Microfinance
Programme Impact Assessment 2003
United Nations Capital Development Fund

Based on Case Studies in Haiti, Kenya, Malawi and Nigeria

Final Report

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Abbreviations

AIMS	Assessing the Impact of Microenterprise Services Project
AMNE	Microfinance Support in the Northeast Department
ASA	Association for Social Advancement
CCF	Country Cooperation Framework
CIDA	Canadian International Development Agency
CGAP	Consultative Group to Assist the Poor
CO	Credit Officer
DFID	UK Department for International Development
DID	Développement International Desjardins
DRR	Deputy Resident Representative
EBS	Equity Building Society
ESGC	Enterprising Solutions Global Consulting, LLC
EU	European Union
FSA	Financial Sector Analysis
GDP	Gross Domestic Product
GF-USA	Grameen Foundation, USA
GNI	Gross National Income
IA	Impact Assessment
IIA	Independent Impact Assessment
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ITAD	Information, Training and Agricultural Development
IMF	International Monetary Fund
KEPP	Kenya Enterpreneurship Promotion Programme
LAPO	Lift Above Poverty Organisation
LDCs	Least Developed Countries
LTSP	Local Technical Service Provider
MAB	MicroStart Advisory Board
MAMN	Malawi Microfinance Network
MBB	MicroBanking Bulletin
MDG	Millennium Development Goals
MIS	Management Information System
MF	Microfinance
MFI	Microfinance Institution
MSE	Micro and Small Enterprise
n.a.	Not Available
N/A	Not applicable
NGO	Non-Governmental Organisation
OPA	Organisational Performance Assessment
PAR	Product Attribute Ranking
PaR	Portfolio at Risk
PMSL	PRIDE Malawi Management Services Limited
PIA	Programme Impact Assessment
PRSP	Poverty Reduction Strategy Paper
ROAR	Results Oriented Annual Report
ROSCA	Rotating Savings and Credit Association
RR	Resident Representative
SACCO	Savings and Credit Cooperatives
SEEP	Small Enterprise Education and Promotion Network

SME	Small and Medium Enterprise
SUM	Special Unit for Microfinance
TA	Technical Assistance
TOR	Terms of Reference
TSP	Technical Service Provider
UN	United Nations
UNCDF	Unite Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

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Executive Summary

Microfinance and Development

Microfinance is a cost-effective means of contributing to development and poverty alleviation, because any dollar invested is used more than one time; however, it also takes considerable effort in terms of human resources, financial planning and the shaping of a supportive infrastructure to bring microfinance institutions to such a scale that they can play a role as an integrated part of the broader financial sector.[1] Once microfinance institutions have matured, profits can actually be high, enabling them to expand and increase outreach to the poor through internally generated funds.

Background to PIA

The United Nations Capital Development Fund (UNCDF or the Fund) was initially established in 1966 as a special purpose fund primarily for small-scale investment in the poorest countries of the world. A member of the United Nations Development Programme (UNDP) group, UNCDF has undergone far-reaching changes, particularly during the last five years. Today, following the recommendations of an external evaluation in 1999, UNCDF works to help eradicate poverty through two main programme foci: *local governance* and *microfinance*. The Fund's Executive Board approved this new direction in its decision 99/22. At the same time, it requested a further evaluation, to assess *the impact* of UNCDF programmes, and a report back to the Board in 2004.

The main objective of the Programme Impact Assessment (PIA) 2003, commissioned by the UNCDF Executive Board, was to assess whether UNCDF had effectively implemented its 1999 policy shift, and whether its programmes have had the desired impact on microfinance clients, institutions and the enabling environment. This review, undertaken by Enterprising Solutions Global Consulting, L.L.C., an independent international development consulting firm specialising in microfinance and small- and medium-sized business solutions, began in May 2003, with research completed in September 2003. The report assesses UNCDF efforts in four case study countries – Haiti, Kenya, Malawi, and Nigeria – using findings to provide recommendations for the future direction of UNCDF microfinance programmes in four main areas: client impact, institutional sustainability, policy impact and replication and UNCDF positioning.

Findings

UNCDF is making an important contribution to the growth of microfinance in a number of countries around the world. In terms of ***poverty reduction and client impact***, UNCDF has been particularly successful in increasing outreach, with microfinance services expanding roughly 80 to 85% in the case study countries since the inception of the UNCDF/UNDP microfinance programmes.[2] Moreover, the selected partners have successfully targeted largely poor and very poor populations and appear to be increasing women's access to financial services. There is evidence of increased assets, notably the acquisition of land as an asset at the household level in each of the four case study countries. There is also compelling evidence of improvements in household welfare. Programme loans are one of the main ways clients overcome food insecurity, pay for medical and lifecycle expenses and address emergencies. Higher enrolment in secondary education was prevalent among the children of mature clients,

[1] Microfinance refers to financial services, especially savings and credit, to resource poor households and microenterprises.
[2] This growth rate excludes a very fast growth outlier among the four case study countries.

indicating that participation in microfinance programmes is enabling poor people to invest in important social assets such as the education of their children.

In terms of empowerment, the qualitative research finding revealed already high levels of *empowerment* among respondents in the UNCDF-supported MFIs in the case study countries, prior to accessing microfinance services. It also provided insight into *the processes of empowerment that occur among some clients through programme participation*, such as the increased self-esteem gained from being able to provide for their family and increased *decision-making at the enterprise level*.

The 1999 UNCDF policy shift directed the microfinance programme to help microfinance institutions (MFIs) to achieve ***institutional sustainability***, with a focus on financial sustainability. For the most part, this was a sound, productive reorientation, with increasing numbers of UNCDF-supported MFIs incorporating more transparent reporting processes, showing dramatic increases in efficiency and progress towards operational self-sufficiency. Sustainability objectives, however, must still be pursued with more vigour. UNCDF can also increase the effectiveness of its interventions with MFIs by directing attention to the underlying factors that determine truly sustainable operations, such as human resources, internal controls and promoting a customer orientation.

Significantly, a number of areas for improvement, at all levels – clients and products, institutional capacity-building and funding sources – can be traced back to what has been the *supply-driven*, as opposed to a *market-driven*, nature of the microfinance. This is a complex issue for the sector as a whole. Notably, UNCDF/UNDP began to address it through its early support of the MicroSave programme and could improve its own programming as well as contribute to the microfinance industry at large by disseminating such tools more broadly and sponsoring the development of more client research tools.

In terms of ***policy and replication impact***, the PIA indicated that the programmes have had an impact on the policy frameworks in the four case study countries. The projects also appear to have triggered replication and leveraged additional funding. At the same time, there were also a number of missed opportunities for the mobilisation of additional resources and broader replication to increase strategic impact on the sectors, within the case study countries. With a more focused effort, additional external resources could have been mobilised. Given the unique nature of UNCDF as a neutral UN agency, it also could have played more of a leadership role in helping to develop a shared understanding of sector needs and gaps, and provided a vision and strategy for bridging challenges.

It is clear that without strategically and deliberately setting objectives, specific policy and replication activities and targets, and ensuring the appropriate human resource capacity to achieve the same, it will be difficult to expect increased impact on policy and replication.

The Microfinance PIA also made an assessment of the **strategic positioning and comparative advantage of UNCDF** in the broader microfinance context in the countries and vis-à-vis other players in the microfinance arena. It also examined the **relevance and significance** of UNCDF investments and technical assistance to UNDP-funded MicroStart programmes.

UNCDF brings 30 years of experience as a multilateral investment agency benefiting from the "brand recognition", neutrality and global reach of being a UN agency. Its openness to pilot and innovate, its relatively high risk tolerance, programme flexibility, and dedicated team of professionals are among its greatest assets. The 1999 policy reorientation helped UNCDF exploit these comparative advantages and contribute to microfinance results. As a small scale investment fund, centre of excellence in microfinance, and policy and technical advisor on microfinance to UNDP, UNCDF is particularly well-placed to contribute to the implementation of the objectives of the Programme of Action for LDCs for the decade 2001-2010 and the Millennium Development Goals (MDG) which have the overarching goal of cutting poverty in half by 2015. To arrive at the level of growth and prosperity needed to achieve the MDGs, support needs to be provided for the diversification of economies and economic activities and the promotion of more inclusive financial systems. UNCDF has a distinct capacity to innovate in this area.

Conclusion

The 1999 policy shift increased institutional sustainability among partner MFIs, significantly grew their outreach, generally increased clients' asset base, and enhanced their consumption-smoothing potential, which is of particular importance to poor people. The shift in approach also helped UNCDF to capitalise on one of its unique comparative advantages and strengths in microfinance in terms of sector contribution – its *openness to accept the greater relative risk of supporting innovative pilot projects.*

At the same time, the almost exclusive focus at the institutional level pulled UNCDF somewhat away from other key comparative advantages in the area of policy and replication – *the natural positioning and advantage of its "UN" prefix*, its neutral mandate, rapport with national governments, and the strategic importance of alliances within the global network of UN agencies – that are such important assets in terms of achieving policy and replication impacts. UNCDF moved to overcome this imbalance with a more recent policy shift in 2003, envisaging advancing microfinance as an integral component of the financial system. This will include providing strategic support in a concerted manner in, for instance, the development of a national policy and strategy, but can also include MFI institutional strengthening, second-tier financing, and a range of other important sector building areas.

In a way, UNCDF has gone full circle, building upon its institutional experience and expertise in the many aspects implied in a sector building strategy – from capital, to capacity, to an enabling environment. Its new policy direction integrates UNCDF past experience in the pre-1999 management of wholesale funds and the institutional strengthening focus of 1999-2002, to offer a broader sector development vision and strategy since 2003.

Keeping the eventual sustainability of the sector, at large, in mind is a more dynamic view and perhaps next stage to the institution-by-institution approach to building microfinance sectors. It supports microfinance development in a way that is appropriate for the sector at the given stage in its development. The strategy implies more attention be paid to the importance of competitive forces and establishing a level playing field for MFIs to accelerate the development of a flourishing, client-oriented sector. In this way, UNCDF can call on another one of its key comparative advantages – *programme flexibility* – which should allow it to provide appropriate support on a timely basis, most notably important in helping nascent microfinance sectors through the growth stage of development.

In a rapidly changing world, with rapidly changing microfinance environments, UNCDF's ability to respond to market needs will be an increasingly important comparative advantage. **We believe that with a few key investments UNCDF is well-placed to be a leading pioneer among the actors in the international financial architecture to meet the emerging challenge to make conventional financial systems more inclusive and thereby contribute increasingly to financial access to the poor**.

PART I – INTRODUCTION

1.0 BACKGROUND

1.1 The United Nations Capital Development Fund

The United Nations Capital Development Fund (UNCDF or the Fund), which was established in 1966 as a special purpose fund, primarily for small-scale investment in the poorest countries of the world, has gone through intense and far-reaching changes in recent years. Since 1999, UNCDF has been mandated to help eradicate poverty through two major approaches: i) *decentralized public investments and improved local governance to increase access to basic social services and infrastructure* and ii) *support to microfinance institutions (MFI) and inclusive financial sectors to increase access to financial services*. Through its focus on these two areas, UNCDF has strengthened its identity and competence in an effort to reduce poverty in developing countries. The Fund seeks concrete results through programmes that pilot innovative approaches for replication on a larger scale by more sizeable development partners.

UNCDF, as a member of the UNDP group, works in close partnership with UNDP in areas ranging from joint programming to administrative and logistical support. The UNDP Resident Representative represents UNCDF at the country level. Although UNCDF's own investments in microfinance are concentrated in Least Developed Countries (LDCs), with the transfer of the Special Unit for Microfinance (SUM) from UNDP to UNCDF in 1999, the Fund's microfinance advisory services now extend worldwide.[3]

UNCDF derives its resources from voluntary contributions made by member states and from co-financing by governments, international organisations, and the private sector. In recent years the Fund's budget has been reduced drastically from $40 million for new approvals in the late 1990s to about $20 million in 2002 and 2003.[4] In its decision 2002/26, the UNCDF Executive Board invited the international community to help achieve UNCDF's core resource mobilisation target of $30 million per year in light of the Fund's unique contribution to the achievement of the Millennium Development Goals (MDGs) and the Brussels Programme of Action for the Least Developed Countries.

1.2 The Programme Impact Assessment

The UNCDF Executive Board, in its decision 99/22, requested an independent evaluation of the impact of UNCDF programmes and projects, with the findings to be reported to the Board in 2004. The Microfinance Programme Impact Assessment (PIA) is a sub-report of this overall Independent Impact Assessment (IIA) being undertaken. Its main objective was to assess whether UNCDF has effectively implemented its new microfinance policies, and whether its projects and programmes have had the desired impact on individuals, households, communities, and institutions (see Annex 1 for Terms of Reference summary). Specifically, it assessed:

- The achievements of UNCDF-supported microfinance institutions (MFIs) with respect to poverty reduction;
- The viability and sustainability of UNCDF-supported MFIs; and
- UNCDF's achievements in influencing policy and promoting replication and microfinance best practices.

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[3] The SUM is now referred to as the UNCDF Microfinance Unit.
[4] All dollar amounts are reported in US dollars.

In addition, because it is the combination of good performance with strategic positioning that signals the value of UNCDF to the country's microfinance development efforts, the PIA also considered the:

- The strategic positioning and comparative advantage of UNCDF through its intervention in the broader microfinance context in the country and vis-à-vis other players in the microfinance arena; and
- The relevance and significance of UNCDF investments and its technical assistance to UNDP-funded MicroStart programmes

1.3 The UNCDF Special Unit on Microfinance

UNCDF's microfinance goal, as stated in UNCDF's Strategic Results Framework (sub-goal 2) is:

To increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment.

UNCDF microfinance operations are implemented by the UNCDF Microfinance Unit. The Unit's objectives are to increase sustainable access to financial services for poor and low-income people by supporting the development of self-sustaining microfinance sectors and to have UNCDF and UNDP apply and advocate sound microfinance principles and practices.[5]

The Microfinance Unit's capital investments and its technical assistance (TA) to UNDP-funded MicroStart programmes support the market niche of "young and promising" MFIs as well as established MFIs which seek to develop new products and services to better meet the financial needs of the poor. Support is offered through a combination of technical assistance and microcapital grants (see Box 1). Responding to increasing demand from UNDP Country Offices, the UNCDF Microfinance Unit also developed a Technical Advisory Service available to UNDP country offices. In addition, the UNCDF Microfinance Unit offers new ways to build capacity in the microfinance industry through a learning and training agenda which features a range of services; the classroom and training products for distance learning, have become one of the premiere sources of microfinance training for donor agency staff.

