population of the country to arrive at a total estimated demand of US$239 million for loans from 374,000 households (120,000 in urban areas and 287,000 in rural areas). Thus, both the survey and the subsequent studies estimated ***expressed demand*** for loans and other financial services rather than the ***effective market*** for services.

While there continues to be unmet demand for microfinance services, particularly in rural areas, the evaluation team considers that the real, effective demand for financial services, particularly credit, is significantly less than the expressed demand cited in the survey and studies mentioned above. The ability of most of the population to use credit productively is limited due to conditions described in Sections 3.1 and 3.2 above. Credit fosters increased production of goods and services and without adequate markets, or access to markets, credit can result in more harm than good to poor entrepreneurs; faced with the inability to sell the increased production at an adequate price, microentrepreneurs are left with a debt obligation they cannot meet without compromising basic household financial security.

As noted above, the provision of credit is unevenly distributed throughout the country, as commercial banks and MFIs have concentrated their operations in and around urban centers. With at least 16 financial institutions providing microloans in the same urban centers, the urban market for microcredit is becoming increasingly saturated. The 13 PLIs supported by MITAF alone report 120,000 outstanding loans at June 2009, most of

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[6] Koch, Dr. Ernest A. Field Survey on the MF Demand in Sierra Leone. ACP Business Climate Facility (BizClim) – a joint ACP-EU initiative. January 2008.
[7] Two reports commissioned by KfW: Miamidian, Eileen. Access to Finance and Rural Finance in Sierra Leone, November 2008; Miamidian, Eileen and Rauf, Khalaf. Restructuring of MITAF (final draft for comments). 2009.

which are in urban areas, or 100% of the expressed urban demand estimated by the recent studies. One indication that the supply of microcredit is already greater than demand in most urban areas is the growing number of clients borrowing from more than one lender at a time.

Although in the absence of a credit information bureau there is no verifiable data about the extent of multiple lending and client over-indebtedness, all bank and MFI senior managers interviewed during the evaluation cited multiple lending as a key factor in continued problems with portfolio quality. During a meeting held by the evaluators with most of the SLAMFI members, MFIs estimated that 10-15% of their clients also have loans from at least one (and often several) other institutions and all agreed that excessive competition is one of the top three challenges facing the sector. Pertinent comments made by bank and MFI managers to the evaluation team are shared in Box 1 below.

1: Urban Microcredit Market Saturation

"The banking sector has changed drastically over the last two years. The number of commercial banks has doubled but the market hasn't grown because the economy has contracted. There has been a lowering of standards with so many banks, some who will do anything to get business. I see the potential for microfinance institutions but hope we do not end up with as many MFIs as banks." *Managing Director, commercial bank*

"We are having a harder time to get clients to repay. Before we could put some pressure because we were the only source of their loans. Now, we see that many clients have taken loans from other institutions and they can't manage the amount of money they have. One commercial bank actually sends people to collect their loan payments from our clients on the days they come to us for repayment." *Finance Manager, MFI*

"There is a lot of liquidity in the system and the underlying economy has not expanded to make use of this money. There is a clear oversupply of credit in the microfinance sector – clients are going to several banks or MFIs at once and are becoming over-indebted. We see this problem especially in the Western area but we can't set up operations in other areas because of the lack of infrastructure." *Managing Director, commercial bank*

The severity of the constraints faced by rural farmers and entrepreneurs are such that most have at best a minimal ability to use credit effectively. Indeed, the 2008 report on access to finance pointed out that, " … access to finance is not yet a primary constraint to rural development. In fact, increased access to finance will likely only have a significant impact if other development challenges are first addressed."

It is also important to understand that banks and MFIs have limited their expansion into rural areas because they face the same constraints that clients do; the lack of infrastructure in rural areas results in the need for a prohibitive level of investment to establish branch offices that can be effectively supervised from headquarters. In fact, only Rokel Commercial Bank has established branches in each of the 12 provincial capital towns thanks to a massive investment in its own infrastructure, including a VSAT that enables real-time information management throughout its network.

3.3.5 Portfolio Quality

Problems of portfolio quality continue to plague the entire financial sector. In the section pertaining to the banking sector, the IMF report cited previously noted that: "The quality of the loan portfolio remains a problem, however. While nonperforming loans (NPLs) relative to gross loans declined by 8.4 percentage points in 2008 to 23.3 percent, the nominal value of NPLs increased by 16 percent." The commercial banks that have attempted to downscale through pilot microlending programs also have faced serious problems with the quality of their microlending portfolio; two of the banks interviewed during the evaluation reported a portfolio at risk (PAR) of more than 25%. Although many of the PLIs financed by MITAF have performed better than the commercial banks with regard to portfolio quality, they also have faced continuing challenges in maintaining PAR at a sustainable level (see Section 8).

Discussions with senior managers of banks and MFIs during the evaluation revealed a host of reasons for poor repayment performance. While many of the factors affecting portfolio quality can be traced to a lack of adequate internal controls and insufficient lending policies and procedures, there are also a number of external factors, most of which are outside the control of lenders. External factors include: the slowing economy and client reports of drops in sales and profitability; a high incidence of client illness, accidents and death; lack of a credit culture that would foster client willingness to repay loans; a high degree of corruption resulting in lending fraud; potentially growing client over-indebtedness related to the growing incidence of multiple borrowing.

The issues of credit culture and fraud deserve separate comments, as these continue to be among the most significant factors affecting portfolio quality in the financial sector. What is commonly referred to in the sector as the "lack of a credit culture" is often attributed to a lingering post-war impression among clients that loans do not need to be repaid either because they are a form international aid or are associated with governmental politics. This unwillingness to pay may go hand in hand with the fairly high incidence of fraud. The fraud encountered in the sector is not surprising in a country where corruption seems to be commonly accepted. According to the Transparency International Corruption Perception Index, Sierra Leone is still among the 70 countries in the world that are considered to have rampant corruption[8]. Studies have linked corruption to collectivistic and hierarchical societies based on the kind of particularism or personalistic rule such as that found in Sierra Leone. According to one study[9], "In these societies people's treatment depends on their status or position in society; a culture of privilege reigns, making unequal treatment the accepted norm. Individuals struggle to belong to the privileged group rather than to change the rules of the game. Favors are distributed or denied as part of a customary exchange with rules of its own … For the many people with lower status, bribery may be the only way to secure equal treatment." Developing lending strategies able to overcome such cultural norms and perceptions will remain a challenge for the entire financial sector for some time to come.

3.4 Human Resources

Little data is available about the effect of the war on the pool of educated, experienced people to undertake the re-development of the country. However, almost everyone

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[8] September 30, 2009 report from Inter Press News Service Agency (IPS), www.ipsnews.net.

[9] Mungiu-Pipidi, Alina. Corruption: Diagnosis and Treatment. Journal of Democracy, Volume 17, The Johns Hopkins University Press. July 2006.

interviewed formally and informally in the course of the evaluation confirmed that the lack of sufficiently qualified people is a significant deterrent to the development of the country as a whole and the financial sector in particular. Indeed, staffing was the top challenge identified by the MFI managers who attended the evaluation workshop.

The civil war had a dramatic effect on the population in Sierra Leone, primarily through the loss of thousands of lives, but also through migration as thousand fled the country. According to the Sierra Leone Diaspora web site[10] it was estimated according to UN figures from 2002 that approximately 30% of the educated nationals left for other countries, mainly the USA, the UK and mainland Europe. In addition, the education system was severely disrupted for the entire 10-year course of the war, resulting in an entire generation that has not received the quality of education that would prepare it for professional positions. Indeed, the fact that only 38% of adults are literate underscores this problem.

One indication of the limited pool of qualified and experienced managers is the staff poaching that has been rife in the financial sector for the past few years. Particularly with the influx of new banks, the number of managerial positions available in the sector far exceeds the number of qualified candidates. Most of the financial institutions interviewed reported having lost a number of staff to other institutions; this is a particular problem in the MFIs that are already suffering from an insufficient number of qualified managers (see Section 8).

4 Program Hypothesis, Objectives and Targets

When UNCDF prepared the project in 2003, analysis indicated that Sierra Leone had a thriving informal sector with limited access to financial services. Despite numerous microcredit NGOs, projects and programs that were at the time estimated to serve around 13,000 active borrowers with a total loan portfolio of about $1 million, it was estimated that the unmet demand for financial services was between 76,000 and 145,000 customers needing US$ 20 to 40 million in loans.

The project document (ProDoc)[11] concluded that, “Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government’s microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system.”

The project was intended to address two major constraints: the absence of professional microfinance institutions that drive the development of a microfinance sector and the lack of an enabling environment shaped to optimally develop the growing sustainability and outreach of the young microfinance industry. The project intended to address these issues by concentrating on four mutually reinforcing program outputs to support the

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[10] www.sldn.org

[11] SIL/03/C01, Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone (2004 - 2009), December 2003.

development of a competitive and sustainable inclusive financial sector. The first two outputs were related to the development of the microfinance industry itself while outputs three and four were related to the development of an enabling environment. Specifically, the stated program outputs were:

5) Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach within a competitive environment.
6) Strategic partnerships are built with other donors, equity investors and commercial banks in joint support of a sustainable pro-poor financial sector.
7) A professional microfinance unit has been established in the Bank of Sierra Leone to ensure an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system.
8) Sound microfinance principles have been disseminated and are widely accepted and adopted.

A number of specific targets and indicative activities were set for each of the four outputs, although the only quantifiable targets were those related to outreach (number of active clients), PLI financial performance (level of financial self-sufficiency), and the amount of additional financial resources to be mobilized. Some of the targets outlined in the ProDoc were subsequently revised in negotiations with the TSP, although the ProDoc was never amended to reflect these changes[12].

The following table shows the targets related to Output One (potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach within a competitive environment), both according to the ProDoc and as negotiated with the TSP and tracked throughout the project.

Targets per ProDoc for Output One	Targets negotiated with TSP and tracked throughout project
Increase in number of active clients of selected MFIs - 10,000 active clients by end of year one. - 40,000 active clients by end of year three. - 80,000 active clients by end of year five.	15,000 active clients by the end of 2004 20,000 active clients by the end of 2005 30,000 active clients by the end of 2006 50,000 active clients by the end of 2007 75,000 active clients by the end of 2008 93,000-100,000 active at project end in 2009
At least three MFIs have become fully self-financing in year 5	At least one MFI has reached financial self-sufficiency
At least three MFIs have adopted international standards in governance, systems and policies.	At least three MFIs have adopted international standards in governance, systems and policies.
At least three MFIs have a large branch network that covers a major part of Sierra Leone.	At least two MFIs have a large branch network that covers a major part of Sierra Leone.

[12] After discussions about the mid-term evaluation, the ProDoc was amended in July 2008 and although the targets themselves were not amended, some of the indicative activities were.

4.1 Evaluation Findings on Project Targets

At the time of the mid-term evaluation, the project was on track with regard to achieving expected results with 9 partner lending institutions. The evaluation team made a number of key recommendations, however, to ensure that the project remained on track and that project results would be sustainable. Several of these recommendations related to the project objectives and targets. Specifically, it was recommended to reduce the targets for numbers of active clients, and the targets related to geographic coverage, to more accurately reflect the partner lending institution's ability to grow sustainably and to reflect more realistic coverage of the total potential market. It was also strongly recommended not to finance any additional partner lending institutions, given the limited potential market.

The project outputs and targets were not revised downward as recommended; indeed, one of the indicative activities added to the amended ProDoc ("to design and implement a specific support strategy for enhancing rural outreach") would seem to increase the pressure on PLIs to expand outreach. In addition, since the mid-term evaluation, five more institutions were funded by MITAF donors, both through the project structure and by donors independently.

It is clear that the outreach targets reflected the sincere desire of the GoSL and the donors to help to reduce poverty by building an inclusive financial sector. Nevertheless, the targets did not reflect an adequate analysis of the capacity of the microfinance sector at project inception nor realistic expectations about the speed with which sufficient capacity could be built.

Further, some of these targets created an incentive system that was detrimental to sustainable results. In particular, the two key quantifiable project targets – increasing numbers of clients served and covering all operating and financial costs through income (financial self-sufficiency) – create conflicting incentives for the partner lending institutions. In order to access funding, PLIs strove to achieve these targets but did so at the expense of both clients and of their own institutions. A closer examination of the MFIs' financial performance reveals that they have increased their income by charging extremely high effective interest rates[13] while they have contained their expenses by not investing in the level of staff necessary to maintain sound operations for the scale at which they are operating (see Section 8 for further discussion of the performance of PLIs and their common institutional weaknesses).

Donors and the TSP argue that the PLIs set their own performance targets through their business plans and that the TSP often had to revise their projections downward to reflect more realistic goals. Nevertheless, it was clear to the evaluation team from discussions with PLI managers that they set high growth targets because they were aware that this is what the donors expected and because they believed they needed to demonstrate the intention to achieve both increased outreach and increased profitability in order to access project funding. It is also the opinion of the evaluation team that because the TSP's compensation was contingent upon achieving project targets, an inherent tension was created between encouraging PLIs to expand and helping them to build capacity.

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[13] The evaluation team was able to calculate effective interest rates for some of the MFIs visited and found rates ranging from 89% to 210% p.a. The effective interest rate calculation tool used by the team can be downloaded at www.mftransparency.org.

In addition to unrealistic targets for PLI growth, it was perhaps unrealistic that the project be expected to achieve significant results at the meso and macro levels. In a sector that was so weak at the beginning of the project, most project resources were necessarily dedicated to strengthening the PLIs.

5 Program Structure

According to the ProDoc, implementation and management of the project was to include the following structures:

The BoSL was named as the GoSL counterpart of the project. To support the enabling environment, BoSL was expected to establish a microfinance unit as a permanent focal point for the development of the microfinance sector. The BoSL was also expected to establish and lead a microfinance sector development working group with representatives of institutions supported by the project to periodically review the policy, regulatory and supervisory framework for microfinance, to examine the constraints and opportunities that influence the sector and to identify changes needed for the sector to develop as an integrated part of the financial system.

An Investment Committee (IC) that comprised all donors investing $1 million or more in the project was to be established to: receive business plans and funding proposals; jointly review potential investments; complement relative strengths and weaknesses (provision of only technical assistance, grants, loans or equity) in order to tailor investment packages to the institution; utilize standard reporting and performance based contracts with MFIs; review individual investments within the context of the GoSL's policy of building a pro-poor, sustainable financial sector; jointly supervise the technical assistance provided to participating MFIs; jointly carry out needed technical reviews, evaluations, audits, field monitoring visits, etc. within a commonly (scheduled) agreed time period; jointly review progress in building the enabling environment for sustainable microfinance. The IC was to be chaired by the Governor of the BoSL (as a non-voting member) and technical officers from the Ministry of Finance and the Ministry of Development and Economic Planning (MODEP) were to sit as observers.

A Technical Service Provider (TSP) was to be contracted, with overall responsibility for managing the program of assistance to ensure that the results specified in the ProDoc were produced.

Roles were also foreseen for (and TOR developed for) the existing Microfinance Coordinating Committee (previously the Microfinance Task Force) and for a Microfinance Unit in the Ministry of Economic Development and Planning (MODEP). It was expected that the microfinance units of both the BoSL and MODEP would report yearly to the MCC based on information received from microfinance providers.

Although the ProDoc was not amended at the time, in mid-2005 it was decided to formalize a Technical Committee that would meet separately from the Investment Committee. Its purpose was to discuss project strategy, implementation and management and make recommendations to the IC, allowing the latter to focus on approving funding to MFIs.

5.1 Evaluation Findings on Program Structures

The mid-term evaluation noted a number of problems with the project structure and made recommendations for improvement. This section covers findings on the degree to which mid-term recommendations were implemented are covered, as well as the evaluation team's overall findings from the final evaluation.

Generally, the final evaluation process has led the evaluators to question the effectiveness and efficiency of the overall project implementation structure. Specifically, the decision to hire one consulting firm to manage the project for the donors while also providing services to many sector stakeholders, and the participation of donors through an Investment Committee, may not have been the optimal choice. Some type of apex institution, while fraught with its own challenges, would have provided a structure that could have managed pooled donor funds while providing a more clear separation of financing and capacity-building functions.

5.1.1 Findings on GoSL Structures

The mid-term evaluation questioned the necessity for two microfinance units in both the BoSL and MOPED and found that their respective roles vis-à-vis the sector were not clear. The evaluation suggested that project support would be more appropriately directed to the BoSL Banking Supervision Department. The project followed this recommendation; since the end of 2006, all project support to the BoSL has been provided to the Banking Supervision Department to help develop the regulatory environment for microfinance.

Changes in government structures that took place after elections in 2007 rendered the mid-term suggestions about the microfinance units moot. First, the Ministry of Finance and MODEP were merged into one new ministry, the Ministry of Finance and Economic Development (MOFED). Although the Principal Planning Officer who had previously staffed the MODEP Microfinance Unit has retained a position in MOFED, there is no separate Microfinance Unit within MOFED; it remains unclear what role, if any, MOFED now has in relation to the microfinance sector or the project. Second, the Microfinance Unit in BoSL was eliminated when the department that housed it (the Development Coordination Department) was eliminated in 2009. The staff person who was the Manager of the Microfinance Division then moved to the BoSL Financial Markets Development section of the Financial Markets Department. According to the Senior Manager, the section now has little to do with the microfinance sector and is primarily supervising an exit strategy for the BoSL vis-à-vis the community banks.

Therefore, although the project has helped to equip the Banking Supervision Department of the BoSL to carry out the activities that are appropriate to government, notably the registration, licensing and supervision of microfinance institutions, personnel with unclear roles with respect to the microfinance sector remain in other government bodies.

5.1.2 Findings on Investment Committee

The initial IC comprised the United Nations Capital Development Fund (UNCDF) and the United Nations Development Program (UNDP), with Kreditanstalt für Wiederaufbau (KfW) committing funding and joining in August 2004. A fourth donor, Catholic Organization for Relief and Development (Cordaid), committed sufficient funding to the project to become a member of the Investment Committee in 2005. No other donors

joined the IC, although additional financing was channeled through the project structure (see Section 6).

The evaluation noted a significant divergence of opinions and preferred strategies among the members of the Technical and Investment Committees (government and donors) and recommended that these stakeholders reconfirm their commitment to the project's stated objectives and modify the expected project targets (see Section 4).