Box 1: UNCDF MICROFINANCE UNIT Instruments

- Technical Assistance to UNDP-funded MicroStart programmes;
- Capital Investments;
- Technical Advisory Services (TAS); and
- The Capacity Building Programme (CBP) and Learning Agenda

The Microfinance PIA exercise focuses on the UNCDF capital investments and the UNCDF Microfinance Unit's technical assistance to UNDP-funded MicroStart programmes.

1.4 The Consultant Team

Enterprising Solutions Global Consulting, an independent international development consulting firm specialising in microfinance and small- and medium-sized business solutions, was contracted by UNCDF to undertake the Microfinance PIA component of the evaluation. The firm offers market-driven management consultancy services, technical assistance, knowledge development, and financial advisory services to bring new capital resources to MFIs and small and medium enterprises (SMEs). Through innovative research, product and project

[5] UNCDF Microfinance Unit Management Plan 2003.

design, strategy development and sector knowledge-sharing activities, Enterprising Solutions seeks to contribute to the advance of microfinance and SMEs.

Enterprising Solutions began work on the Microfinance PIA in May 2003, following a competitive process to select a firm to carry out the assessment. It appointed international team leaders for each impact assessment area. A core team of seven Enterprising Solutions staff was assisted by seven international specialists and six local consultants, as well as various data entry personnel, enumerators, and translators, to carry out the assignment.

2.0 METHODOLOGY

2.1 UNCDF Microfinance Theory

The PIA seeks to test the UNCDF microfinance operations programme theory (see Box 2), to establish whether in fact the microfinance programme show evidence of or potential for the intended impact. Specifically, the Microfinance PIA assesses the outcomes and indications of impact of UNCDF-supported microfinance operations at the programme/field level. It analyses the evidence and the potential of the approaches adopted to achieve the intended impact.

Box 2: UNCDF Microfinance Theory

The underlying theory of UNCDF microfinance programmes and its TA is that, by making financial services available to a previously excluded section of society, microfinance institutions provide poor clients with capital for investments, extra liquidity to allow them to take advantage of economic opportunities as they arise, and the opportunity to accumulate assets and gain access to savings to help protect against shocks in times of need. At the same time, for these microfinance services to be available over the long run, the microfinance institutions must be viable and sustainable in the long term. This, in turn, may necessitate influencing the overall

2.2 Key Impact Domains and Tools

The PIA assessed four key areas of impact – client impact, institutional sustainability, policy and replication, and UNCDF positioning – in four case study countries: Haiti, Kenya, Malawi and Nigeria, using the key evaluation questions for each area as established in the Terms of Reference (see Table 1).[6]

Table 1: Key Evaluation Questions and Research Tools

Impact Areas	Key Evaluation Questions	Research Tools Employed
Impact Area 1 Poverty Reduction	Have there been positive changes in people's lives / communities in terms of, *inter alia*, poverty reduction and empowerment due to increased access to financial services that results from UNCDF-supported microfinance interventions?	SEEP / AIMS quantitative survey, Client Exit Survey, Loans and Savings Use over time, Client Empowerment, Client Satisfaction. MicroSave PAR and FSA
Impact Area 2 Institutional Sustainability	Are MFIs providing services to poor clients on a sustainable basis? What evidence exists to show that UNCDF support of MFIs has made them stronger and sustainable?	CGAP Appraisal format Ratio analysis Benchmarking
Impact Area 3 Policy and Replication	What impact have UNCDF-supported microfinance interventions had on policy and replication, according to the classification adopted in UNCDF's Policy Impact and Replication Strategy?[7]	Primary and secondary, notably semi-structured interviews.
Impact Area 4: UNCDF Strategic Positioning	Does UNCDF's choice of investment and TA to UNDP-funded MicroStart programmes strategically position the organisation in accordance with its comparative advantage vis-à-vis other players in the microfinance arena? Is it relevant, significant and in line with the country's strategic priorities for the sector, national needs, the MDGs, Programme of Action for the LDCs, and stated UNCDF microfinance goals?	Primary and secondary, notably semi-structured interviews.

Specific generic methodological guides, consisting of a combination of quantitative and qualitative tools, were developed to address each impact assessment area. The key questions to answer and tools used, by impact area, are summarised in Annex 4. The surveys were then tailored, in each of the four cases, to reflect the characteristics of the particular country context. For the quantitative survey, an adaptation of the AIMS impact assessment was used. Sample sizes depended on key programme attributes, averaging 400. The qualitative research entailed the use of select MicroSave and AIMS tools (see right column in Table 1). Annex 2 presents a list of people interviewed. A list of documents reviewed/references is provided in Annex 3.

2.3 Gender Mainstreaming

In order to more effectively promote gender equity, UNCDF has adopted gender mainstreaming as central to the planning, implementation, and evaluation of its projects. Microfinance programmes, for the most part, target poor in general but especially women.[8] The rationales include: the fact that gender inequalities in developing countries inhibit economic growth and development; microfinance is an effective means of empowering women; women are disproportionately represented among the world's poorest; they spend more of their income on their families; and they typically have superior repayment records.

The Microfinance PIA assessed how project implementation teams have interpreted UNCDF's gender mainstreaming strategy and the changes that have occurred in women's lives as a result of their access to financial resources through the UNCDF-supported programmes. The following areas were assessed as proxy measures of gender mainstreaming:[9]

- The extent to which projects have collected sex-disaggregated data to reflect participation levels of women and/or benefits to women;
- The extent to which systematic consideration was given to the specific needs of women (in terms of outreach, products and services, etc.); and
- Identifying the overall gender context and level of empowerment, and the extent to which gender influences the decision making processes (i.e., the number of women in leadership positions and, but also household or enterprise decision-making).

2.4 Country Selection

The four case study countries were selected from the UNCDF-supported microfinance portfolio using purposive sampling techniques. The programmes were selected on the basis of having successfully attained planned outputs. The rationale behind this is that it is only reasonable to assess attainment of outcomes and indications of impact (evidence of and potential for impact) when outputs have been achieved. For this reason, the cases are not necessarily representative of the overall UNCDF and UNDP portfolio (see Box 3 for selection criteria).

Box 3 Microfinance PIA Selection Criteria

- Programme implementation began after 1995 (i.e. limited to "new policy" projects) and the programme has been running for more than two years;
- No recent impact assessment had been carried out for the programme;
- Sample included an equal number of MicroStart (UNDP-financed with UNCDF TA) and UNCDF-financed investments, to enable assessment of the impact of different types of UNCDF support, and
- The programme's ranking according to successful attainment of planned outputs.

[6] Haiti replaced Nicaragua as an assessment country.
[7] Refer to 2002 UNCDF Strategy for Policy Impact and Replication in Local Governance and Microfinance.
[8] UNCDF, Supporting Women's Livelihoods: Microfinance that works for the Majority – A Guide to Best Practices.
[9] UNCDF, "Impact Assessment of UNCDF Programmes and Projects - Conceptual Framework", February 2003 and based on the Gender Budget Initiative of the Commonwealth Secretariat.

The case study countries and their respective MFI partners were Kenya: MicroStart Kenya; Nicaragua: FNI Nicaragua; Nigeria: MicroStart Nigeria; and Malawi: Pride Malawi. Ultimately Nicaragua was replaced by Haiti.

2.5 Limitations of the Study

The Microfinance PIA was a comprehensive undertaking – assessing four impact areas in four countries – including extensive research at the client level, a particularly intensive exercise. It took place with a limited budget and under tight time constraints, including an extremely short preparation phase to communicate with relevant international and local parties and UNDP field offices. As a result, both common and extraordinary obstacles were encountered including:

- The case study MFIs had their own institutional priorities. Not all showed equal eagerness to be evaluated. In Kenya, the scope of the client impact assessment was modified in response to the MFI's expressed concerns. The concerns of the Nicaraguan organisation resulted in a search for a replacement country. The eventual selection of Haiti became somewhat problematic for timing reasons related to changes in the staffing of the TSP, among other things;
- Sharp economic downturns occurred in Haiti and Malawi during the programme period, which partly affected the assessment results. Such major macro-economic factors can eliminate all positive effects from microfinance on household income;
- The programmes selected for the assessment were fairly young – three of four just three years old. It is well-known that lasting impact requires years of participation in MFIs and client involvement in multiple loan cycles; and
- Finally, the policy shift, though rather recent, was rapidly overtaken by another shift in Spring 2003 (see section 4.1).

3.0 THE BROAD MICROFINANCE CONTEXT

Microfinance has seen major changes since its emergence as a component of development programming in the 1970s. Although during the 1980s it became clear, for the first time, that microfinance could provide large-scale outreach profitably, it was not until the 1990s that microfinance began to develop as an industry.[10] The more recent realisation that the demand for microfinance worldwide far exceeds donor funds has created a movement in the industry toward commercialisation. This includes both the transformation of MFIs into regulated financial institutions and the entrance of commercial banks into the microfinance sector – bank downscaling.

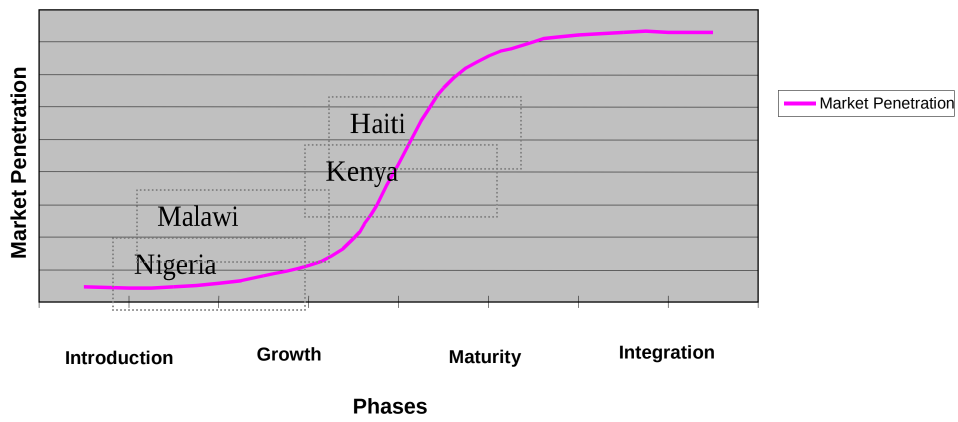
Competition in the market increased and pushes MFIs to become more market-driven and client-oriented. Most notably, over the past three years, there has been a shift away from a few, standardised loan products, which typically catered to traders, toward more flexibility in loans to meet the demands of productive and consumer markets. The industry also provides an increasing variety of financial services, with MFIs offering products as diverse as savings, insurance, money transfer, and cheque cashing.

This growing experimentation and expertise provide opportunities for further linkages and integration into local financial systems. In some places, MFIs are actually contributing significantly to public funds (i.e., the leading MFI in Cambodia, ACLEDA, is increasingly

[10] M. Robinson, The Microfinance Revolution, 2001.

contributing through paying taxes). Recognising the different stages of maturity of the case study countries, many of the above-mentioned industry developments were noticeable throughout the PIA. Figure 1 provides a pictorial view of the development of a microfinance sector, notably in terms of their penetration rate and looking at key development phases.[11]

Figure 1: Microfinance Sector Development



The graph roughly indicates the stage of sector development of the microfinance sectors of the four case study countries. The shape of the above industry growth curve is indicative as it varies considerably according to the type of industry and the specific context. But there is always a sequence of phases: introduction, growth, maturity and a final stage, which in some industries is a decline, in others an extension, or in the case of microfinance the desired situation being the integration into the broader financial sector. Various stages present different opportunities, threats, and dynamics. For instance, the sector needs differ for the three main dimensions of capacity, capital, and enabling environment. Anticipating the characteristics of the major stages can help individual MFIs grow sustainably, governments and donors to provide the most appropriate support, and social investors to build up a deal pipeline and be prepared to offer the best type of financing instrument.

4.0 THE UNCDF MICROFINANCE PROGRAMME

4.1 UNCDF Microfinance Policy Shifts

Over the past decade, UNCDF has been refining its strategies and programmes to best leverage its limited resources and comparative advantage. As a result, the UNCDF microfinance programme has undergone a number of major and minor changes. It continues to adapt in line with changing sector needs.

1995 -1998

Microfinance first emerged as a UNCDF programme focus in the 1995 policy document, which slotted the Fund's capital assistance into the four main areas: i) "blueprint" infrastructure projects, ii) microcredit and/or loan guarantee schemes, iii) local development funds, and iv) participatory eco-development programmes. UNCDF's donors responded positively to this policy focus and agreed to provide stable funding until 1998, after which the

[11] Adapted from Day, G. Analysis for Strategic Market Decisions, 1986.

Fund would have to demonstrate that the 1995 policy shift had been successfully completed and that new bearings had been firmly set institutionally and operationally. The donors appreciated that the experience gathered and any innovations made by the Fund could be rich in yielding lessons for the larger international financial institutions; therefore, they agreed that a *process-oriented* external evaluation be conducted and the findings reported to the Executive Board in September 1999, and that another evaluation be organised at a later stage to *assess impact*.

Microfinance programmes at the time were focused primarily on supporting wholesale mechanisms (usually a state-owned financial institution or bank) to increase access to capital for MFIs. The wholesale fund, with the incentive of a UNCDF-funded guarantee or refinancing scheme, would subsequently fund MFIs. UNCDF attention was focused on the wholesale institution managing the guarantee refinancing line, and less so on the MFI retailers. However, with retailer performance often ranging from mediocre to sometimes extremely poor, the guarantee funds/refinancing facilities were often rapidly decapitalised

1999 - 2002

Following the recommendations of the 1999 external evaluation, UNCDF decided to help eradicate poverty through i) local governance and ii) microfinance programmes.[12] The microfinance component was further refined in the 'UNCDF Working Paper on Microfinance' of March 1999 (see Box 4). The paper incorporated findings that had resulted from the 1998 peer review under the guidance of CGAP[13].