The mid-term evaluation was discussed in depth at the November 2006 IC meeting and the GoSL and MITAF donors sponsored a National Microfinance Forum Workshop in May 2007 to harmonize stakeholders' concerns and build a national shared vision for the sector. After these discussions the Technical Committee was replaced with an Advisory Committee to be chaired by the Governor of the BoSL and to include one technical expert from the BoSL, MOFED, the Sierra Leonean Bankers' Association, the Sierra Leone Association of Microfinance Institutions (SLAMFI) and investors in the MITAF program. The composition of the Investment Committee was also modified to include only contributing donors.

Despite a re-commitment by government and donors to a common project vision after the mid-term evaluation, the contributing donors' philosophies and preferred approaches remain fundamentally different. Each donor has its own strengths and to some degree the four donors complemented each other in project financing. KfW is a strong proponent of commercial microfinance, with a preference for financing for-profit institutions it believes are likely to achieve significant scale and to provide a full range of financial services. Cordaid has a particular interest in working with and through small local institutions in order to build civil society. UNDP has a particular interest in and emphasis on building national capacity through local institutions at all levels. UNCDF shares some of KfW's philosophy and its focus has shifted since project inception to place more emphasis on savings mobilization and rural outreach by supporting international microfinance leaders to serve as a catalyst for sector development.

Although the IC structure enabled each donor to play to its strengths and thus permitted a range of funding approaches, it also seems to have led to the lack of a cohesive view of the sector overall. The IC structure dictated that although each MFI investment needed to be reviewed and approved by all members, in practice it also enabled each member donor to continue to finance the type of institutions it prefers without regard to the microfinance market as a whole. Further, the involvement of government even peripherally in IC discussions led to the financing of the clearly weak community banks that did not meet project criteria. The result has been the proliferation of fairly weak institutions providing financial services to the poor, in a market that likely cannot support most of them in the long term.

Finally, the IC concept did not permit the continuity necessary for effective management and decision-making. It is notable that since the mid-term evaluation, there has been a virtually complete turnover of personnel within the government and donor structures involved in the project. In fact, in a number of institutions, three or more individuals have been members of the Investment and Advisory Committees since the project started. Although in theory the individual members represent an institutional perspective, often in practice each new individual brought a different personal perspective. While some of the changes in IC membership have been beneficial to the project, the overall lack of

continuity has resulted in mixed messages over time and has hampered the TSP's ability to operate effectively.

5.1.3 Findings on Technical Service Provider

Enterprising Solutions Global Consulting, a private international consulting firm, was contracted to manage the project in July 2004, and to ensure that project services were designed and delivered and that project targets were met. The TSP acted as an implementing agency for channeling donor funds, although without the authority to approve investments or sign funding contracts. In addition to its primary responsibility to facilitate donor investments in PLIs and to provide capacity-building services to them, the TSP was expected to fulfill many other key project functions as well.

The evaluation team found that the TSP has performed very well and this assessment was echoed by the majority of stakeholders interviewed during the evaluation (see section 6.1 for further discussion of the TSP performance). Nevertheless, the multiple roles assigned to the TSP presented barriers to its ability to be as effective as possible, given the limited number of staff that could be hired within the project budget.

A list of the TSP's responsibilities related only to working with PLIs includes: assessing the capacity-building needs of PLIs; designing and providing training and technical assistance to the PLIs; designing criteria for accessing project funding; receiving and negotiating PLIs' requests for portfolio funding and operating subsidies; assessing PLI capacity; presenting financing requests and making recommendations to the IC; monitoring PLI performance to ensure that performance criteria was met prior to the disbursement of funds; monitoring the disbursement of funds from donors; designing regular reporting formats for the PLIs and training them in their preparation and use; receiving performance reports from the PLIs. Although the TSP contracted some of the training and technical assistance to other organizations or consultants, TSP staff provided much of the capacity-building advice itself.

While donors and MFIs alike appreciate the services that the TSP has provided in preparing investments (working with PLIs to develop reasonable requests, assessing the PLI capacity to use the funding effectively and presenting requests to the IC), there has always been a conflict of interest for the TSP on the ground. When one agency is both guiding MFIs through training and technical assistance and recommending the type and amount of funding they receive, the real impact of capacity-building is compromised; MFIs tend to implement only what they believe will gain them access to the available funding and/or implement measures only because they believe it will result in increased funding. Further, the TSP becomes both "judge and jury" in the untenable position of advising the institutions on their capacity-building strategies on the one hand while assessing their performance on the other.

In addition to the conflict of interest between the roles of "financier" and "capacity-builder" at the micro level (retail finance), ambitious project goals dictated that the TSP also identify and ensure capacity-building for numerous other local recipient institutions at meso (support infrastructure) and macro (policy) levels. As at the retail level, much of this work on the ground was done by TSP staff.

Finally, TSP staff devoted significant time to providing donors with the information needed to monitor project progress, including exhaustive quarterly reports, and to responding to donor requests for other types of information and assistance. It was also

charged with raising additional funds for the project, liaising with GoSL representatives and managing the IC meetings. Because of its sector-wide role and knowledge, local TSP staff also became the effective focal point for the development of the sector, responding to many requests for information from organizations with an interest in microfinance in Sierra Leone.

6 Program Implementation

The project "Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone" was signed between the Government of the Republic of Sierra Leone, the UNDP and the United Nations Capital Development Fund (UNCDF) in December 2003.

Project implementation began in July 2004 when the TSP was contracted. The TSP set up the Microfinance Investment and Technical Assistance Facility (MITAF), which enables the project to function legally in Sierra Leone under the auspices of UNDP. The project is generally referred to as MITAF. Although MITAF comprises the various institutions involved in project management and implementation outlined in Section 5, most people identify MITAF with the TSP.

The project was slated to end on July 2, 2009. However, the donors agreed to extend the project for at least 6 months through December 31, 2009 with the possibility of extension through June 2010 if a follow-up project is not in place to ensure the continuation of services.

As of September 2009, the TSP was managing a total project budget of US$ 13.4 million. Although no new donors joined the project since the mid-term evaluation, the UNDP-funded Youth Employment Secretariat (YES) signed a technical agreement with MITAF in March 2008 and has approved about US $850,000 to be channeled through MITAF lending partners. Additionally, UNCDF, KfW and Cordaid contributed more funding than had originally been budgeted[14]. Of the US$ 13.4 million in funding that had been approved at September 2009, US$ 11.7 million had been disbursed.

Project financing was allocated to: the cost of the TSP; the cost of training and technical assistance for the PLIs; grants for PLI operating costs and fixed assets; grants for PLI loan funds and loans for PLI loan funds. The breakdown of the project budget by type of funding is shown in ***Table 1*** below:

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[14] KfW committed an additional Euro 3 million to the project in July 2008. However, this additional was not reflected in the project budget being managed by the TSP as of September 2009.

Table 1: Breakdown of Project Funding in millions of US$

	Approved by Donors	% of Total Budget	Disbursed at 9/30/09	Pending
TSP	**2.9**	**22%**	**2.9**	
PLI Training	1.1	8%	1.1	
TA for PLIs	3.5	26%	3.5	
Sub-Total Training & TA	**4.6**	**34%**	**4.6**	
Grants to PLIs for Operating Costs and Fixed Asets	**1.4**	**10%**	**1.4**	
Grants to PLIs for Loan Funds	1.4	11%	0.6	0.8
Loans to PLIs	3.1	23%	2.2	0.9
Sub-Total Portfolio Funding	**4.5**	**34%**	**2.8**	**1.7**
TOTAL	**$13.4 million**	**100%**	**$11.7 million**	**$1.7 million**

6.1 Evaluation Findings on Program Implementation

Following is an analysis and evaluation of the quality of the two principle types of services offered by the project to PLIs – financing and capacity-building assistance – and of the capacity-building provided to other meso level institutions.

6.1.1 Findings on PLI Financing

Most of funding approved (78%) was either for direct financial assistance to PLIs in the form of grants and loans or was invested in training and individualized technical assistance on their behalf. The balance (22%) was for the management cost of the five-year project. Several donor and government representatives feel that the cost of the TSP has been too high. The percentage of project resources devoted to management, and the amount earned by the TSP, does not seem unreasonable to the evaluation team, given the very broad scope and complexity of the TSP's multiple responsibilities as described in Section 5.1.3, and as measured against project results.

34% of total funding approved has been for institution-building, both in training provided for the partner lending institutions and for individualized technical assistance. Funding committed for technical assistance includes the cost of Resident Technical Advisors (RTAs) who were provided to most of the PLIs, the cost of Management Information Systems (MIS) for some of the MFIs and the community banks, and some outright technical assistance grants. It is certainly consistent with the needs of the sector that more than 1/3 of project funding was approved for capacity-building. However, almost 22% of the total funding approved and disbursed for training and technical assistance went to one institution, ProCredit Bank, in the form of a US$ 1 million technical assistance grant. Arguably, ProCredit Bank, with its access to significant financing through its international owners, had the least need of all the MITAF-supported PLIs for this type of financing. On the other hand, an almost equal amount (about $800,000) went to RTAs and MIS for the 4 community banks. The remaining US$ 2.8 million, or 60% of the total funding approved for capacity-building, was distributed among the remaining 8 PLIs.

Only 10% of overall funding was approved for grants to PLIs to support operating costs or to acquire fixed assets. This percentage is extremely low, particularly considering that MFIs are reluctant to invest in adequate staff and systems as they strive to meet the project's funding criteria and targets (see Sections 4.1 and 8).

The percentage of funds committed to portfolio financing also seems low, at 34%. Nevertheless, it is important to note that the project has not been able to disburse even this amount of funding. All of the un-disbursed funds at September 2009 (US$ 1.7 million) had been approved for portfolio funding. More than $600,000 was pending because the MFIs in question had not been able to meet disbursement conditions.

The mid-term evaluation recommended that the financing strategy be modified to provide more support for training, technical assistance and operational subsidies. It was also recommended that the project develop standard institutional performance criteria to be applied to all PLIs in order to access to funding, rather than to negotiate performance targets with each PLI separately. Finally, it was recommended to develop criteria to measure institutional strength and financial performance separately, and to de-link access to operational subsidies from financial performance targets in order to allow institutions to more readily access the financing they needed to build their capacity. The budget was not revised and no additional money was provided for capacity-building services, while little additional funding was allocated to operational subsidies since the mid-term evaluation. The TSP did develop good standard financial and institutional performance criteria in mid 2007 but donors continued to include specific additional criteria in each of their contracts with partner lending institutions.

The mid-term evaluation had noted that donor disbursement procedures were unwieldy and contributed to unnecessary and disruptive delays in MFI financing. The project implementation structure did not call for pooling donor funds, which would have enabled much more efficient disbursement. Instead, it was recommended that all donors open imprest accounts.

KfW was the only donor to create an imprest account and efficient disbursement of donor funds remained a challenge through the project. After the mid-term evaluation, donors moved from "parallel "donor financing for each PLI investment to "basket" funding, through which one donor would take responsibility for one PLI investment. This change helped to overcome some of the problems associated with multiple donor financing. However, continued delays in the disbursement of donor funds, notably from UNCDF, has hampered the operations of the MFIs in question.

Generally, the PLIs appreciated the impact of MITAF funding on their operations. On a scale of 1 (poor) to 5 (excellent), the average rating of the 10 institutions that completed the evaluation survey was 3.6 for the financial assistance received. All respondents cited better outreach and stronger institutions that resulted from MITAF financing. However, there were also negative comments about the delays in disbursement and the performance criteria that may explain the average rating. A sample of PLI comments from the surveys are included in Box 2 below.

2: PLI comments on MITAF financing

The impact of financing:

"Increased outreach in terms of clients and branches, and staff capacity at all levels has approved."

"Has built up the capacity of the institution in terms of the acquisition of office equipments such as computers, motor bike, recruitment of extra staffs and salary subsidies to existing staff for one year. The provision of support for salary increase for just one year has left a financial burden on the institution. The institution has little or no capital to generating enough income to upkeep this increases"

"Acquisition and sustenance of a strong MIS Software (Loan Performer) resulting to timely and accurate reporting of portfolio; Provision of computers has helped in faster work processing at office level; Provision of motor bikes has helped with field monitoring resulting to improved portfolio quality; Increased client outreach; Product diversification; Increased branch network."

"Provided working capital for increased outreach, provided basic office furniture (filing cabinets, one desk and chair), strengthened staff capacity execute and manage the program."

Other comments on financing:

"Timing should be seriously looked at."

"Delay in remitting approved funds."

"For loan or grant provision to MFIs, MITAF need to based its analysis on Sierra Leone microfinance environment and assess other indicators rather than look at PAR."

"The loan capital that was supposed to be received in 2006 was received in bits, untimely, and the last installment was received in December 2008. MITAF requires 5% PAR for an institution to access grant or loan capital, even if an MFI has all other requirements. It is not practical for many MFIs in Sierra Leone to have 5% PAR consistently."

It was also recommended in the mid-term evaluation that the TSP improve its financial tracking system. The final evaluation found that the TSP financial tracking and reporting remained quite cumbersome. The TSP continues to manage and report on project financial information from two different offices – local staff in Sierra Leone monitors the disbursement of donor funds to MFIs and maintains the primary reports on this type of funding, while the head office in Mexico receives, disburses and monitors the budget for its own operations and for training and technical assistance. This separation of functions was necessary because donor funds for PLIs are not pooled or even channeled through a central account in the TSP. Nevertheless, the lack of a centralized and consolidated MITAF financial management system continues to lead to disparities and gaps in the project financial records. While all information is available somewhere, the evaluation team found it difficult to understand the appropriate source for various types of funding information and to reconcile the many reports.

6.1.2 Findings on PLI Capacity-Building

Generally, the evaluation found that the TSP, Enterprising Solutions Global Consulting, performed very well with regard to capacity-building in the PLIs, ensuring that many

project targets were met. However, the evaluation identified several areas in which the TSP might have been more effective in helping to build sector capacity.

Access to information is a critical element in helping to build the capacity of a microfinance sector as a whole; it promotes common standards and provides information that is critical for adequate market analysis. Little information on the sector was disseminated by the TSP beyond the Investment Committee. When it became apparent that the meso-level structures that were expected to fulfill this role were not working (such as SLAMFI and MFP, as discussed in Section 6.1.3 below), it would have been helpful if the TSP had undertaken to share the individual PLI performance information it collected with all of the PLIs. In addition, the TSP experienced many difficulties in obtaining accurate and timely information and focused its efforts primarily on getting good information. It would have been helpful if staff had devoted more effort to following up with PLIs to understand why they were having problems with reporting or in helping them to understand the reporting requirements.

The mid-term evaluation recommended that the TSP focus its future PLI capacity building on areas of identified critical weakness, and ensure that services became more demand-driven. Although MITAF training addressed some areas of critical weakness in the years since the mid-term evaluation, capacity-building needs and services continued to be determined primarily by donors and by TSP staff. There is no indication that the PLIs were consulted on their continued training and technical assistance needs and at least one MFI commented to the evaluation team that they had not requested an RTA but that this technical assistance was imposed by the donor in question. While there is a certain paradox in asking PLIs that do not recognize their own weaknesses to identify their capacity-building needs, it would have been possible to involve the PLIs more in determining the types of capacity-building services most suited to them.

Nevertheless, the TSP did a good job in the area of training, with a mix of approaches that included delivering training workshops directly, working with the local Microfinance Program (MFP) to deliver local training, hiring external firms to conduct training on specialized topics and paying for a large number of MFI managers to attend high-level international training courses. However, many of the PLIs do not seem to have internalized the lessons learned through training or applied them to their operations. Indeed, many of the PLIs are institutionally weaker now than they were at the mid-term evaluation (see Section 8 for further discussion of the overall institutional strength of the PLIs).

The TSP is to be particularly commended for identifying many regional consultants to act as RTAs for the MFIs. However, the technical assistance provided by both ESGC staff and the RTAs identified by the TSP and financed by the project seem to have had little lasting impact on many of the MFIs. Although the assistance generally was appreciated by the PLIs, few of the institutions seem to be applying the systems and policies developed by the RTAs. In the estimation of the evaluation team based on discussions with the PLIs in question, this is partly due to the fact that some PLIs did not feel involved in the decision to hire the RTAs, and to staff inability to understand and implement recommended changes, but is also due to the fact that ESGC staff and the RTAs tended to develop manuals and plans for the institutions rather than guide them in developing these materials for themselves.

PLIs were asked to rate MITAF training and technical assistance on the same scale they used to rate financial services. On a scale of 1 (poor) to 5 (excellent), the average rating of the 10 institutions that completed the survey was 4.1 for both training and technical assistance. All stated that the training resulted in better understanding of microfinance by all staff, better management and reporting, and stronger institutions, and that the technical assistance also had a positive impact, especially in developing systems and policies. Some PLI comments about the training from the surveys are shared in Box 3 below.

3: PLI comments on MITAF training

The impact of training:
"Great impact on capacity building for our staff."

"Correct measurement of our portfolio quality; presentation of our financial statements according to industry standards; good management (zero tolerance) of delinquency; better risk management strategies in place."

"Helped staff to understand the basic concept of microfinance and MITAF has introduced best practices. Without MITAF there will be lots of problems in the industry."

"Helped us to reposition for greater challenges."

"Improved risk management strategies, delinquency management, fraud prevention, and cash control; Development of our working manuals (Group and Individual lending), HR, Finance, and MIS manual); Product development; Sharpened internal control tools."

Other comments on training:
"Training has been centralized in Freetown, would be better to go around provinces. Training duration has been too long at times."

"Associated training costs (travel and per diem) not normally covered by MITAF."

"MITAF should follow-up the usage of learning from training. It should also conduct refresher training for MFIs."

6.1.3 Findings on Meso Level Interventions

Two of the project's intended outputs were related to improving the operating environment for the microfinance sector and were intended to be achieved through capacity-building of local institutions at the meso and macro levels. It should be noted that there was no separate budget for the capacity-building expected to be achieved at these levels. Further, the only specific local structures at the meso level identified in the ProDoc were existing audit firms and a non-existent credit reference bureau, while the BoSL was identified as the primary counterpart at the macro level. This section examines project implementation and results at the meso level; please refer to Sections 5.1.1 and 7 for further description and analysis of the macro level interventions.