Box 4: Recommendations of the UNCDF Working Paper on Microfinance, 1999

- UNCDF will support reputable MFIs that are confronting the challenge of bringing sustainable microfinance services to rural areas and will continue to focus the majority of its resources in Africa.
- Financial sustainability will remain a core objective for UNCDF projects, and, if necessary, the Fund will extend the duration of its support.
- UNCDF recognises the need to be risk-taking in support of innovative mechanisms.
- UNCDF will take appropriate steps to assess whether the minimum conditions exist for sustainable microfinance.
- The choice of zones of intervention for microfinance will be guided by the potential of those areas and the interest of reputable MFI partners.
- UNCDF will henceforth support mostly 'retailer' MFIs as opposed to 'wholesale' institutions.
- Involving the MFI responsible for project implementation at design stage.
- Strong support will be provided to partners for setting up accurate and reliable MIS.
- The volume of approvals will be brought back to the annual \$2–\$6 million range, keeping microfinance below 20% of UNCDF overall approval levels.

Moving away from the assumption that the main constraint for MFIs was access to capital, the peer review report recommended that UNCDF support microfinance with a clear focus on institution building. In 1999, another important evaluation took place – the MicroStart Mid-term evaluation, also focusing on the importance of creating sustainable MFIs and capacity to select the MFIs with true potential, so-called "breakthrough" MFIs.[14] As such, resources were refocused to address the lack of institutional capacity at the retail level and to improve the financial sustainability of MFIs through the contracting of leading technical assistance providers (TSPs). Activities included helping MFIs to set up reliable management information systems, maintain high-quality loan portfolios, and others as appropriate.

This Microfinance PIA 2003 seeks to determine how well the 1999 policy shift was implemented, specifically its impact in the key areas of poverty alleviation, the institutional

[12] UNCDF, "Evaluation of the United Nations Capital Development Fund (UNCDF). Synthesis Report". ITAD. 1999.
[13] Findings of the review are documented in Rosenberg, R. 'The Independent Review of UNCDF Microfinance Activities, UNCDF, 1998, UNCDF. A second peer review was undertaken in late 2002.
[14] Rhyne, E., Donahue, J., "MicroStart: Finding and Feeding Breakthroughs – Midterm Evaluation", 1999.

sustainability of MFIs, policy impact and replication, and how effectively UNCDF positioned itself to achieve maximum impact.

2003 and Beyond

It is important to note that a subsequent shift in UNCDF's microfinance policy was implemented in Spring 2003. This policy change shifted UNCDF's microfinance focus to the development of the microfinance sector in target countries as an integral part of the financial sector, rather than as a support mechanism of individual development projects and institutions. Successful implementation implies the identification of constraints to sector development and a concerted effort to put in place the various building blocks needed to help bring microfinance to scale and to support financial sectors to become more inclusive.

In a way, UNCDF has gone full circle with the 2003 sector policy, building upon the institutional experience and expertise it has acquired over the years from its various sector foci – from capital, to capacity building, to an enabling environment. Because the 2003 Microfinance PIA focuses on the 1999 to 2002 programming period, a number of the observations and recommendations may already have been integrated into the 2003 policy shift, which took place before this PIA was begun.

4.2 The Portfolio

In 2002, UNCDF had an active portfolio of 93 projects. Regionally, core resources were concentrated in Africa (85%), and in local governance programming, with just 10% of the portfolio in microfinance (see 2002 Results Oriented Annual Report or ROAR). The current portfolio allocation is due to a combination of natural attrition (completion of project support) and portfolio management decisions to wind down support to MFIs with chronic poor performance. Microfinance is expected to remain an important pillar of UNCDF.

Table 2: UNCDF Microfinance Programme 2003

Country	Change in Number of Clients since UNCDF Support	Portfolio at Risk >30 days (average)	Operational Self-Sufficiency
MicroStart			
Caribbean (3 MFIs)	178	11-24%	N/A ,117-228%
Egypt (3 MFIs)	4,225	4.7-33%	84-195%
Guatemala (2 MFIs)	21,066	1.5%	178-247%
Kenya (4 MFIs)*	29,211	3.9-10%	72-133%
Mexico (3 MFIs)	447	3.6-14.5	N/A , 89%
Mozambique (3 MFIs)	8,153	0.3-7.4%	28-109%
Nigeria (8 MFIs)	53,757	0-18%	15-184%
Pakistan (1 MFI)	49,201	0%	156%
Philippines (3 MFIs)*	130,414	N/A	100-140%
Togo (3 MFIs)	4,984	6.7-14.5%	55-94%
UNCDF Investments			
FECECAM, Benin	-523	12.1%	N/A
GCRGSA, Guinea Conakry	3,522	0.1%	N/A
PRIDE Malawi, Malawi	5,601	3.5%	102
APME, Mauritania	-59	27%	N/A
FRN, Niger	497	0	N/A
ACEP, Senegal	-9,038	4.9%	N/A
Wages, Togo	N/A	6.5%	N/A

Source: Compiled by UNCDF and from www.uncdf.org. As per 31/12/2003.

Table 2 provides an overview of the UNCDF microfinance portfolio as of December 2003. The portfolio consists of both direct investments as well as support to UNDP-funded MicroStart programmes. The programming situation is fluid. MicroStart programmes in Benin, Burundi and Yemen are beginning in 2004 and the Haiti MicroStart programme, assessed as part of this PIA, does not appear in Table 2 as it was completed in 2002, though a second phase is being considered. A UNCDF direct investment is foreseen for Sierra Leone in 2004.

5.0 PIA MICROFINANCE CASE STUDY PROGRAMMES

The Microfinance PIA included two UNCDF direct investments (Malawi and Haiti) and two MicroStart programmes (Nigeria and Kenya) funded by UNDP, with UNCDF providing technical assistance. There was also a MicroStart programme in Haiti and a MicroSave programme in Kenya, both also funded by UNDP and supported by UNCDF. The latter-mentioned programmes are not directly assessed but are discussed in relation to overall policy and replication impact and strategic positioning deliberations.

5.1 Haiti

UNCDF North East Haiti Microfinance Support Project (HAI/98/C02), AMNE, was formulated in 1998 for the creation of microfinance services in the region, an area identified by the Haitian government as a "priority zone" for economic development assistance. The assistance commenced in 1999 with the objective of extending financial services to more rural, less accessible communities. UNCDF provided support to four savings and loan cooperatives established in the late 1990s and provided funds to open two new cooperatives. The cooperatives were part of the cooperatives assisted by Développement International Desjardins (DID), whom were also selected and contracted as the Technical Service Provider (TSP). The savings and loan cooperatives or "*caisses*"' are savings based member organisations, with only 10-15% borrowers on average.

The immediate programme objectives were three-fold: to improve access to intermediary financial services, to promote the diversification of financial services, and to increase the institutional capacity of the cooperatives. The number of savers increased from 5,754 to 11,758 between 1999 and 2002 and borrowers roughly doubled to 1,061. For the most part, the cooperatives appear to meet client needs and provide an innovative outreach model.

5.2 Kenya

The Government of Kenya and UNDP signed a MicroStart project document (KEN/98/007) in November 1998, with an estimated completion date of September 2001; the project was ultimately extended to July 2003. K-Rep Advisory Services was selected as the Technical Service Provider (TSP) in October 1999. The programme became fully operational in April 2000, with the selection of the first two MFIs.

MicroStart Kenya was funded exclusively by UNDP and UNCDF provided technical assistance. The project document provided for total funding of $1,754,000 over three years, later revised to $1,219,000. Of this, $1 million was allocated to capital grants, $500,000 for the TSP contract, $55,000 for a resource center, $60,000 for audits, evaluations, and baseline studies, $95,000 for exchange visits/training, $8,000 for policy, and $36,000 for missions and duty travel. The programme invested in five Kenyan MFIs: EBS, WEEC, BIMAS, and KEPP, and WCK which was dropped in 2002 due to poor performance

Outreach from the MFI selected for review, the Equity Building Society (EBS), increased from 66,400 savers in 1999 to 155,883 in 2002 and from 2,753 to 41,503 borrowers. Moreover, it has become a leading example of client-oriented microfinance programming and a true MFI 'breakthrough' organisation.

5.3 Malawi

In December 1998 eight MFIs were invited to submit proposals for the establishment of the UNCDF-supported microfinance programme in Malawi (MAL/99/C01). PRIDE Management Services Limited (PMSL) was ultimately awarded the contract, based on the comparative advantages of its tried and proven operating model, its existing facilities, and readily available and experienced staff. The goal of the direct investment was to provide financial services to the poor, especially women, in both rural and urban areas. Original targets included reaching 18,000 active clients, of which 65% would be women, and achieving operational sustainability, within four years.

Since inception in March 2000, PRIDE Malawi's sole source of donor funding has been UNCDF. The project document provided for total funding of $3,486,868: loan capital ($1.4 million), operating losses ($1.5 million), and support cost ($0.5 million). PRIDE Malawi had 7,756 members of which 5,391 were borrowers in 2002. Unfortunately its drop-out rate has been extremely high, with client exits at close to 25,000 since programme inception. Significant changes to client products and processes are clearly required.

5.4 Nigeria

The immediate objectives of the MicroStart project (NIR/99/015) in Nigeria were to strengthen the institutional, organisational, and technical capacity of at least six MFIs; to contribute to the development of knowledge and expertise in microfinance in Nigeria; and to participate in the coordination and collaboration of the different actors in the microfinance sector.

A recognised technical service provider, the Association for Social Advancement (ASA) of Bangladesh, was contracted to implement the programme. The budget for the project was $1.61 million, funded entirely by UNDP; the primary components were $827,817 for micro capital grants and $693,473 for the TSP.

There was a dramatic improvement in efficiency indicators and outreach during the project period, with the number of active borrowers from the MFI selected for review, the Lift Above Poverty Organisation (LAPO), increasing from 8,849 to 15,474 from 1999 to 2002. At the same time, notwithstanding the admirable achievements of MicroStart, the PIA noted significant work remains to be done in the case of LAPO related to accurate reporting, notably the actual quality of the portfolio, financial management and governance.

6.0 REPORT OUTLINE

In accordance with the PIA Terms of Reference, this report seeks to provide the UNCDF Executive Board with information regarding the compliance with, and impact of, the shift in the UNCDF programme approach and focus for the programme period 1999-2002, as well as to present lessons learned.

Part I provides background on the PIA exercise. Part II reports on each assessment area: Section 1.0 on Client Impact Assessment; Section 2.0 on Institutional Sustainability; Section 3.0 on Policy and Replication Impact; and Section 4.0 on UNCDF's Strategic Positioning. Part III presents conclusions and recommendations.

The Companion Reports that accompany this main report present the detailed investigations that provide the basis for the overall findings. Organised by country, the reports present an overview of the country context and UNCDF-supported programme, before introducing the specific findings, which are presented by impact area. Each report can serve as an overall assessment of programme impact in the target country or the specific sections, each covering one of the four impact domains covered by this study, can be read independently if one has a special interest in one of the impact domains.

The nature of the various assessments is such that they offer an opportunity for more in-depth analysis. This implies a certain amount of duplication or repetition, however, as the same findings are often found at the different levels of analysis, particularly in impact areas three and four, which are closely related.

PART II – IMPACT ASSESSMENT FINDINGS

This section of the report presents a summary of the findings from the country case study assessments, by impact area. Specific summary findings related to each country can be found in annexes 5 to 9. The Companion Reports contain detailed findings for each country assessment.

The discussion begins with the Client Impact Assessment which outlines the achievements of UNCDF-supported case study MFIs with respect to poverty reduction, based on both qualitative and quantitative analysis. The institutional viability and sustainability of the MFIs are discussed in the second section, with the assessment being drawn from the CGAP institutional appraisal tool. UNCDF's achievements in influencing policy and promoting replication and microfinance best practices were assessed through a series of face-to-face interviews with key actors in the microfinance sector of each country, as well as from a desk review of available documentation, and are discussed in the third section. The final section presents UNCDF's strategic positioning in the broader microfinance context in the case study country, as well as the relevance and significance of investments and technical assistance provided to UNDP-funded MicroStart programmes.

It should be remembered that the results of these findings and summary conclusions are directly related to the four case study countries, and not necessarily representative of the overall UNCDF portfolio. The PIA does, however, provide insights into whether the microfinance programming logic pursued by the UNCDF Microfinance Unit following the 1999 policy shift was sound and produced the intended results. It also reveals where changes are necessary.

1.0 CLIENT IMPACT ASSESSMENT

1.1 Introduction

Client impact determination is complex, and multiple issues were considered to avoid biases or other pitfalls. Box 5 considers the attribution of programme impact to promoting household economic welfare, enterprise stability and growth, as well as client empowerment. Box 6 discusses some of the methodological challenges.

A research guide was prepared for this impact area (see summary in Annex 4). The use of multiple tools, a quantitative survey and a number of qualitative tools helped not only to triangulate findings but also to garner rich and textured data on the impact processes. In the case of three of the four UNCDF-supported MFIs participating in this study, the UNCDF PIA is the first time a client impact survey was being conducted.[15]

Box 5: Can we Say Definitively it was all Due to Microfinance?

The impact of client participation in microfinance programmes is assumed to occur at four distinct levels: *the individual, the household, the enterprise* and *the community*. But the impact chain is complex – there are a host of mediating factors such as programme attributes, client characteristics, geography, social structure and power relationships, infrastructure, and the macro economy. Further, reciprocal relationships between cause and effect make it difficult to distinguish between factors and the "fungibility" of credit and "selection bias" of programmes all constrains the attribution of client changes directly to programme participation.

While the above highlights the inherent dangers of assuming causal links between programme participation and client impact, assessments conducted with some level of methodological rigour permit conclusion-drawing concerning strong association between factors and outcomes. The preponderance of evidence especially through multiple approaches can give a fairly accurate estimate of the direction of change.

[15] The exception was the Equity Building Society (EBS) which chose not to participate in the quantitative client impact assessment, electing to conduct a number of qualitative research sessions in line with their research agenda.

As such, it offered an opportunity for the MFIs to gain more insight into their clients' needs, distinctive characteristics and demand. See Annex 5a for key specific findings from the client impact assessments per country.

Box 6: Quantitative Research – Who is our Sample?