Thus, part of the TSP's initial work was to identify potential local counterparts to provide meso-level services such as training, the development of industry standards and the exchange of information within the sector. The only existing local institution that appeared suited to provide training to PLIs was the Microfinance Program (MFP), a unit within the National Commission for Social Action (NaCSA). Therefore, the TSP also

took the initiative to help the PLIs form the Sierra Leone Association of Microfinance Institutions (SLAMFI), with the expectation that it would be able to take over some of MITAF's key roles at the end of the project, particularly serving as a forum for setting industry standards and promoting efficient and transparent information exchange, as well as for the dissemination of best practices. After identifying one local counterpart and helping to form a second, the TSP devoted significant resources to building their capacity, in addition to providing training to local audit firms.

MITAF worked closely with MFP to develop its training capacity and MFP performed adequately according to MITAF staff and MFIs who attended its training programs. As the partnership developed, MITAF also assisted MFP to become a certified distributor of CGAP technical materials and thus to serve as a "best practice" resource center for the sector. Unfortunately, due to internal constraints and reorganization, most of the MFP staff has left; only one officer remains with funding assured for only one more year. As a result, the impact of the MITAF assistance has been almost nil and the MFP no longer has the capacity to deliver services to the sector.

In addition to being instrumental in establishing SLAMFI, by helping the MFIs to write the by-laws and register the association, TSP staff continued to facilitate its meetings through 2006. The TSP also prepared a business plan for SLAMFI that was presented to the IC for funding. The IC rejected the proposal, arguing that the member MFIs should work toward a self-sustaining institution. Although the evaluation team disagrees with the reasons for the IC rejection, it found that the business plan and associated funding needs were overly ambitious for a nascent membership organization.

There is no record of SLAMFI meetings having taken place since early 2007 and the association is clearly now non-functional. The evaluation team held a group meeting with all of the MFIs that have been financed by MITAF (also the core SLAMFI members) to discuss common challenges facing the sector and the role of SLAMFI. All participants agreed that there is a need and role for SLAMFI. However, MFIs said that there was a perception that SLAMFI was a creation of MITAF and that its meeting agendas and activities were driven more by MITAF than by the MFIs themselves. The MFIs also mentioned other barriers to SLAMFI's functioning including the need to pay a membership fee and the limited time that officers have to devote to the association, given their own institutional duties.

MITAF had conducted one workshop for 5 local audit firms as of the mid-term evaluation, but no additional training or follow-up has taken place since then. The evaluation team was able to review several audit reports prepared both prior to and after the training. While some improvement could be noted, most audit reports prepared by local firms are not yet up to international standards. Additionally, the limited number of trained audit firms constrains their ability to serve the sector; at the beginning of the field phase of the evaluation (September 2009), only three of the MFIs had received their audited financial statements for 2008.

7 Program Results

The project has achieved most of its quantifiable targets, as outlined below. Please find a Summary Table of all project results in ***Annex F***.

7.1 Output One

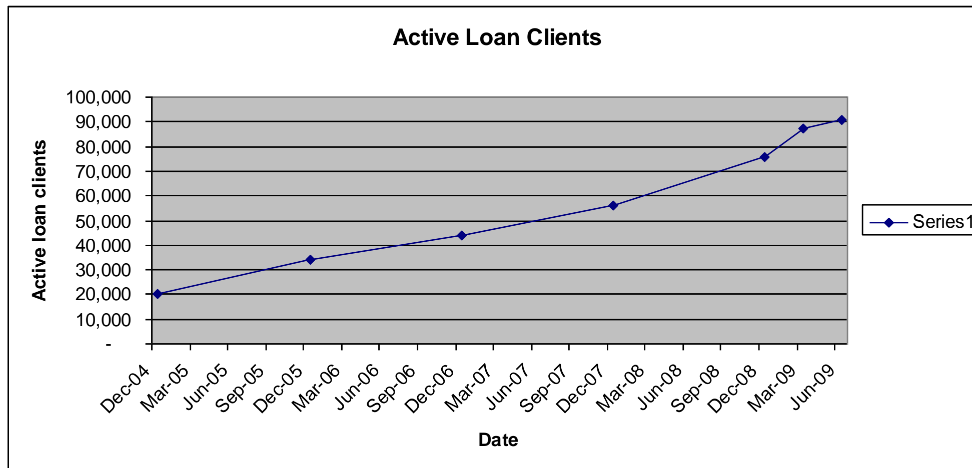
“Potential leaders of MF industry have reached sustainability and have considerably increased their outreach to develop a competitive, sustainable pro-poor financial sector”.

The targets for Output One focused on increasing outreach by partner lending institutions (numbers of clients and geographic coverage) and on increased institutional strength of the partner lending institutions.

Target One: Increase, from the baseline 13,000, the number of active clients of selected MFIs to 15,000 by end 2004, to 20,000 by end 2005, 30,000 by end 2006, 50,000 by end 2007, 75,000 by end 2008, and to 93,000-100,000 at project completion in 2009[15]. MITAF has exceeded the target set for number of active clients. The partner lending institutions financed by MITAF are serving close to 120,000 clients: 79,610 active loan clients served by 8 MFIs and 39,573 clients (savings and loans) served by 5 banks[16].

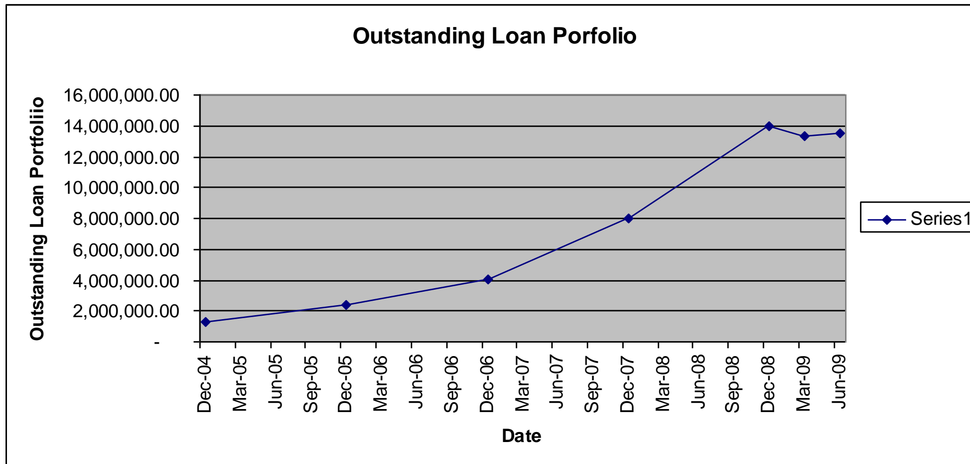
The following graphs show the exceptionally high rate of growth in clients and portfolios since project inception, with active loan clients increasing by 350% in the five-year period, and the loan portfolio by more than 650%:

Graph 1: Growth in Active Loan Clients

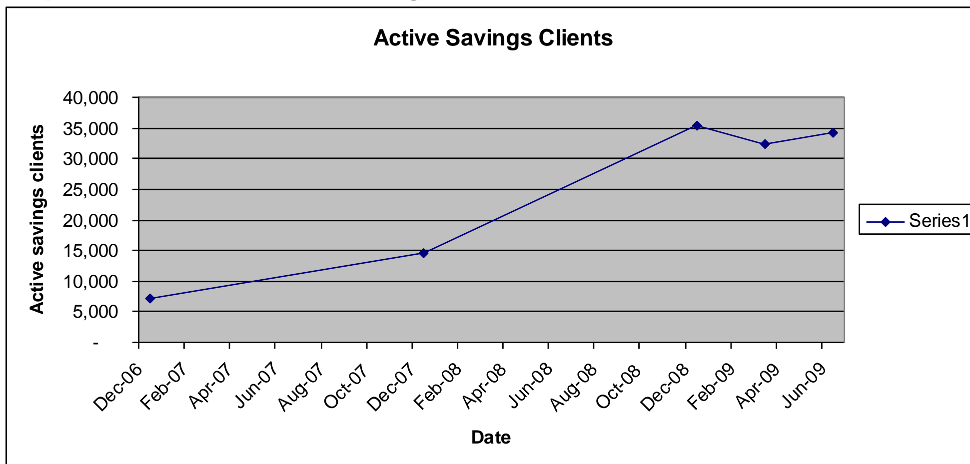


[15] These are the targets that were negotiated with the TSP after the ProDoc was signed, and are those that the TSP has been held to achieving and has been tracking throughout project implementation.
[16] MITAF tracking of targets shows lower client figures because there were no targets set for savings clients. The evaluation figures show active loan clients from the credit-only MFIs separately from the clients of the banks, where the active savings clients figure is used, as loan clients of the banks are most likely a sub-set of savings clients.