As in most social science research, the sample for this study is composed of the "treatment group" and the "control group" with the basic principle being to compare these two groups along different impact indicators and to identify any differences. The target population for the treatment group was "two-year clients or clients who joined the programme at least 20 months prior to the survey" and included both current clients and ex-clients. The control group consisted of "pipeline" clients or new programme clients who either, had not received their first loan, or had received their first loan but had yet to finish their first loan cycle. The value of .10 is used in this report as the threshold for statistical significance, which means that there is only a 10 % chance that the observed relationship is the result of random chance or, in other words, a 90 % chance that the observed relationship is statistically meaningful. If a table reports a value less than .10 this means the relationship is seen as statistically significant.

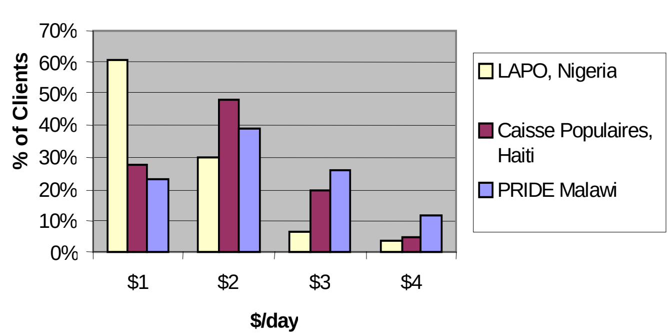
This survey design and sampling methodology followed the well-established SEEP/AIMS impact survey methodology that enjoys significant credibility in the practitioner world and has been validated by academic usage. The fact that ex-clients were included in the treatment group makes this approach more valid than many other impact studies, which have almost routinely omitted ex-clients from the treatment group.

1.2 Depth of Poverty

A popular income-based measure is the World Bank standard that defines the "very poor" as earning less than $1 a day, "poor" as earning between $1 and $2 per day, and "non-poor" as earning greater than $2 per day. Microfinance in general targets the poor with few programs targeting the poorest of the poor, who are generally too destitute to help themselves and better served by other means.

Nevertheless, Figure 2 illustrates that roughly 60 to 90% of the clients of three of the four case study MFIs have an income level of under US$2/day and access to financial services is being extended by UNCDF to very poor people (between 25 and 60% of the clients of UNCDF-supported MFIs).[16] The fourth MFI, EBS in Kenya does not specifically target the poor, but its average loan size, which is also one of the indicators for depth of outreach, has been falling steeply, dropping from $646 in 2001 to $306 by mid-2003, indicating movement down-market (see also 2.2). It should be noted that LAPO, with its exclusive focus on women, demonstrates the deepest reach into the "very poor" segment with over 60% of clients living on less than 1$ a day. Moreover, nearly 25% of both the treatment and the control groups in LAPO experienced a hungry season, also suggesting that the organisation is reaching a poor and vulnerable segment of the population.

Figure 2: Poverty Targeting



1.3 Household Level Impact

Table 3 captures the impact for key income and asset variables for which impact was observed. Positive impact on households is observed consistently across the evaluated UNCDF-supported programmes in terms of *acquisition and investment in land as a household asset*. The table illustrates that the difference in the number of people experiencing an increase in acquisition of

[16] Summing the percentage of clients with income levels below $1 and the percentage of clients with income levels below $2 per country (e.g., Nigeria 60% with incomes below $1 and 30% below $2 represents 90% of clients).

assets or investments in real property is statistically significant between treatment and control groups for land as an asset class. In Nigeria and Malawi, positive impact could also be observed for acquisition of other assets such as radios and refrigerators (see also Annex 5b). In Nigeria, positive impact was also found in investment in real property other than land, notably homes (purchase of house, adding to home, moving to larger accommodations, home improvements). Additionally, there was a statistically significant difference in the acquisition and investment in land between mature and new clients, demonstrating the increasing impact over time (see tables in companion reports). In terms of an increase of income, impact was found in Nigeria and likely Kenya but and not in Malawi and Haiti.

Table 3: Summary of Household Impact Findings – Income and assets

Impact Variable	Findings									
	Nigeria			Malawi			Haiti			Kenya
	Treatment Group	Control Group	Stat. Sign[17]	Treatment Group	Control Group	Stat. Sign	Treatment Group	Control Group	Stat. Sign	
Households with increased income	86.3%	80%	Yes .086	66.2%	68%	No	24.6%	20%	No	Likely
Asset acquisition – land	10.3%	6.3%	Yes .00	45.4%	34.1%	Yes .01	16.2%	8.9%	Yes .05	Impact
Investment in assets /real property – land	7%	2.8%	Yes .00	42.1%	34.6%	Yes .09	13.7%	7.4%	Yes .07	Impact

Also important was the positive association between the *education of children*, notably secondary education, and the participation in UNCDF-supported MFIs in Nigeria, Malawi and Kenya. Moreover, higher enrolment in secondary education was prevalent among the children of mature clients, indicating that participation in the microfinance programme is enabling poor people to invest in important social assets such as the education of their children.

The diversion of programme loans by clients for *meeting basic household expenses and risk protection*, instead of investment in enterprise – the stated purpose of the loans – is also observed across the programmes. In all four countries, clients admit to using programme loans for: consumption-smoothing, investing in personal items, basic necessities such as food purchases

Table 4: Summary of Household Impact Findings – Welfare Effects

Impact Variable	Findings									
	Nigeria			Malawi			Haiti			Kenya
	Treatment Group	Control Group	Stat. Sign	Treatment Group	Control Group	Stat. Sign	Treatment Group	Control Group	Stat. Sign	
Education of children (secondary)	94%	87.1%	Yes .05	96.4%	92.8%	Yes .01	94%	91%	No	No data
Food security/ hungry season coping	17.1%	4.9%	Yes .06	38.1%	24.1%	No .19	21%	4.7%	Yes .00	Impact
Sickness and disease	12.5%	1.5%	Yes .01	26.5%	9.4%	Yes .00	9%	1.5%	Yes .05	Impact
Emergencies	17.4%	1.9%	Yes .01	30%	8.4%	Yes .00	15%	6.1%	No .20	Impact

[17] When interpreting statistical data for impact, it is important to understand that individual percentages of each group in the sample are irrelevant; rather, the key is to assess whether *the difference in observed means between two groups/samples*

during food shortages, and paying for medical expenses and addressing emergency (natural disasters) and lifecycle expenses such as births, marriages and funeral expenses.

Table 4 presents a summary of household impact on the education of children and the use of programme loans as main coping strategy during the hungry season, against medical or for other emergencies.

1.4 Enterprise Level Impact

There was no single commonality in the impact at the enterprise level across the case study country microfinance programmes (see Table 5).

Table 5: Summary of Enterprise Level Findings

Impact Variable	Findings								
	Nigeria			Malawi			Haiti (n< 50, as the clientele is not primarily entrepreneurs)		
	Treatment Group	Control Group	Stat. Sign	Treatment Group	Control Group	Stat. Sign	Treatment Group	Control Group	Stat. Sign
Enterprises with Income Increase	86.9%	80.1%	Yes .09	60.2	63.8	No	50%	48.3%	No
Small Accessories	72%	66%	Yes .00	60.3%	63.2%	No	20.4%	30.3%	No
Minor site investments in marketing site	110%	49%	Yes .05	40.5%	42.9%	No	6.1%	0	No
Structure for marketing site	48%	13%	Yes .01	23.2%	25.8%	No	4.1%	0	No

In terms enterprise assets, some impact was found in Nigeria. For Malawi and Haiti no impact on *enterprise assets* could be observed. For Kenya, where the findings relied on qualitative research, there was not enough data to make a determination, though results point to a positive impact. The findings demonstrate the influence of the macroeconomic situation on impact – *very inhospitable macroeconomic environments are influential in determining the profitability of enterprises and can therefore swamp any potential positive impact of the programmes themselves.*

Further, one can argue that the programmes in Nigeria and Kenya, which operate in diversified economies, demonstrate positive impact in levels of *enterprise income.* However, the programmes in Haiti and Malawi, operating under seemingly more narrow or less-diversified economies, which additionally experienced sharp declines in the general macroeconomic environment over the past two years, show no impact in levels of enterprise income as a result of participation in the UNCDF-supported MFI.

1.5 Individual Level Impact

In terms of *access to financial services*, the UNCDF-supported MFIs impacted the poor by increasing the access credit and savings facilities (see Table 6); a higher percentage among the control group did not have any access to financial services elsewhere. This is significant because participation in semi-formal sources of finance is often posited to be an intermediary step towards accessing formal financial services. Nevertheless, in all four countries, clients also continue to patronise informal sources of finance such as "contributions", usurers, and rotating savings and credit associations (ROSCAs), despite being clients of MFIs. The implications of this finding are two: i) the UNCDF-supported MFIs are not meeting the diverse and complex financial needs of clients, so there is scope for introducing more suitable products by these MFIs; and, ii) not surprisingly, the (real and perceived) barriers to accessing

s random or statistically significant by comparing the data on the treatment and control groups using statistical tests such as t-tests and chi-squares.

services of the formal financial sector remain high for the poor, and graduation from informal to semi-formal to formal takes many years.

Table 6: Summary of Individual Level Findings

Impact Variable	Findings
Access - Savings	Statistically significant impact as additional source in Nigeria and some impact in Kenya and Haiti, but little impact on amounts saved.
Access - Credit	Statistically significant impact as additional source in Nigeria and Haiti and some impact in Kenya; Haiti increased usage of usurers.
Client Empowerment	Empirically, no impact on overall levels in Nigeria, Malawi or Haiti but Table 7 shows variations in empowerment of women and anecdotal impact.
Client Satisfaction	High in Nigeria and Kenya, moderate in Haiti, lowest in Malawi.

In terms of *empowerment* the empirical study could not clearly establish a link between the empowerment of MFI clients and programme participation. This is not so surprising since many issues related to control over resources, self-esteem and preparedness for the future are difficult to capture in survey data.[18] Anecdotal evidence of the qualitative research revealed, however, already high levels of empowerment among respondents in the UNCDF-supported MFIs in Nigeria, Malawi and Haiti, prior to accessing microfinance services. This implies a certain amount of self-selection, both by clients who choose to participate in the microfinance programmes and by the MFIs which select the clients. [19]

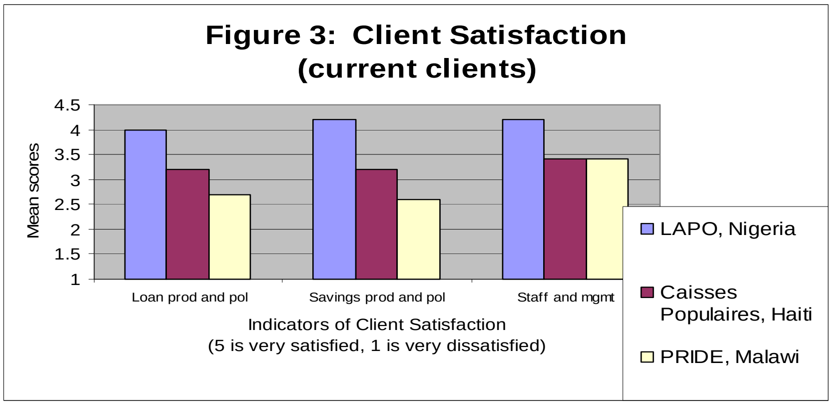
Table 7 provides insight into *the processes of empowerment that occur among some clients through programme participation* which manifests themselves in increased *self-esteem* attributed to success in providing for the family and being a successful entrepreneur. Programme participation is also associated with changes in *decision-making at the enterprise level*. There is a trend among some clients in all countries towards greater control, responsibility and authority in the business with participation in the programmes.

Table 7: Summary of Self-Esteem and Decision-making

Indicator	Finding
Self-esteem	Success in providing basic needs for family and contributing to household income results in increased self-esteem in Nigeria and Malawi. There was no impact in Haiti among existing entrepreneurs but positive impact among new entrepreneurs. Increased capacity to service customers more effectively also enhanced self-esteem in Malawi.
Decision-making at the household level	Improved personal financial situation instils confidence in household decision-making in Nigeria; no difference in Malawi – decisions made jointly. Significant positive impact among married female clients in Haiti.
Decision-making at the enterprise level	Improvement in financial situation results in assuming greater responsibility in making business decisions in Nigeria. Men do not consult women but women consult men in Malawi. Positive impact on business savvy in Malawi and Haiti.
Decision-making on use of programme loans	Decisions are made by clients themselves in Nigeria and Haiti (particularly women), jointly with spouses/partners in Malawi.

Overall programme satisfaction ranged from "satisfied/very satisfied" in LAPO, Nigeria to "satisfied" in Haiti to "dissatisfied with loan and savings products but satisfied with staff" in Malawi (see Figure 3 for current clients). Client satisfaction was significantly lower among ex-clients (almost 1 point for Malawi, and 0.5 for Haiti; for Nigeria there were too few responses

[18] Cohen, M. Sebstad, J., Snodgrass, D., Clients in context: the impact of microfinance in three countries, 2002.
[19] Given what appears to be a certain level of self-selection, it is likely that the quantitative survey may have found it difficult to capture the nuances in any changes that may occur through programme participation. Thus, the qualitative research was particularly useful in complementing and illuminating the processes of empowerment.



from ex-clients). The qualitative research revealed very low levels of satisfaction for Malawi. The qualitative research in Kenya revealed fairly high satisfaction among EBS clients. The research suggests that the main sources of client dissatisfaction across countries are all programme- and methodology-related.

The top three reasons for *client dissatisfaction* were: loan policies and procedures; savings policies and procedures; and group lending methodology. It is interesting to note that client satisfaction with the programme is not always closely tied to MFI *popularity and usage levels*. LAPO, in Nigeria, enjoys a high level of client satisfaction and is the most popular MFI in its area. PRIDE Malawi, however, displays low client satisfaction, yet is still ranked third among six MFIs. The co-operatives in North East Haiti were ranked as the most popular MFI programmes but received moderate scores for client satisfaction. EBS was assessed favourably against informal lenders and Savings and Credit Cooperatives (SACCOs) but less favourably against formal commercial banks. A clear implication of the above finding is that access to financial services is highly valued by poor people.

1.6 Gender and Impact

Gender mainstreaming can increase impact at the individual level in terms of empowerment of women and beyond the individual level, because women are more likely than men to spend their profits on household and family needs. Targeting women therefore generates a multiplier effect that enlarges the impact of an MFI's activities.