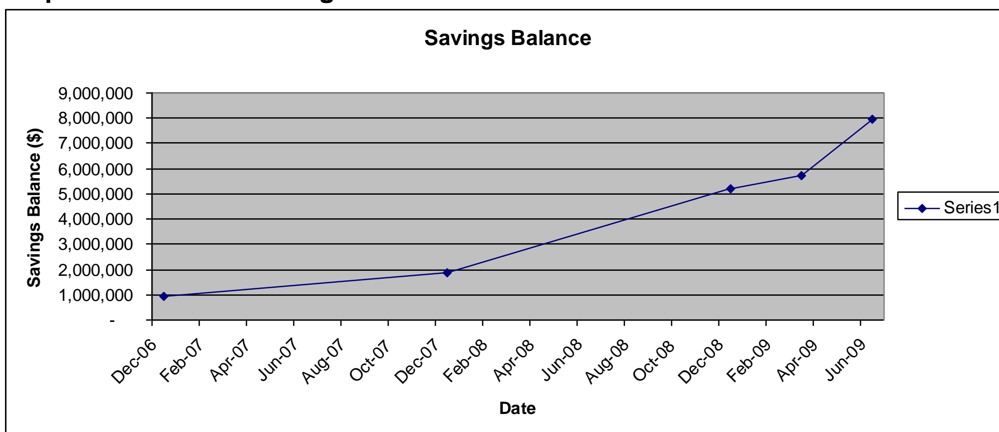
Graph 2: Growth in Outstanding Loan Portfolio



Graph 3: Growth in Active Savings Clients



Graph 4: Growth in Savings Balances



It should be noted that as clients are increasingly borrowing from more than one lender at a time, the number of active loan clients is overstated, perhaps by as much as 15%. It is also important to note that a fairly significant portion of loans made by several MFIs (about 11% of total loans) have been to salaried employees for consumer purposes

rather than to microenterprises; although this enabled the MFIs to meet outreach targets, making consumer loans was not a project objective.

Target Two: At least 1 MFI has reached financial self-sufficiency at project completion. Three MFIs report more than 100% financial self-sufficiency and 9 report at least 100% operational self-sufficiency.

Target Three: At least 3 MFIs have adopted international standards in governance, systems and policies. Despite the capacity-building efforts of the project, the evaluation team found that this target was not met. Although this target was never adequately quantified, only ProCredit Bank can be considered to have achieved international standards in governance, systems and policies. Please see Section 8 for a complete discussion of PLI gaps in these areas.

Target Four**: **At least 2 MFIs have a large branch network that covers a major part of Sierra Leone. Taken together, the PLIs have achieved very broad geographic coverage, although only one covers a major part of the country itself. This is particularly impressive considering the difficulty of reaching rural areas of the country. ***Finance Salone*** is covering major parts of Sierra Leone with full branches in central Freetown, Lumley, Wellington, Kambia, Lungi, Bo, Kono, Kenema and Kailahun. It also has sub-branches in Waterloo in the Western Area, Lunsar and Port Loko town in Port Loko; Daru and Segbwema in Kailahun; Bamoi and Rokuprr in Kambia and Blama in Kenema. ProCredit has three branches. ***ARD*** has branch offices in Freetown, Bo, Makeni and Kenema. ***CEDA*** has branch offices in Bo, Moyamba and Pujehun. ***LAPO*** has branch offices in Freetown, Kenema, Lungi and Waterloo. The ***community banks*** are providing financial services in six major regions of the country: Mile 91, Tonkilili; Lunsar, Port Loko; Segbwema, Kailahun; Mattru, Bonthe; Kabala, Koinadugu; and Zimmi, Pujehun.

7.2 Output Two

"Strategic partnerships are built with other donors and the private sector in joint support of a sustainable pro-poor financial sector."

The targets under this output focused primarily on raising more money for the microfinance sector and enabling MFIs to access sources of funding beyond the project structure.

***Targets One and Two: Strategic partnerships that enable MFIs access to capital (grants, loans and commercial equity) are established in 2005, then expanded. Resources mobilized for MFIs as cost-sharing, parallel financing or savings mobilization (an additional $12 million cumulative during the project life*)**.[17] MITAF and its partners have performed admirably in this regard, mobilizing US$16.5 million in additional financing since project inception.

Because the targets remained somewhat unclear, the evaluation team took a slightly different approach than MITAF has in quantifying results. MITAF reports more than US$ 27 million in additional resources mobilized by the project. This includes a number of

[17] Targets 1 and 2 under Output 2 have been combined for purposes of this report as the difference between the two is not very clear.

types of financing that, in the opinion of the evaluation team, either cannot be attributed to project efforts or have not yet been disbursed. In the estimation of the evaluators, the amount of additional resource mobilization that credibly can be attributed to the efforts of the donors, the TSP and the MFIs themselves is US$ 16.5 million and includes: $2.3 million from the two donors who joined MITAF since project inception (CordAid and YES); an additional $4.7 million committed by KfW; $0.9 in commercial financing sourced by two NGO MFIs (Hope Micro that negotiated overdrafts with two local commercial banks and SMT that has received more than $650,000 in financing through Kiva); $650,000 that will be reinvested in the sector as a result of the sale of Finance Salone; almost $8.0 million in deposits mobilized by ProCredit Bank and the four community banks.

Target Three: Coordination amongst donors/investors from the outset as donors/investors utilize investment committee framework. As noted in Section 5, the chosen project structure, with project donors collaborating on financing through an Investment Committee, permitted the four project donors to coordinate their funding. However, other significant funds for the sector, such as those provided by the IFAD under the Rural Finance and Community Improvement Programme, by USAID under the Promoting Agriculture, Governance and the Environment (PAGE) project, and by the Soros Foundation to Union Trust Bank and BRAC, have not been channeled through MITAF. The inability of the project to capture significant funding by other donors has exacerbated the problem of market saturation and limited the project's capacity to exert influence on the consistent application of best practices. Additionally, MITAF donors themselves have funded MFIs directly outside of the MITAF structure (such as KfW investments in ProCredit Bank, Cordaid grants and loans to LUMA and GGEM[18], and UNCDF funding of BRAC); this would seem to indicate that the MITAF donors themselves do not always find the project adequate to meet their own agendas.

7.3 Output Three

"A professional microfinance unit in the Bank of Sierra Leone is operational and capable of ensuring an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system."

Although this output focused on the BoSL, some of the targets related more to the meso or support infrastructure level of the microfinance industry. Please refer to Section 6.1.3 for a more complete description and analysis of results at the meso level.

Target One: A MF unit in the BoSL established as a professional focal point for the development of the microfinance industry. This target was not met. Nevertheless, the evaluation team does not share the opinion that a separate microfinance unit in the BoSL is necessary to serve as a focal point for the development of the microfinance industry. Indeed, the project itself has fulfilled this role admirably.

Target Two: Industry standards developed with MFIs including efficient and transparent information exchange. The reporting formats developed by the TSP served to set and promote industry performance standards. MFIs continue to submit

[18] These investments were assessed by the TSP and financed by Cordaid directly. They were not presented to the IC for approval although subsequently the IC was informed and the investments added to the project budget.

monthly portfolio reports and quarterly financial statements to MITAF. A number of MFIs also were reporting to the international Mix Market at mid-term, but only 3 have updated their information since 2007.

Target Three: A microfinance sector database developed*.* MITAF did develop a sector data base and tried to hand it over to the microfinance unit in the Development Coordination Department of the BoSL. For some time, MFIs were providing information to both MITAF and this department. However, the department was not equipped to maintain the data base and this initiative foundered. MITAF continued to maintain the data base through 2008 and then discontinued its use. The system can easily be brought up to date and MITAF now intends to hand it over to the Banking Supervision Department.

Target Four: The support infrastructure for the sector has improved (audit, credit reference bureau)*.* The TSP contracted an external consulting firm to provide a one-time training to five local audit firms. As noted in Section 6.1.3, however, this training has not been sufficient to raise audit standards to internationally-accepted levels. A credit reference bureau was not established, which has exacerbated the problems of multiple lending by financial institutions.

Target Five: A conducive regulatory and supervisory framework for microfinance has been established. This framework stimulates integration of the microfinance sector into the financial system*.* One of MITAF's key achievements was to help ensure that microfinance is seen as an integral part of the financial sector in Sierra Leone, both through discussions held with government at the Investment Committee level and by its work with the BoSL. Interviews with representatives of the BoSL and MOFED during the evaluation showed that the GoSL understands the key role that microfinance can play as part of the financial sector. Indeed, strategies to continue to build the microfinance sector are an integral part of the recently approved Financial Sector Development Plan (FSDP).

Technical assistance and training provided to the BoSL Banking Supervision Department enabled it to issue guidelines for both credit-only and deposit-taking MFIs in 2009. These guidelines, however, raise new legal issues for the NGO MFIs. Credit-only NGO MFIs currently operate with an ambiguous legal status, with registration at MOFED the only requirement. They will now need to register as either a company limited by shares (essentially for-profit in nature, with the ability to sell shares to others) or a company limited by guarantee (essentially not-for-profit in nature). Theoretically, the limited by share option would enable MFIs to attract new investors. However, the experience of American Refugee Committee (ARC) in trying to sell Finance Salone underscores the ambiguity of and difficulty with implementing the existing laws.

7.4 Output Four

"Sound microfinance principles have been disseminated and are widely accepted and adopted."

Target One: MODEP NGO-MFI conducive registration and monitoring process established*.* This target became irrelevant after MODEP was merged into the new MOFED and after the project re-focused its efforts on building the BoSL Banking Supervision Department's ability to register and regulate MFIs.

Target Two: Microfinance stakeholders on meso and macro levels are enabled to fulfill their roles.[19] The project was able to help some microfinance stakeholders at the meso and macro levels to fulfill their roles better. However, these stakeholders remain weak and in some cases, even non-operational.