In view of the above, additional statistical tests were run to observe variances in the impact by gender. However, they revealed little difference on most impact indicators for men or women in programmes with mixed clientele. This finding may be explained by a combination of the lack of targeted promotion of economic participation of women and a lack of suitable financial products to address the needs of the relatively heterogeneous group that makes up "poor" women. In Malawi, the MFI targeted a female clientele of 65% of its portfolio, but had just reached just 50% at the end of December 2002. A re-evaluation of the product offering may assist it to reach its original targets. Collateral requirements proved a major obstacle to borrowing for

Box 7: Microfinance, Female Empowerment, and harmony in the Household

According to clients in Malawi, Nigeria and Haiti, affluence generally leads to diminished tension and strife in a household, with positive feelings towards the provider and consequently their enhanced self-esteem.

"I did not used to feel very important to my family, but presently, I not only feel important, but feel useful and proud of my contributions in the family."
(Client Empowerment Interview, LAPO, Nigeria, female client)

"I am the bedrock of my family."
(Client Empowerment Interview, AMNE Haiti, female and male clients)

However, in Malawi, there appeared to be interesting distinctions along gender lines on the changing dynamics within the household with prosperity. Female clients were more likely to believe that participation in Pride Malawi helped build families by giving them the wherewithal to meet basic needs of the family. Some men, on the other hand, felt that successful women become confrontational and aggressive disrupting family relations.

the clients of the MFI in Kenya. In Haiti, the supported savings and loan cooperatives adapted their loan products to meet specific needs of women. Box 7 provides an example of the gender dynamics that can be triggered by microfinance.

1.7 Client-Orientation

With the exception of EBS, none of the other three case study MFIs has made the transition from a supply-driven to a market-oriented operational approach.[20] Though the savings and loan cooperatives in Haiti have a relatively broad product menu to meet varied client needs, for the most part, the MFIs offer a limited range of products *they* deem valuable, whereas sometimes with only minor changes, products could be better attuned to client needs. To date, there has been little interest and effort devoted to considering neither customers' needs when developing products, nor towards undertaking systematic research that should take place as part of the product development process.[21] Client exit interviews are generally undertaken, but the integration of feedback into product development is limited. The disjoint is most apparent at PRIDE Malawi, where, although the MFI has grown to 7,000 in just over three years, its client retention rate has been abysmal with close to 25,000 clients having exited the programme since it began.[22]

In the case of EBS, new client-oriented product development processes, guided by the MicroSave programme, have dramatically improved growth, increased demand, and positively impacted the microfinance sector at large. Notably, EBS' product development success also pushed its competitors to innovate. Product diversification is believed to be one of the main factors contributing to the expansion of the Kenyan microfinance industry. The client assessment in all four countries found that refining products could greatly enhance customer satisfaction, improve retention and increase impact.

1.8 Conclusion

Financial services clearly play a central role in the lives of the poor. The programmes in Nigeria, Haiti and Malawi all seem to be very successful in reaching poor clients and EBS in Kenya appears to be down-scaling its operations.[23] Importantly, there is evidence of increased purchases of *household assets*, notably the acquisition of land, across countries. This is a very significant indicator of impact. There is also compelling evidence of the welfare-maximizing role played by the financial services provided by the UNCDF-supported programmes at the household level. Secondary education of children seems to be positively correlated with participation in programmes. Furthermore, one of the most important roles played by the MFIs seems to be helping clients to cope with vulnerability. Programme loans are one of the main ways clients overcome food insecurity, in all of the countries, as is the case in dealing with sickness, disease, emergencies and crises, where programme participants seem to transfer out of hand-outs from family and friends to programme loans to meet these expenses. There is little evidence of impact on *household income* in the Malawi and Haiti case studies compared to the control group, although among LAPO clients findings suggest increased income with programme participation.

[20] See for elaboration of this approach: Woller, G. (2002) *Market Orientation as the Key to Deep Outreach* MicroSave-Africa Briefing Note # 19.

[21] It should be mentioned that LAPO has recently become involved in a client-oriented exercise under a Ford Foundation research project, but that it is in the area of client impact monitoring and not market research.

[22] This is an *extremely* high drop out rate. Considering the cost of attracting new clients, the number is also doubly concerning. At the same time, if PRIDE Malawi can address its product and delivery issues, it should be able to increase its client base relatively rapidly, at a much lesser cost, if it can once again attract former clients.

[23] The average outstanding loan balance has fallen from $1,630 in 1999 to $377 at end of year 2002 thereby moving from the microfinance peer group "High-End" (depth between 150-249%) to the category "Broad" (depth between 20-149%).

At the individual level, there is evidence that the programme attracts already relatively empowered people and that empowerment occurs among some clients through programme participation. The process of empowerment manifests itself in increased self-esteem attributed to success in providing for the family and being a successful entrepreneur. Programme participation is also associated with changes in decision-making at the enterprise level.

Finally although client satisfaction varies considerably from programme to programme, the main reasons for client exits are fairly similar, related primarily to programme delivery and products. For the most part, there seems to be little emphasis and effort devoted to undertaking systematic research to understand the needs of the customers; rather the institutions offer products *they* deem valuable to clients. The client assessment found, in all four countries, that refining products could greatly enhance customer satisfaction, improve retention and increase impact.

2.0 INSTITUTIONAL SUSTAINABILITY

2.1 Introduction

The institutional sustainability assessment exercise sought to understand how UNCDF-supported MFIs are performing from an institutional perspective, identifying strengths and weaknesses on a broad range of issues ranging from governance and human resources to client-orientation and financial management. Assessments were conducted as part of this study, by the consultant team, in three of the four case study institutions. PRIDE Malawi underwent an institutional assessment by another independent consultant team in December 2002.[24] Summary findings of the assessments are presented below along dimensions of client outreach, financial sustainability, MFI institutional and capacity development and gender mainstreaming. More details are provided in Annexes 6a and 6b and in the companion reports.

2.2 Client Outreach

Breadth of Outreach

Most significantly, UNCDF has been very *successful in helping the case study MFIs to expand their client outreach*. Overall, savings clients grew by 86,894 (105%) and credit clients by 69,149 (568%) between the pre-programme situations in 1999 and 2002. However, EBS, Kenya, is somewhat of an outlier. Removing it from consideration, the average percentage increase is more in the order of 80-85% (see Table 8).

Table 8: Outreach – Increase in Active Savers and Borrowers

	Savers			Borrowers		
	12/1999	**12/2002**	***Increase***	**12/1999**	**12/2002**	***Increase***
LAPO Nigeria	9,080	16,611	*83%*	8,849	15,474	*75%*
EBS Kenya	66,400	155,000	*75%*	2,753	41,503	*1048%*
PRIDE Malawi	0	7,750	*n.a.*	0	5,391	*n.a.*
AMNE Haiti	6,236	11,758	*89%*	575	1,061	*85%*
Total	81,716	167,610	*105%*	12,177	81,326	*568%*

[24] Perrett, G. Chirwa, E. 'Sustainable Financial Services at the District Level Malawi – Institutional Assessment. Draft Report, December 2002.

Depth of Outreach

The selected partners have, in general, *successfully reached poor populations* (see section 1.2) in accordance with the UNCDF strategy. For the most part, the case study MFIs specifically targeted the poor and very poor, with the exception of the MFI in Kenya, which has the largest outreach of all, but targets small business, farmers, and salaried employees as opposed to having an exclusive focus on microentepreneurs.[25]

Table 9: Average Outstanding Loan Balances (in US$ as per 12/2002)

	Credit Based Organisation		Savings Based Organisation	
	LAPO, Nigeria	PRIDE, Malawi	EBS, Kenya	AMNE Haiti
Average. Outstanding Loan Balance (a)	65	132	372	261
GNP/capita (b)	290	160	350	480
Depth (a/b)	22%	82%	106%	54%

The average outstanding loan balance per GNP/capita is a main indicator of depth of outreach. Table 9 illustrates that the MFIs in Nigeria and Malawi would fall within the industry standard MicroBanking Bulletin category of 'low-end'[26] while EBS in Kenya and the six savings and loan cooperative assessed in North East Haiti fall into the category "Broad". In the case of Haiti, it should be noted that among savers, the large majority of the clients, outreach is very deep ($43, below the low-end MFIs average of $68).[27]

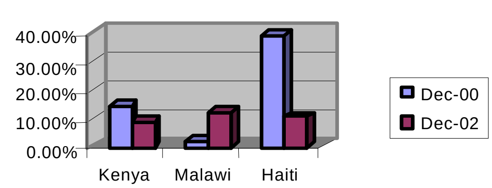
The consultants also had the opportunity to more directly measure the income categories of the MFI clients through the quantitative survey. The findings indicated that in each of the case studies UNCDF had been successful in selecting organisations with the capacity to reach out to the poor or very poor on a large scale (see section 1.2). The Nigerian MFI managed to reach down to a particularly vulnerable group of women. Client assessments found the impact and empowerment in this MFI to be the most significant among the four case study institutions.

2.3 Financial Sustainability

Asset Quality

Whereas outreach performance was impressive in the four case study countries, none of the four case study MFIs met PaR industry standards for *portfolio quality*, at the end of the year 2002 (see Figure 5). This finding is in line with the result reported in the 2002 Results Oriented Annual Report (ROAR), which notes that reducing portfolio at risk levels remains a challenge. At the end of 2002, although 11 of the reporting MFIs (48%) had made satisfactory progress towards their portfolio-at-risk targets, only six had attained the industry standard of portfolio-at-risk at 30 days of less than five per cent. However, Figure 5 demonstrates portfolio quality improvements in the cases of Haiti and Kenya. And it is not uncommon for new programmes under disbursement pressures to experience an increase in the portfolio-at-risk, as occurred in Malawi.[28]

Figure 5: Portfolio at Risk > 30 days



[25] Its decreasing average loan balance, however, evidences significant downscaling.
[26] Average loan balance <$150 or depth below 20%.
[27] MicroBanking Bulletin, Issue No. 9.

Operational and Financial Self-Sufficiency

Table 10 demonstrates considerable improvement in operational self-sufficiency. The case study MFIs in Haiti and Kenya both reached operational sustainability, demonstrating movement toward full financial sustainability. The MFIs in Nigeria and Malawi, despite impressive outreach, performed below average compared to industry benchmarks. However, if one looks at the overall improvement in the operations of the MFIs in the MicroStart programme in Nigeria, and at the efficiency improvements of the supported branches, the improvements are significant (see Nigeria Companion Report).

If one compares progress among the investments in the MFIs in Nigeria, Kenya, Malawi and Haiti, on the two key industry performance indicators of outreach (section 2.2) and financial sustainability (Table 10), it appears that UNCDF has been more successful in expanding services to the poor than in advancing MFIs to become fully sustainable institutions. It should be noted that Malawi was a start-up operation and Nigeria was fast expanding through the opening of new branches. Overall results are therefore skewed, as reaching break-even is delayed when MFIs are rapidly expanding in this manner.

Table 10: MFI Sustainability

Country	Operational Self-Sufficiency			Financial Self-Sufficiency		
	Pre-project	12/02	Bench mark[29]	Pre-Project	12/02	Bench mark
LAPO Nigeria	55%	86%	90.5%	n.a.	72.5%	82.5%
EBS Kenya	73%	133%	90.5%	50.3%	93.9%	82.5%
PIDE Malawi	n.a.	44%	90.5%	n.a.	37.2%	82.5%
AMNE Haiti	26%	116%	86.8%	n.a.	58.5%	65.8%

2.4 MFI Institutional and Capacity Development

MIS

UNCDF's 1999 microfinance policy reorientation towards institution building and the emphasis on supporting systems, such as an accurate and reliable management information system (MIS), was an appropriate decision. Investments in MIS in Kenya (automated) and Haiti (manual MIS) had profound impacts on the performance of the MFIs. The case of the Equity Building Society in Kenya is perhaps one of the most dramatic examples, worldwide, demonstrating how an MFI can improve in almost all key performance indicators as a result of the introduction of a proper MIS. EBS survived for years under the growing difficulties of a manual information management system, with problems amplified at every level of growth. Although its growth is partly attributable to its marketing and customer-focused efforts, it is clear from the high growth spurt in the MFI's 2000, 2001 and 2002 figures that the new computerised MIS, launched in June 2000, was also a contributing factor to the increase (see Annex 6); the growth spurt began in 2000, whereas the product development improvements were not introduced until 2001. The number of borrowers grew from 2,753 in 1999 to 41,503 in 2002; the number of depositors from 66,967 in 1999 to 155,883 in 2002; and there was a remarkable 104% increase in pre-tax, year-on-year profits in 2002, even though total assets increased by only 37% during the same period.

[28] At the time, the portfolio information for the MFI in Nigeria was not accurate, and is therefore not presented. The portfolio-at-risk of the overall MicroStart Nigeria programme, however, did increase to 16% at the end of 2002.

[29] Nigeria, Kenya and Malawi are compared to MBB benchmarks for Africa Medium. Haiti is compared to Latin America Small. Peer groups were selected based on location and outstanding portfolio.

Human Resources and Productivity

Systems are only as good as the people who operate them. Although the case studies ranged from sectors in their infancy to more mature industries, *institutional capacity, notably staff capacity, requires further strengthening*. Human resource capacity improved in Haiti and Nigeria as a result of the UNCDF support. Although human resource capacity building was an integral part of the PRIDE Malawi start-up, the transition from expatriate to local staff did not receive enough attention.

Three of the programmes – Haiti, Nigeria and Kenya – have demonstrated significant improvement in productivity and overall administrative efficiency (Annex 6 presents trends over the past three years). In Malawi, an improvement can be seen in the number of loans per loan officer; however, an administrative efficiency ratio of close to 200% at the end of 2002 is high, even for a young institution.

Client-Orientation

Considering the issue of client-orientation, the institutional assessments were in line with the client impact findings. In both Malawi and Kenya, many MFIs employed strikingly similar lending methodologies and offered a limited range of almost identical products for many years. In Kenya, UNCDF assisted EBS with i) an MIS that increased efficiency and ii) helped pioneer a market-led product development and diversification initiative – MicroSave Africa. Increased client responsiveness and product diversification are attributed as two of the main reasons behind the sector's rapid growth in recent years (see Table 11 for an example of changes in methodologies and product lines among a number of key Kenyan MFIs). In the case of Malawi, on the other hand, the failure to adopt a client orientation has impacted the sector as a whole and slowed its advance from the start-up to growth phase.

Table 11: Product Diversification among Kenyan MFIs

MFI	1999 Method	1999 Products	2002 Method	2002 Products
EBS	Mostly Individual	7	Mostly Individual	8
Faulu	Solidarity Groups	4	Solidarity Groups	4
K-Rep Bank	Group	1	Group + Individual	4
KWFT	Group	2	Group + Individual	3
SMEP	Solidarity Groups	1	Solidarity Groups	6

2.5 Gender Mainstreaming

In general, progress has been made over the last two decades in terms of women's access to microfinance services. On the other hand, the outreach to women in loan programmes featuring larger loan sizes remains low.[31] The results from this assessment are in line with above tendencies. The UNCDF support enabled the MFIs in the case study countries to substantially increase their outreach to women. Table 12 demonstrates that among LAPO clients in Nigeria – the only one of the evaluated MFIs, which specifically targeted women – the increase in female clients was high.[32] In Kenya, the increase in

Table 12 Client Outreach by Gender

MFI	Female Members / Savers				Female Borrowers			
	12/00	%	12/02	%	12/00	%	12/02	%
LAPO Nigeria	10,124	100	15,474	100[30]	10,124	100	15,474	100
EBS Kenya	n.a.*	n.a.	51,441	33	2,258	25	12,865	31**
PRIDE Malawi	880	35	3,878**	50	880	35	2,372	44
AMNE Haiti	3,237	42	5,727	50	248	44	626	59

* A key weakness of EBS at the outset of the project was reliable information. ** MicroStart Kenya, Final Report, 2003. *** PM Indicator Report, December 2002.

30 Although LAPO has a few male clients, the current MIS does not disaggregate this information.
31 "Increasing Access and Benefits for Women", UNCDF, 2002.
32 Men are not banned from participation in LAPO; a limited number, less than 5% of clients, are men.

absolute numbers of women at EBS was highest, though the proportion of women among total borrowers was just one-third. In the case of Haiti, women were underrepresented among the total number of clients and as borrowers at the outset of the project but made up half of the members at the end of the project, and out-numbered men among the active borrowers.
In terms of average loan size, the male clients at the savings and loan cooperatives in Haiti tended to have larger loans than female clients. This could not be determined for the other MFIs, but anecdotal evidence for Kenya points in the same direction.

At the same time, a change in institutional gender mainstreaming strategies was most notable in Haiti, suggesting positive impact. The supported savings and loan cooperatives paid special attention to gender on a number of fronts (such as sex-disaggregated data, reporting and monitoring of number of female members and borrowers, putting extra efforts to recruit women in leadership positions, development of a special loan product, etc.). UNCDF gender mainstreaming objectives and the dedication of the TSP can be credited with an increased percentage of female borrowers, from 44% to 59% between 2000 and 2002.

Table 13 provides an overview of selected issues of gender mainstreaming among the case study MFIs. LAPO, in Nigeria, was already very conscious of gender issues, and in addition to financial products, offers training on topics such as healthcare, women's rights, and empowerment. The MicroStart investment enabled it to substantially increase its outreach to this market segment.

Table 13: Gender Targeting

Country	Gender Considered	Proportional Increase in Female Clients	Poorest Women
Nigeria	Yes	Targeted women already	Yes
Kenya	Starting to be addressed	Not available	No
Malawi	No (no targeted products)	N/A, new project	Some
Haiti	Yes	Yes, among borrowers	Yes

Two of four projects – Malawi and Haiti – have collected sex-disaggregated data for a large number of parameters to reflect participation levels of women and/or benefits to women. EBS, in Kenya, has started disaggregating its data and plans to improve its gender data collection systems with the MIS funded by UNCDF.

2.6 Conclusion

UNCDF makes an important contribution to the growth of microfinance in a number of countries around the world. The policy reorientation towards supporting MFIs to achieve financial sustainability and installation of accurate management information systems was a sound, productive shift at the time. Outreach and efficiency levels increased significantly among the case study MFIs and increasing numbers of MFIs supported by UNCDF are incorporating more transparent reporting processes (see ROAR 2002).

Overall, however, UNCDF has been more successful in improving efficiency and increasing outreach than in advancing MFIs to become fully financially self-sufficient. It is important to note that three years is a short period of time over which to assess impact and some of the supported MFIs could soon reach financial self-sufficiency. Still, *in its eagerness to meet MicroStart or other performance targets, UNCDF sometimes fails to pay enough attention to the underlying factors that determine truly sustainable operations, such as human resources, internal controls and promoting a customer orientation. This likely results from UNCDF's inability to be deeply involved due to its limited budget as well as from a lack of specific indicators for assessing institutional capacity.*

UNCDF assumed a reasonable level of risk in its selection of MFIs, generally providing appropriate support to high-risk situations. For example, in the case of penetrating the relatively risky Nigerian and Haitian North East market, the risk was balanced by contracting world-class TSPs.[33] In the case of Kenya, investing in a building society, with a fair number of old, bad loans, was not without risks, not to mention the fact that few examples existed of MFIs operating under such an institutional charter; but the investment paid back high returns. In Malawi, where UNCDF was the sole founding investor of the supported MFI, we would argue that the decision exposed UNCDF to too high a risk.

3.0 POLICY IMPACT AND REPLICATION

3.1 Introduction

In this section of the report, we seek to analyse the extent to which UNCDF-supported pilot operations i) exert a wider influence and leverage on policy and ii) provide a tested model for replication and adoption of best practice by national governments, development agencies or private entities. The assessment measures outcomes and impact against the potential policy and replication impact areas outlined in the *UNCDF Strategy for Policy Impact and Replication*, focusing on:

- What policy changes (in terms of norms, legal and regulatory frameworks, macro and micro policy) in the country are attributable to UNCDF-supported microfinance interventions? and
- Evidence of acceptability and replication of the MFI and its products in the market.

It should be recognised that most of the progress in policy impact, in all four case study countries, has been at the downstream level in the development of norms, and least at the broad policy direction level. Though broad policy direction at the macroeconomic policy level can significantly impact the microfinance environment, it is generally beyond the scope of reach for UNCDF. It is important to underscore that only in cases where macro policies intersect with UNCDF policy advisory and advocacy activities are there opportunities for such influence. But these opportunities are relatively few.

3.2 Policy Impact Findings

UNCDF has been reasonably successful in terms of policy impact in the four case study countries. Table 14 gives an overview of the range of policy achievements. It shows that the largest impact was generally found at the level of nationally accepted norms – systems, procedures, practices and guidelines (see Nigeria policy highlight in Box 8).

There also was some evidence of influence at the regulatory framework level through assistance in drafting a microfinance policy document (see Malawi Policy highlight in Box 9) and at

> **Box 8: Nigeria Downstream Policy Impact**
>
> On the downstream level, UNCDF's policy impact produced a forceful demonstration effect. After only three years of the MicroStart program, there appears to be general acceptance of the best practice standards introduced by the Technical Service Provider, ASA, Bangladesh by the microfinance community, resulting in the establishment of general norms and guidelines for the sector.
>
> Prior to MicroStart the sector consisted of a number of MFIs, some in existence since the 1980s, none of them equipped with the basic tools and systems employed by sustainable MFIs, and none of them demonstrating capacity for a rate of growth that could start to make a difference in a country like Nigeria. Three years later, some MFIs are emerging with potential to penetrate the microfinance market in a substantial manner.

[33] Although UNCDF must be more proactive in monitoring of both the MFIs and TSPs it supports regardless of how well recognised they might be.

the legal framework level through the funding of the process of drafting of a law for savings and loan cooperatives in Haiti. At the same time, UNCDF missed a number of opportunities for influence. For instance, it could have played a more significant role in Malawi through the MicroStart Advisory Board (MAB) actively lobbying the government to halt their subsidised programmes (though doing so was more difficult once the UNCDF expatriate staff had left the post). It also could have sought more partners to join MicroStart in Nigeria. [34]

Box 9: Malawi Microfinance Policy

In the case of Malawi, UNCDF had considerable policy impact through upstream activities at the microfinance policy level. A UNCDF expert advised the Ministry of Commerce and Industry and played an important role in the process and development of the national microfinance policy to promote a sustainable microfinance industry.

The policy stipulates that a healthy microfinance industry consists of private and autonomous institutions operating according to widely accepted best practices, within a set of conducive policies enacted by Government. The Plan of Action aspires to mainstream microfinance initiatives in all ministries in order to allow for proper coordination and aims at privatizing government owned MFIs by the year 2004 .

UNCDF/UNDP also helped to familiarize the government with regards to the role it could play in the microfinance sector and in terms of stimulating a supportive legal and regulatory framework for the sector. The support also helped to familiarise policy makers with microfinance best practices.

UNDP support to the microfinance network, Malawi Microfinance Network (MAMN), is contributing to the development of norms on many fronts. It has already passed a Code of Conduct for MFIs.

Table 14: Policy Impact Summary

Broad Policy Direction	Statutory and Legal Framework	Regulatory Framework	Norms: Microfinance Systems, Procedures, Guidelines, Practices adopted Nationally
Nigeria			
Few opportunities for impact.	Limited Impact.	• Central Bank introduced to the idea of guidelines for micro credit, in the form of policy; • Central bankers attending training; • MAB served as a forum for upstream activities.	• UNCDF-supported ASA standards for microfinance have become the widely accepted best practice among a variety of MFIs on key practices such as: - Efficiency; - Cost covering non-subsidized interest rate setting; and - Financial sustainability.
Malawi			
Few opportunities for impact.	• UNDP and UNCDF played a role in the organisation of debates on a preferred Legal and Regulatory framework; • UNCDF was instrumental in stimulating the undertaking of studies on a number of laws.	• UNCDF played a major role in the development of the sector, through the support of the development of a microfinance policy.	UNCDF/UNDP had an impact in spreading knowledge about best practice microfinance and key performance standard setting and systems development through: • Investment in an MFI; • Funding of MAMN (UNDP); and • The development of a code of conduct for MFIs by MAMN.
Kenya			
Few opportunities for impact.	Limited Impact.	• MAB served as a forum for upstream activities • UNDP funded workshop on microfinance legal environment and regulation.	• Systems; • Performance Indicators reporting; and • UNDP funded AMFI.
Haiti			
Microfinance as a whole is contributing to financial sector deepening in Haiti, in particular within the cooperative sector.	• UNCDF funding sponsored DID initiatives to pass the cooperative law.	• MAB served as a forum for upstream activities	• UNCDF impacted on the development of systems for local financial intermediaries.; and • UNCDF supported the development of best practice standards for microfinance such as: - Cost covering interest rate setting - Efficiency - Financial sustainability

[34] It should be noted that UNCDF's approach to policy impact has been a cautious, so it is not surprising that there are missed opportunities. There is also potential for the future interventions.

UNCDF has influenced policy through partnerships in the area of microfinance (see Table 14 and 15). There also remains room to plan and embark on more strategic partnerships. UNCDF has not as yet found regular microfinance funding partners to work with in a more systematic manner (e.g. pursuing a joint approach or initiative in multiple countries). Nevertheless, there appears to be fertile ground to pursue this, at least in the case study countries.

Table 15: Replication Summary

Co-financing	Sequential scale-up	Influence
Nigeria		
MicroStart Phase II: • Parallel: $ 2.34 million • UNDP – $ 290,938 • NAPEP – $ 392,000 (N49 million) Total: $3,022,938	• USAID – $1.3 million • EED – $228,000 (N28.5 million) • UBA – $120,000 (N15 million) • Community Bank – $160,000 (N20 million) • GBF – $20,000 (N2.5 million) Total: $1,828,000	• Non-MicroStart MFIs learning ASA methodology through exchange visits; • UNCDF-supported ASA standards for microfinance have become the widely accepted best practice among a number of MFIs; • Use of Distance Learning Course provides important training opportunity.
Malawi		
	• PRIDE may attract a socially responsible investor; and • MAMN was funded by UNDP.	• Limited impact on MFIs and wider community; and • Some on network, e.g. sector database.
Kenya		
Direct: • UNDP .88 million for MicroSave phase I; and • UNDP 0.55 million for MicroSave phase II, 0.45 million for MicroSave West Africa initiative. Indirect: • 1.4 million CGAP MicroSave phase II; and • .74 million other MicroSave phase II donors. Total: $ 4 million	Indirect: • Swisscontact $150,000 for EBS product development 2001; • AFRICAP $1,600,000 majority shareholder 2002 and $800,000 technical assistance; • DFID EBS investment $470,000; • $1.5 million CGAP funds for MicroSave phase III; • $1.5 million Norway MicroSave III funds; and • $.5 million Austria MicroSave III funds. Total $ 5 – 6.5 million	• Other MFIs installing MIS; • Other financial institutions lengthening opening hours through increased efficiency; • Product diversification; and • Local research capacity greatly strengthened through MicroSave local researchers.
Haiti		
AMNE: • Plan International (G235000=$6000 at current exchange rate); • Grades; • IDE; and • Protos. MicroStart Phase I: • The Embassy of the Netherlands $ 1,379,000	AMNE: • Future access to chequing services for cooperatives; • Future access to government issued bonds for cooperatives; and • Access to credit lines for cooperatives. MicroStart Phase I • ACME and FONKOZE now accessing commercial credit lines.	AMNE: • "Outlets" as new organisational structure for deepening outreach; • Influenced product adaptation to local markets among cooperatives; MicroStart Phase I • Assisted in developing performance reporting method now used by FINNET partners.

In each case, had UNCDF had a standard set of resource mobilisation activities to undertake, or a workplan with clear targets, we believe the result could likely have led to additional funding and more joint programming. The basic groundwork would have been done, and donors could have been approached in a timely manner. This underscores the importance of *consistent and thorough monitoring* of the microfinance environment in programme countries. Consequently, it is also important to *build in the programme flexibility to respond to sector changes* – a UNCDF comparative advantage.

There continues to be potential in all the four case study countries for UNCDF to play an important role in impacting policy. In the most nascent microfinance markets this will likely occur by stimulating dialogue, familiarising policy-makers with microfinance and by becoming a lead knowledge centre on microfinance. As sectors mature in more and more countries, and an increasing number of policy-makers become familiar with microfinance, these needs will change, as they did in the case study countries. More support will be needed in the area of enabling environment, appropriate legal and regulatory frameworks, and sector infrastructure, as sectors mature. However, since many of the policy issues are determined by national politics, policy change may often be regressive, as much as progressive. Given this dynamic, it will be important to build in the flexibility to be able to respond to sector changes. Market forces are playing an increasingly important role in sector development, and can grow the industry with client-driven microfinance products, demand-driven capacity building facilities for MFIs and diversity in capital sources at the sector level. In Nigeria and possibly Malawi, among the four case study countries, UNCDF could indeed play a unique leadership role.