For a description of stakeholders at the meso level and an analysis of project effectiveness in providing services to them, please refer to Section 6.1.3. At the macro level, it is concerning that the Department of Banking Supervision is currently quite under-staffed. Although budget has been allocated to re-staff the department, it will take some time to identify, recruit and train new staff in all areas, not just in the specialized area of registering credit-only MFIs and of licensing and supervising deposit-taking MFIs. There is the danger that the capacity and momentum that was built through MITAF assistance will be lost in this process. The lack of capacity to provide oversight to the microfinance sector is of particular concern because of the deposit-seeking behavior that is already apparent in many of the NGO MFIs. All of these MFIs take cash collateral for their loans and in most, de-facto financial intermediation is already occurring.

8 Sustainability of Results

In the opinion of the evaluation team, the sustainability of results remains questionable primarily because of institutional weaknesses of the PLIs. While the sufficiency and sustainability of meso and macro actors is also questionable, their performance becomes moot if retail financial service providers are not capable of delivering services to growing numbers of poor entrepreneurs in a responsible and sustainable way.

The PLIs face daunting challenges in providing financial services to poor entrepreneurs. The challenges described in Section 3 bear repeating here: low social and economic indicators that constrain clients' ability to operate profitably; the lack of adequate infrastructure (decent roads, electricity and telecommunications) that constrains both clients' markets and the ability of financial institutions to operate profitably; cultural norms that work against loan repayment and accept fraud and corruption; the limited pool of qualified people to fill key positions. The PLIs also experienced exceptionally high growth rates, as noted in Section 7.1; growth rates such as these would stretch any MFI's capacity, and the capacity of the PLIs supported by MITAF was weak at project inception by any international measures of good practice.

Nevertheless, the PLIs have received intensive and high-quality training and technical assistance to help them address their weaknesses and yet many of them have shown real resistance to accepting and adopting good practice. Many of the MFIs also remain very donor driven and continue to demonstrate a dependence mentality; few, for example, have shown any initiative in trying to access funding outside of MITAF, nor have they taken an active role in assessing their own capacity and defining their capacity-building needs. Sustained improvement in the institutional capacity within the microfinance sector cannot happen until the institutions themselves choose to do what it takes to become independent and sustainable.

Most partner lending institutions remain institutionally weak despite indications of improved financial performance. This evaluation finding is based on the on-site visits to the largest MFIs and a review of the numerous assessments that TSP staff itself has

[19] This is the only target that was amended per the recommendations of the mid-term evaluation.

conducted of most PLIs. The most significant weaknesses, likely to have a negative impact on PLI sustainability, include:

Lack of adequate governance structures. While most NGO MFIs have now instituted Boards of Directors, the Boards have little influence on the institutions. Most NGOs remain one-person shows, primarily driven by the Executive Directors with minimal checks and balances on their influence. As most directors themselves are still learning about best practice and could benefit from management and leadership training, this leaves most PLIs with ineffective oversight and guidance.

Lack of depth and breadth in management structures. Most PLIs have at most two high-level managers (in addition to the Directors) qualified and capable of the kind of management needed to supervise and sustain the institution. If the few key individual managers were to leave, operations would likely collapse in some of the largest PLIs. The lack of adequate management to provide operational oversight is particularly concerning as the number of clients served by the PLIs has more than doubled since the mid-term evaluation, the portfolio has tripled, and branch structures have been extended, but there are now fewer qualified managers in place in the largest PLIs.

Among the largest MFIs, one has not had an operational manager since January 2009 and has continued to refuse to hire an internal auditor, one lost its CEO in May 2009 and has been functionally managed by the operations manager since then, and one lost an experienced finance manager in 2008 and replaced him with an accountant not qualified to be a manager in January 2009. Further, lending operations tend to be highly decentralized because of the difficulties of managing effective communications with and control of far-flung branch offices, but the branch managers are little more than senior loan officers in training, experience and qualifications.

Lack of adequate staff at all levels. In addition to the lack of a sufficient number of qualified managers, most partner lending institutions are seriously under-staffed at other levels as well. As with management, staffing levels have not kept pace with the pace of growth in outreach, both in numbers of clients and in geographic coverage. As a result, the credit officer caseloads in several of the MFIs exceed 1,000; a sustainable caseload in a context such as Sierra Leone would be at most 400. Such high numbers of clients served by each credit officer in many PLIs reduces their ability to establish the relationships necessary to foster client willingness to repay and their ability to adequately assess loan applications and monitor client repayment performance. Also, most "back-office" departments are seriously understaffed. For example most PLI finance departments comprise only a finance manager and at most two accountants although they are managing portfolios in the millions of dollars and numerous branch offices.

Inability to retain staff. Most partner lending institutions have experienced a high staff turnover (if the lower support staff is taken out of the equation). This seems to be due to a combination of factors, including: low salaries; inadequate working conditions; and, leadership styles of the directors. One of the MFIs experienced a complete turnover of the upper management team that had been trained by an RTA because of the difficulty of working with the Executive Director. Many MFIs have lost experienced and trained staff to commercial banks that offer better salaries and working conditions. In addition, most MFIs have not implemented internal training programs or systems that would allow the institution to replace key, trained staff when they leave.

Inadequate Management Information Systems (MIS). The MIS in many PLIs is no longer adequate to manage current levels of operations; the systems are limited in the number of transactions they can handle and/or the PLIs are operating separate portfolio management and financial management systems that must be manually reconciled. These problems are further exacerbated by the inability of PLIs to access real-time information on operations from branches because of the lack of adequate communication systems. In most cases, MIS are operated at the branch level and then information is physically carried once a month to headquarters where it is consolidated and reconciled. The result is that upper management does not have access to accurate and timely information and thus cannot effectively monitor and address repayment problems nor manage cash flow.

Inadequate lending policies and procedures. Generally, the PLIs ability to analyze loan requests is quite poor; loan terms are dictated largely by institutional criteria rather than by client needs and capacity to repay. In addition, it is clear that there is a lack of adequate client background checks that might prevent lending to clients that already have loans with other institutions. Finally, although some PLIs have established clear lending policies and procedures, credit officers and branch managers often do not follow these in practice.

Inadequate internal controls. Many of the weaknesses cited above ultimately translate into a serious lack of adequate internal controls: only one of the MFIs or community banks has an internal audit manager and none have a fully-staffed internal control department; the lack of adequate numbers of qualified managers means that credit officers are not subject to adequate supervision and control without which credit officers are free to disregard established credit policies and procedures. The result has been continued problems with portfolio quality due to poor lending decisions as well as to repeated instances of fraud by PLI staff, often in collusion with clients.

Continued problems with portfolio quality. Despite intensive training on delinquency management and apparent PLI awareness of the importance of maintaining a healthy portfolio, overall portfolio quality has not improved sufficiently over the life of the project.

While some of this is due to external factors, much of the problem can be traced to the lack of adequate systems, policies and internal controls cited above. While the ProDoc did not set targets for portfolio quality, its importance is such that the evaluation team examined the high levels of portfolio at risk (PAR) and write-offs in some depth. Many MFIs have complained that the project criterion of less than 5% PAR > 30 days is too stringent for Sierra Leone. This criterion was recommended by the mid-term evaluation and implemented by the project because higher levels of PAR are not sustainable over time; continued high levels of non-performing loans and write-offs jeopardize an institution's financial stability through delayed or foregone interest income and ultimately the continued erosion of the institution's main asset – the loan portfolio.

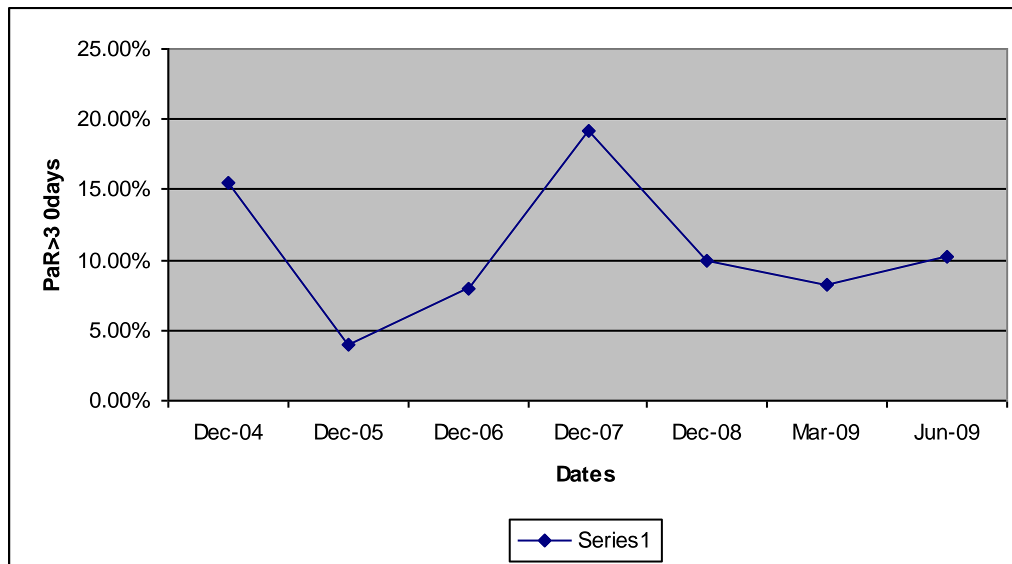
The following tables and graphs show the trends in portfolio quality of PLIs from project inception through June 2009. ***Graph 5*** shows the annual average PAR>30 for all PLIs combined while ***Tables 1*** and ***2*** show annual PAR>30 days and write-offs for each PLI[20].