3.3 Replication Findings

The UNCDF programmes in the case study countries have been generally successful in triggering replication to date (see Table 15). For example, in Kenya a number of follow-on donors have invested and will continue to fund and develop the MicroSave initiative. There was also financial replication in Nigeria among both donors as well as private investors, including a major bank.

UNCDF also triggered non-financial replication effects. In Haiti, in addition to significant and effective capacity building, a "point of sale" strategy was piloted to reach out to areas otherwise beyond reach (see Box 10). In Kenya, through its support of MicroSave, UNCDF influenced not only the national microfinance sector, but results have had a larger bearing on the wider microfinance community (see Box 11).

Box 10: Haiti Inclusive Financial Sectors

Two programme initiatives piloted by UNCDF in the North East have been disseminated throughout the ANACAPH network of savings and loan cooperatives whose other members are funded by donors such as CIDA and USAID, and may eventually influence their program strategy. These are:

- The introduction of outlets to cooperatives, which has further deepened outreach; and
- The adaptation of the solidarity group loan product to be more appropriate for women, developed in the North East through UNCDF's emphasis on product diversification.

It should be underscored that the need to support product development emerged as a critical factor from all impact assessments areas and all case study countries. It would seem that UNCDF could provide larger-scale support with technical assistance and the dissemination and replication of training and tools on how to undertake customer-oriented product development, based on the positive result in Kenya. Not only was MicroSave a programme where UNCDF was involved early on, but product development is an area where with little investment, sizeable leaps can be triggered in sector development – an opportune area for replication where UNCDF could play an important role.

Box 11: Pushing the Envelope in Kenya through MIS and Demand-driven Products

The investment in the flagship MicroStart microfinance institution in Kenya triggered significant replication. EBS showed dramatic improvement in almost every key performance indicator, after it procured a new MIS with the MicroStart funds. In combination with the more client-driven products that EBS developed at the same time with the support of MicroSave, it quickly increased its market share and has impacted client services throughout the sector.

For example, processing time was reduced from 40 minutes to 7 minutes (and is now close to 2 minutes), enabling EBS to offer its clients longer service hours (as less end of day process time is needed). This led their competitors to firstly try to improve their efficiency as well to also extend their operating hours and, secondly, to influence a wave of investments in MIS in the sector during those years. Moreover, the success with its product development, pushed others to innovate as well, and the trend in product diversification is said to be one of the main factor contributing to an eventual take-off of the MF industry in Kenya.

It also should be noted that replication takes time and the PIA took place only a short period after the new policy shift had been in operation, so additional replication effects could easily still take place. There is potential in all four countries for UNCDF to leverage its resources, programmes and activities, through forging partnerships with donors, the research community, the private sector, and network organisations. UNCDF's tendency to want to see results after a relatively short period has resulted in some problems and should be and is being revisited.

There is nothing wrong with setting benchmarks or adjusting plans but it is also imperative to recognise that change takes time. Modifications can take place along the way but it is not unreasonable to plan around perhaps seven-year programme cycles: three years of start-up, two years of solidification and a final two years to fully transition to new relationships. The nature of UNCDF funding makes such long-term planning difficult of course but UNCDF's funders and the Executive Board should consider providing the time and resources to allow what are relatively innovative contributions by UNCDF to take hold. A seven-year cycle can allow time for continuity, to attract other financial supporters, and for a more systematic introduction of new thrusts. Obviously the results of annual reviews should be used to adjust programmes as indicated. A longer time frame also makes sense in terms of being able to better show impact and more successfully disseminate results, particularly in the areas of policy and replication.

3.4 Conclusion

In order to optimally pursue its policy and replication objectives, UNCDF should reflect on a number of critical success factors:

Objectives, Targets and Capacity

The window of opportunity created by the 2003 policy shift, of increased activity at the sector and therefore policy level, will require UNCDF to move from what has been a more passive funder role to a more active, expert, influencing role. To be successful in policy and replication, as in any other area, UNCDF must pursue its objectives strategically and deliberately, building specific policy and replication activities and targets into its workplans, and then ensuring the financial, and most importantly, appropriate and adequate human resource capacity required to seriously pursue the goals.

Knowledge Management

UNCDF must better capitalise on the experience gained from the many projects it has supported. Not only should it work jointly with the agencies it supports in distilling key learnings and applying them to improve on-the-ground progress, it should engage actively with its partners to disseminate the same lessons and share experiences among partners, with other MFIs and funders, and even with the private sector. For example:

- It is possible that if the successful work of MicroSave with EBS had been shared with PRIDE Malawi, PRIDE might not have lost over 25,000 clients in just three years, and could have had more of a chance to become the successful breakthrough organisation initially envisioned;

- Replicating the experience from North East Haiti to the South or Western provinces or among similar member-based MFIs in other countries, as appropriate, could lead to a increase in the access to financial services among the poor; and

- More active sharing of knowledge among MicroStart MFIs and between MicroStart and other MFIs and the broader donor community could have positive results.

Whereas UNCDF attaches high importance to evaluating, documenting, and analysing lessons learned and was at the cutting edge with its "learning agenda", it *does not yet seem to have an efficient mechanism to disseminate the many lessons learned.* It could consider developing more links with the microfinance sector, academic and research institutions to disseminate learnings, and further develop the management of the knowledge it generates.

Partnerships

As it stands, UNCDF has worked with a variety of partners around the world but has yet to establish a systematic approach to its partnerships, although the number of UNCDF programmes/projects with replication partners on board at start-up appears to be increasing (ROAR 2002). Additionally, it is now established practice to screen new projects to ensure that they have explicit strategies for policy and replication. Given the decision to more actively pursue policy and replication, greater coordination between potential partners will be imperative. For example, it could simply be policy that the local country office begins by exploring potential opportunities for collaboration and leverage relationships with International Finance Corporation (IFC), the World Bank, and the UK Department for International Development (DFID), and all other major multi- and bilateral donors active in microfinance in the particular region.

In terms of leveraging other funding, Haiti, where UNCDF successfully linked its investments to support programming of larger sector donors and generally managed to leverage relatively large amounts of funds beyond its own resources, serves as a good example. In Nigeria, though co-financing and up-scaling is taking place (amounting to a sizeable $5 million), UNCDF could have employed a more aggressive approach to disseminate it successes, which could have led to even more investments by other donors.

For the most part, resource mobilisation fell short of what appears to have been possible. This could be due to limited in-country staff, and, as mentioned above, a lack of clear resource mobilisation objectives and target setting at the country level. Notably, UNCDF/UNDP is now establishing incentives for Resident Representatives to promote successes and draw partnerships and further funding toward its efforts.

Sole Proprietorships

In the one case where UNCDF made a major investment single-handedly – investing in PRIDE Malawi – the outcome has put both organisations too much at risk. A policy should be established whereby similar investments will take place only in exceptional circumstances, and ensure that those circumstances are clearly outlined in a policy document. Progress must be monitored much more closely and continuously than other investments given the potential risks involved.

In a related manner, the decision in Nigeria to focus resources on training a single individual as a TSP would also appear to be overly risky. It would have been better to select a firm, or more than just one firm.

4.0 UNCDF STRATEGIC POSITIONING

4.1 Introduction

In this section, we assess whether the 1999 policy for microfinance programming actually influenced the

Box 12: Positioning Areas of Assessment

Relevance and Significance to:

- The development of microfinance in the country;
- Government priorities and national needs;
- The UN System goals as expressed in the UNDAF; and
- The Millennium Development Goals[1] and Programme of Action for the LDCs.

Effectiveness

Competitive Edge

choice of intervention, design and mode of implementation of UNCDF programming, including whether through this "new policy" approach UNCDF maximised its potential to contribute to microfinance results. We assess the strategic positioning of UNCDF, in terms of the *relevance and significance* of UNCDF-supported interventions, programme objectives and actual activities/outputs/outcomes to the development of microfinance in the country; government priorities and national needs, the UN System goals as expressed in the UNDAF, and the Millennium Development Goals[35] and Programme of Action for the LDCs (see Box 12).

While details on the key events/changes in the area of microfinance in each country can be found in the Country Companion Reports, in this report, we also summarise how *effective* and r*esponsive* UNCDF has been and if it managed to exploit its comparative advantages.

4.2 The Relevance and Significance of UNCDF-Supported Interventions

4.2.1 The Development of the Microfinance Industry

In each of the four case study countries, the microfinance industry was at a different stage of development. Key changes that took place in the respective industries are listed in Box 13. Matching the key changes in the respective sectors with Box 14 shows the significance of some of UNCDF's support activities. UNCDF introduced the 1999 policy change relatively

Box 13: Key Changes in Case Country Microfinance Sectors

Haiti
- Microfinance arms of commercial banks contribution to demonstrating the good risk of micro lenders;
- More MFIs on the way to becoming sustainable; and
- Acceptance of microfinance best practice norms: procedures, prescribed systems, guidelines and practices.

Kenya
- An eventual take-off of the microfinance sector;
- The network organization "AMFI" gets own premises and staff;
- Product development and diversification with the help of MicroSave;
- The closure of the main broad capacity building facility, AFCAP; and
- Commercialisation (NGOs changing institutional charter, new entrants, MFIs starting to access banks for lines of credit, etc).

Malawi
- The Microfinance Policy and Action Plan passed in 2002; and
- The formation of the network organisation, MAMN.

Nigeria
- Processes are well-underway to establishing a critical mass of credible MFIs;
- Acceptance of microfinance best practice norms: procedures, prescribed systems, guidelines and practices; and
- Formation of a second wholesaling organisation.

Box 14: UNCDF's Contribution to Key Sector Changes

- In *Haiti*, UNCDF significantly contributed to increasing depth of outreach by stimulating access to finance in rural areas and introducing an innovative new concept of reaching out to areas where opening a branch is not feasible, through the establishment of outlets. Another important contribution was the support for the passing of a law for savings and credit cooperatives to protect the deposits of the poor – legislation urgently needed to restore confidence in the financial sector, and most importantly the savings and loan cooperative sub-sector, following the pyramid schemes ultimate collapse in 2002.

- In *Kenya,* one of the MicroStart MFIs, initially a relative risky investment, showed dramatic improvement in almost every key performance indicator, after it was able to procure a proper MIS with the MicroStart funds. A combination of the MIS and demand driven product development exercise it diligently embarked upon, explains its dramatic growth. Product diversification is said to be one of the major drivers leading to the take-off of the Kenyan microfinance industry.

- In *Malawi* , UNCDF can be directly credited with one of the two milestones in sector development. The UNCDF expert provided assistance to the Ministry of Commerce and Industry on the development of the national microfinance policy; The policy contains a number of key guiding principles to help correct many of the major challenges preventing the sector from developing.

- In *Nigeria*, key sector changes can be attributed to UNDP/UNCDF as result of the creation of a critical mass of credible MFIs through its support of the MicroStart project early on in the development of the sector, and its focus on capacity-building at the retail level. The MicroStart technical assistance provider, ASA, has been successful in introducing its best practise lending methodology on a pilot base to each of the eight participating MFIs significantly improving efficiency and increasing outreach. It also demonstrates the unique value of the MicroStart modality in a context like Nigeria.

[35] See http://www.undp.org/mdg/ for Millennium Development Goals and indicators.

rapidly. It influenced the *choice of intervention* in Nigeria, where UNDP started the TA focused MicroStart programme, and in Malawi where it changed from an earlier guarantee facility and primarily policy-level intervention to MFI institutional strengthening. Project design was impacted in Malawi, where instead of supporting a rural MFI, UNCDF focused its resources on a promising urban-based MFI. In the cases of Kenya and Haiti, the number of target partners was reduced after the MicroStart mid-term evaluation. Although, UNCDF was not as central in effecting the key sector changes in Haiti, it contributed to financial sector deepening in a way it would not have been able to under the previous programming paradigm. Finally the mode of implementation was influenced in all countries by an emphasis on performance indicators. Overall, the 1999 policy shift enabled UNCDF to better meet the changing needs of the national microfinance industries in each of the case study countries.

4.2.2 Government Priorities and National Needs

In the four case study countries UNCDF was largely successful in meeting the needs of one of its key clients, the government (see Country Companion reports for details), with support in line with the Poverty Reduction Strategy Papers (PRSPs) and governments' strategies for meeting the Millennium Development Goals, notably its poverty alleviation objectives (see also section 4.2.4). The exception is Malawi, where the government would have liked to see a more rural intervention. The compromise solution of supporting an urban MFI with the potential to expand to rural areas was in line with the 1999 policy reorientation but did not occur as a result of design ambiguity. The MicroStart programme in Haiti is in a somewhat similar situation at the outset of its phase II, and should try to better resolve this dilemma.

The 1999 policy shift visibly enabled UNCDF to provide more significant assistance to government priorities and national needs. This was provided mainly through the technical assistance offered by the MicroStart programme, which was well-liked by both UNDP and governments, UNCDF's two prime clients. Reaching a greater number of poor was a preoccupation in all the four case study countries and the number of people impacted has been much higher than those reached by typical guarantee funds /refinancing facilities.

4.2.3 The UN System Goals as Expressed in the UNDAF and the UNDP CCF

In all instances, UNCDF support has been relevant to key client demand, the United Nations Development Assistance Framework (UNDAF), and the UNDP Country Cooperation Framework (CCF) (see Companion Reports). Usually, microfinance would fall under poverty alleviation or promotion of sustainable livelihood areas of focus/objective/ of the UNDAF. In Nigeria and Malawi microfinance features explicitly under the specific strategies to achieve poverty reduction. In Haiti, the UNDAF food security and sustainable rural development programme includes increasing access to rural finance for vulnerable groups, especially women, as one of the defined programme results. In Kenya, though microfinance figures in government national strategic planning documents, the UNDAF and CCF for the period 2004-2008 do not focus on microfinance activities. The 1999-2003 CCF highlighted the provision of support to micro, small and medium enterprises.

More generally, MicroStart is a programme developed in response to demand from UNDP Country Offices for a practical and operational product to assist them in the delivery of quality programming to a well-defined niche in the evolving field of microfinance.