[20] It should be noted that the historical PAR figures are somewhat skewed because at project inception most PLIs did not understand how to calculate PAR and because many PAR figures

There has been a general improvement in portfolio quality since 2007 when the aggregate average of all PLIs is considered. Nevertheless, PAR>30 has increased significantly for 5 of the PLIs during that time while 4 have managed to significantly improve their PAR. At June 2009, only two MFIs were meeting the MITAF standard of PAR>30 of less than 5% and the weighted average of all partner lending institutions remained above 10%. PAR has continued to deteriorate in some of the MFIs since that time. Further, most of the institutions have also written off significant amounts of non-performing loans over the course of the project which has the immediate effect of improving PAR although signifies non-recoverable losses of loan funds. A comparison of annual PAR and write-offs in Tables 1 and 2 shows a clear correlation between periodic improvements in PAR and write-offs in many PLIs.

Further, the continual growth in portfolios undoubtedly masked even greater problems with portfolio quality because loan volume increases with new borrowers who do not immediately show problems with loan repayment. Nevertheless, there is a noticeable correlation between periods of high growth in outreach and deterioration in portfolio quality of the PLIs; in the highest growth period (between December 2006 and December 2007), when the number of active loan clients increased by more than 50% and the active portfolio doubled, PAR also spiked. Some MFIs also have concealed portfolio problems further by rescheduling a significant portion of loans at risk.

Graph 5: Trends in average PAR>30 for all PLIs



submitted to the project prior to 2007 were later found to be inaccurate. Most inaccuracies, however, were in an under-estimation of the degree of portfolio quality.

Table 1: Trends in PAR>30 of MITAF-Financed PLIs

	Finance Salone	Hope Micro	ARD	SMT	CEDA	MMCB	YCB	SCB	MCB	ProCredit	GGEM	LAPO
Dec-04	0.00%	18.80%	43.00%		0.00%							
Dec-05	0.77%	1.79%	12.65%	3.88%	0.96%							
Dec-06	1.46%	1.86%	17.7%	8.10%	3.58%	0.73%	12.75%	4.47%	20.72%			
Dec-07	5.39%	6.12%	1.56%	7.21%	3.98%	22.60%	12.41%	90.40%	42.11%	0.00%		
Dec-08	5.65%	5.21%	2.03%	9.34%	3.50%	7.16%	5.94%	49.42%	11.53%	5.67%	3.18%	
Mar-09	7.41%	6.52%	3.26%	7.11%	4.15%	8.54%	10.02%	29.20%	8.81%	10.96%	2.86%	0.85%
Jun-09	10.45%	9.87%	3.12%	7.00%	2.25%	8.57%	11.95%	31.22%	8.78%	18.25%	11.21%	0.41%

Table 2: Write-Offs by MITAF-Financed PLIs[21]

	Finance Salone	Hope Micro	ARD	SMT	CEDA	MMCB	YCB	SCB	MCB	ProCredit
Dec-05	0%	13.15%	6.04%	18.86%	0%	N/A	N/A	N/A	N/A	N/A
Dec-06	0.7%	2.74%	9.44%	17.03%	19%	N/A	N/A	N/A	N/A	N/A
Dec-07	1.98%	0.24%	7.27%	3.2%	1.99%	5.05%	3.01%	N/A	N/A	0%
Dec-08	6.33%	5.93%	0%	1.98%	0%	21.52%	9.73%	119.24%	N/A	0.28%
Jun-09	0%	6.74%	0%	4.11%	0%	0%	0%	0%	N/A	10.85%
Totals	9.01%	28.80%	22.75%	45.18%	20.99%	26.57%	12.74%	119.24%	N/A	11.13%

[21] The table does not include GGEM and LAPO, financed by MITAF for the first time in 2009. MITAF has also not been able to obtain complete data from all of the community banks.

Tenuous financial performance. Although most partner lending institutions are reporting high levels of cost coverage as measured by financial self-sufficiency, this does not necessarily reflect strong or desirable financial performance. Indeed, as high levels of portfolio at risk and write-offs should have a negative impact on an MFI's overall financial performance ,it is particularly curious that while a number of the PLIs showed growing levels of cost coverage they also showed persistent and significant problems with portfolio quality.

A closer examination of the income and cost structures of the PLIs shows that most institutions have achieved high levels of self-sufficiency by a) charging exceptionally high interest rates and b) maintaining staff levels and compensation at an unsustainably low level in order to minimize costs. High interest rates are needed to cover not only operating costs but the very high costs associated with portfolio quality. Because the costs associated with their poor portfolio quality are high, the PLIs have chosen to cut back on needed investments in staff and systems in order to maintain increasing levels of profitability.

The seeming contradiction between the achievement of project targets (for outreach and profitability) and the evaluation findings that the institutions are institutionally weak illustrates the danger of looking at the strength of lending institutions only through the narrow lens of limited and selected performance criteria.

Legal status. Under the recently published guidelines for credit-only and deposit-taking MFIs, NGO MFIs will be required to register as companies and then to either register with the Bank of Sierra Leone (credit-only) or receive a license (deposit-taking). Given the relatively informal nature of the NGO MFIs (with only a requirement to register with MOFED at present and no requirements with regard to institutional structure or performance), their ability to conform to the requirements to establish as companies is questionable.

9 Lessons Learned

Some of the key lessons that emerge from the MITAF project are:

9.1 It is important that financing of a microfinance sector be market-driven.

Project objectives and targets need to be based on valid and realistic assessments of the absorptive capacity of the market, both at the customer and the service provider level. As markets develop, it should be incumbent on project funders and managers to continue to monitor the effect of funding on growth in outreach, to ensure that market over-saturation does not occur and that service provider capacity is not surpassed.

9.2 It is imperative to understand, promote and monitor overall institutional capacity within the providers of microfinance services.

When project incentives promote increasing outreach while expecting growing levels of cost-recovery, but the project provides little operational subsidy and does not set clear and measurable expectations about institutional capacity, long-term institutional sustainability is likely to be compromised.

9.3 It takes a long time to build institutional capacity; this process is about people, not numbers and is often a question of changing hearts and minds.

It is a process that works most effectively when it is demand-driven. Assistance provided "for" rather than "with" is much less likely to be adapted by the recipient institutions. Further, it cannot be expected that all institutions will be able to take advantage of capacity-building assistance regardless of its quality; such institutions should not be able to access continued funding that would help expand their portfolios.

10 Considerations for follow-up project

The MITAF donors all agree in principle that a follow-up project (MITAF II) is needed and KfW has taken the lead in its research and design. It is beyond the scope of this evaluation to provide in-depth feedback on the current design of MITAF II. Nevertheless, the evaluation team recommends that the donors examine the following questions before deciding to proceed with a second project.

10.1 Project Focus and Expectations

Are donor expectations about the focus and emphasis of the project and expected results clear? When discussing this question, it is recommended that the donors clarify the type of financial services to be promoted (Credit? Savings? Other financial services?), where the services are to be promoted (Urban? Rural?), and in light of this, whether the existing service providers are likely to be able to deliver on donor expectations. It would be helpful if part of this discussion focused specifically on expectations about rural outreach and a clarification of the differences between microfinance, rural finance and agricultural finance.

10.2 Effective Demand for Microfinance Services

Does the absorptive capacity of the market in terms of effective demand for financial services justify a project that would increase the supply of credit in the sector? In addressing this question, it is recommended that the donors realistically assess the external constraints to the growth of the microfinance sector to ensure that additional credit would help rather than harm poor microentrepreneurs.

10.3 Service Provider Capacity

Are there enough strong service providers (MFIs, commercial banks and community banks), both able to manage more money than they already have and yet unable to access more funding themselves, to justify establishing an in-country second-tier lending institution? In addressing this question, it is recommended that the donors carefully review the PLI assessments conducted by MITAF staff and by others.

10.4 Non-Financial Services

Will the proposed project structure ensure that non-financial support services are demand-driven, are completely separated from financial services and have the potential to be sustainable as the needs of the sector change over time? In examining this question, it is recommended that the donors seriously consider supporting some of the options laid out in the FSDP that would build on existing local institutions, rather than have the project continue to provide training directly.

10.5 Fund Management

Will donors be willing and able to agree to standard criteria and financing parameters, to pool funds and to delegate investment decisions to a fund manager? In discussing this question, it is recommended that the donors consider the findings of this evaluation about the current MITAF structure so as to improve on project performance.

10.6 Government Buy-In

Will the government be comfortable with an independent second-tier financing mechanism? In addressing this question, donors and government will need to find a way to address the understandable desire expressed by government to channel all donor funding through a single mechanism of some kind at the government level, while ensuring that funding remains free of political influence.

Annexes:

A. Review of Mid-Term Recommendations
B. Terms of Reference
C. Reference Documents
D. Schedule of In-Country Interviews
E. List of People Interviewed
F. Summary Table of Results