4.2.4 The Millennium Development Goals and Programme of Action for the LDCs

In all instances, UNCDF support has been in line with the Millennium Development Goals (MDGs) adopted by each country. The outreach and depth of outreach of the programmes were, in particular, beyond expectation. The case study partners, in general, successfully targeted largely "poor" and "very poor" populations. Results include evidence of increased assets, notably the acquisition of land as an asset at the household level in all four case study countries. There is also compelling evidence of the welfare-maximizing role played by the financial services provided by the UNCDF-supported programmes at the household level. By directly empowering poor people, particularly women, microfinance has become an important mechanism towards meeting the Millennium Development Goals, specifically the overarching target of halving extreme poverty and hunger by 2015.

The impact of a more inclusive financial service sector is not limited merely to the receipt of loans, credit, savings, insurance, and other economic tools; evidence shows that it contributes to the health, nutrition, food supply and educational level of recipients' families, making them less susceptible to unanticipated income fluctuations. Microcredit and microfinance programmes not only elevate personal assets, but help to strengthen the fabric of local economies by investing in the productive capacity of communities, stimulating consumer activity and creating new jobs.

UNCDF's contributions also support the Programme of Action for LDCs which aims to significantly improve the human conditions of more than 600 million people in 49 LDCs during the present decade, attaining at least 7% GDP growth per year and a ratio of investment to GDP of 25% per year.[36] UNCDF microfinance interventions in the case study countries evidence, in particular, support to Commitment Four: building productive capacities, by providing access to finance, including new and innovative forms of financing to micro, small and medium-sized enterprises. Furthermore, UNCDF's contributions support aspects of Commitments One, Three and Seven: fostering a people-centered policy framework that empowers the poor and women; building human and institutional capacities; and mobilising financial resources including domestic savings mobilization.

UNCDF successfully innovated in Haiti, pushed sector innovation in Kenya. It pioneered successful replication of microfinance methodologies in Nigeria. In general, it impacted sector development at large by building the capacity of highly decentralized financial intermediaries and supporting the institutional capacity building of a number of promising MFIs.

4.2.5 Conclusions on the Relevance and Significance of the 1999 Policy Shift

The most significant change as a result of the 1999 policy shift was being able to offer support at the microfinance retail level, an arena in which UNCDF had not previously been active and where impact was direct and palpable. The 1999 policy reoriented resources to effectively build institutional sustainability among partner MFIs, significantly increase their outreach, and generally improve client impact. The policy also helped UNCDF to capitalise on one of its unique comparative advantages and strengths in microfinance in terms of sector contribution – its *openness to accept the greater relative risk of supporting innovative pilot projects.*

At the same time, the almost exclusive focus at the institutional level, also pulled UNCDF somewhat away from other key comparative advantages – *the unique natural positioning and strengths of its "UN" prefix, its neutral mandate and rapport with national governments and the strategic importance of alliances with UN agencies with their global presence* that are such an important assets in terms of achieving policy and replication impacts.

[36] See General Assembly document A/CONF.191/11 of 8 June 2001, 'Programme of Action for the LDCs', Third United Nations Conference on the Least Developed Countries, May 2001. Actions contained in the Programme of Action are translated into specific measures within the national development framework, including the PRSPs, CCAs, and UNDAF.

Although the shift generally was a significant improvement, a common finding among the four case study countries was the missed opportunities at a broader sector level as well as in greater coordination to leverage change. The policy shift could have recommended an *emphasis*, instead of an *exclusive focus*, on MFI institution building, to allow for a broader range of deliberate interventions. It could have maintained more support at the enabling environment level or to second-tier facilities; while wholesale finance was not a critical sector gap in any of the four case study countries at the time, there is room for second-tier financing now. At the same time, there were few capacity building modalities that could have moved the Nigerian sector in a more effective way than the MicroStart programme did.

In terms of responsiveness to changes in the respective microfinance sectors and national priorities, UNCDF appears to have often been at the heart of the major changes. Notably, in Nigeria, it is anticipating growth capital need and bank linkages early on. Regarding the future, it can be anticipated that UNCDF's key client, UNDP, wants support in pushing the frontier not only in terms of poverty levels but also into remote and rural areas. Government stakeholders of concerted sector initiatives are also likely to demand expertise in this field. This calls for a decision by UNCDF on whether to build rural microfinance competence or to reconfirm earlier directions to stay away from it to a large extent.

4.3 Effectiveness of Intervention

4.3.1 Effectiveness

Generally the interventions in Haiti, Kenya and Nigeria were *effective* in providing access to finance to poor people, thereby contributing to the overall organisational goal of poverty reduction. Notably, the focus on institution building was appropriate and UNCDF was one of the few donors to realise the critical importance of MIS early on. In Malawi, although it is a major achievement to have set up a new MFI and reached 6,000 clients in just three years, significant energies, efforts and money were wasted because of supply-driven products and a sub-optimal implementation modality.

Now, three years later, more and more microfinance sectors are beyond the infancy stage where such MFI institution building interventions can be central to catalysing movement to the next stage of development. In cases where the key constraints an MFI faced were equally constraining to the sector at large, it might have been better to have tackled some issues at the broader sector level. For example, in Malawi, after a substantial capital and technical assistance investment in what was to be a demonstration, "breakthrough" MFI, the institution is suffering many of the same problems facing the majority of microfinance providers in the country. Although a number of internal issues exist, our research, including client impact assessments, suggests that the high client exit rates because of inappropriate lending methodology and products is a sector-wide problem, just like the bad credit culture is largely a result of past and still some remaining subsidised or social welfare-type credit programmes.

UNCDF appears to have recognised this oversight, as reflected in the 2003 policy shift, and has already begun to apply a sector development approach to its microfinance programmes.

A comparison of the outreach and *cost-effectiveness* of the UNCDF direct investments and the MicroStart programme is provided in Table 16. It shows that MicroStart can be a highly cost-effective way of intervening in a young microfinance industry. Though Malawi and Nigeria are both nascent microfinance industries in Africa, the difference in the cost of support provided per additional client is sizeable. In some instances, direct investments remain the best modality, especially to pilot highly innovative new approaches.

Table 16: Effectiveness in the Four Case Study Countries (US Dollars)

Item	MicroStart Nigeria	MicroStart Kenya	Direct Investment Malawi	Direct Investment Haiti
Budget	1.61 million	1.7 million	3.5 million	1,18 million
Agreement	6/1999	11/1998	2/2000	11/1998
Programme start	January 2000	April 2000	March 2000	June 1999
TSP	ASA	K-Rep Advisory	PMSL	DID
Breakthrough MFIs	zero, but currently 3 are candidate	1	zero, but 1 is still candidate	1
Increase in no. of clients[37]	45,801	92,941	7,756	5,522
Cost effectiveness	35	18	452	213

4.3.2 Impact

The PIA suggests that UNCDF is likely to have more impact on nascent microfinance sectors. For example, in Nigeria and Malawi, two young markets, the provision of technical assistance has respectively introduced best practice industry-wide and is helping to set the stage for eventual sector development. Nevertheless, it is difficult to generalise, since UNCDF is in the business of innovation, which occurs in a wide variety of settings. For example, in the more mature Haitian market, UNCDF was able to make an important contribution by choosing to work in a relatively undeveloped region of the country where it was able to significantly improve human resource and systems capacity. The impact would likely have been less notable in an urban area where other opportunities for capacity building exist. The 2003 policy actually re-emphasises the Fund's focus on nascent markets.

In Kenya, another more mature microfinance market, UNCDF/UNDP's MicroStart contribution demonstrated good results with the rise of the remarkable breakthrough of an atypical MFI – Equity Building Society. EBS was an exceptionally good investment choice. The achievement was linked to key support from MicroSave, for which UNCDF had mobilised resources from UNDP for phases I and II, and for which UNCDF had been an early advocate. This regional initiative – increasing the MFI's client-orientation and therefore significantly improving its client outreach and retention – has resulted in a very positive, lasting contribution in Kenya, and across the microfinance industry worldwide.

4.3.3 Leveraging Impact

Given UNCDF's small budget for microfinance, influencing the programmes of donors with larger budgets is the surest way for UNCDF to leverage its impact beyond its modest means to enable higher market penetration and increase innovation in microfinance best practice. Among the case study countries, UNCDF managed to leverage support in Nigeria and Kenya through seeking co-financing and sequential scale up to the investments. In Haiti it aligned itself to a larger donor initiative and larger network of savings and credit cooperatives so that effects could be leveraged beyond its support (see replication findings).

Nonetheless, there is room for a broader reach to other microfinance programmes, building on and more actively using its learning agenda, in particular *sharing its successful experiences to date* – for instance, sharing the experiences of XAC in Mongolia, Zakoura in Morocco, and indeed EBS in Kenya (all MicroStart), MicroStart Nigeria and MicroSave. Sharing lessons learned and promoting interchange and dialogue could help other MFIs to increase outreach and services,

[37] *Highest of savers or borrowers.

enhance staff competencies and augment overall organisational development. At the same time it will promote more sector-wide collaboration among key actors nationally and internationally, through deliberate strategic positioning and disciplined execution over the medium- to long-term.

4.3.4 Profile Building and Networking

UNCDF could better leverage its past successes and ongoing contributions to the microfinance sector through more deliberate and disciplined networking and engagement with key actors nationally and internationally. If UNCDF is increasingly recognised for its innovative contributions to the sector, it will raise its profile and consequently increase its ability to influence a range of actors in a variety of microfinance contexts. This is not only important to UNCDF, and of interest to the Executive Board, but also adds value to the advance of microfinance as a whole. As a multilateral small-scale investment institution, and part of the UNDP group, UNCDF has a distinctive contribution to make because of its *unique natural positioning. The advantages of its "UN" prefix, its neutral mandate, rapport with national governments and the strategic importance of alliances with UN agencies with their global presence* makes it a valuable asset for the broad microfinance sector in achieving policy and replication impacts.

Networking, including through publications, presentations, or participation in or support to microfinance associations, must become a central component of programming if UNCDF is to have a noticeable impact on policy and replication – core to its positioning in the international financial architecture. This will require highly competent, skilled and knowledgeable personnel in the field to represent the agency, as well as strategic partnerships. Whereas the provision of expert technical assistance can be purchased, it will be very difficult for UNCDF to have a serious impact in terms of policy or replication without taking direct active leadership – this means both knowing the sector issues and the actors – and making the most of UNCDF's unique role to exert broad influence.

4.4 Competitive Edge

UNCDF's choice of investment and TA generally positioned itself in accordance with its comparative advantage (see Table 17 for strengths and weakness of UNCDF).

Table 17: Strengths and Weaknesses of the SUM (IUNCDF Microfinance Unit) – A Select List

Strengths	Weaknesses
SUM's financial instruments of grants and loans and TA for the microfinance sector are flexible and meet the needs of a target market that has low absorptive capacity but great potential.	Though SUM is able to offer a flexible menu of services, monitoring could be enhanced. The current reduction in the number of investments is a timely measure in this regard, although a more proactive option would be to increase the programme budget to allow for better monitoring and dissemination of lessons learned.
UNCDF is part of the UNDP group, which offers a worldwide operational infrastructure, including close contacts with government ministries.	The incentive structure of field staff (Resident Representative) and Deputy Resident Representative (DRR) and UNCDF Programme Officers) is not conducive to following sound technical advice.
Ten highly competent microfinance professionals at UNCDF/SUM who are available to the global network of UN organisations.	The lack of consistency in promoting best practices within the UNDP group sometimes undermines UNCDF's efforts.
UNCDF is a trusted and neutral development partner of governments in many countries around the world.	Operating within a sharply diminishing and increasingly uncertain budgetary environment.
UNCDF is not linked to any one ministry, but in principle has access to all line ministries.	Lack of clear articulation as to how microfinance relates to MDGs.
UNCDF has the capacity to pilot and innovate with a view to engaging other, larger, more risk-averse donors or investors.	Emphasis on policy impact and partnerships can lead to a neglect of actual results and development impact.

Source: Based on CGAP Peer Review of UNDP and UNCDF/SUM, October 2002

Based on the above, together with the analysis of the four case study countries as highlighted throughout this document, the following key comparative advantages could be identified:

- Willingness to take risk to pilot and innovate;
- Programmatic flexibility;
- Trusted and neutral multilateral agency, part of the UNDP group and infrastructure; and
- Microfinance knowledge centre with a relatively large, dedicated team of microfinance professionals

The policy reorientation of the 1990s helped UNCDF to focus on sector needs hitherto neglected, those of institutional capacity and financial sustainability. As a result, *UNCDF's competitive edge of a capacity to pilot projects for replication by mainstream actors in the international financial architecture* produced better results in terms of reaching large numbers of poor.

Generally UNCDF managed to capitalise on its comparative advantages. Laudably, the Fund took risks that other donors were unwilling or unable to take:

- It invested in expanding rural finance in one of the most difficult areas in Haiti;
- It made a significant investment in the a nascent microfinance sector; in Nigeria, a huge, complex country fraught with all types of problems; and
- It invested in a building society in Kenya, an institutional form uncommon in the microfinance sector.

A comparative advantage that could have been better leveraged was that of UNCDF being a neutral multilateral agency, part of the UNDP group and infrastructure. This was less exploited partly due to the focus on the retail and downstream level. In Nigeria, for instance, UNCDF/UNDP are particularly well placed to engage in more upstream activities such as developing a vision for the sector at a national level, establishing a process and plan for using microfinance to reach the MDGs and other national poverty reduction goals, and identifying the key agencies and their respective roles in making the vision possible. Supporting such activities will build on UNCDF's potential "ambassador" role within the sector, can enhance its natural positioning and strengths and helps to increase UNCDF's profile as a key catalytic industry actor.

In Malawi, UNCDF can continue to build upon what it has achieved to date in terms of policy impact. Though the sector was relatively well-supported throughout the 1990s, currently there are few concrete support structures in place. An experienced actor, such as UNCDF, together with other investors and donors with more resources, can help the sector more optimally benefit from the new policy framework and the space it has created to improve practice and grow. PRIDE Malawi, the MFI directly supported by UNCDF, could also benefit because many of the problems it is facing (particularly the bad credit culture and high client drop-out rate) appear to be sector-wide problems.

UNCDF is likely to have more impact in more nascent microfinance sectors or where the sector requires change. It was noticeably highest in such sectors among the case study countries. Opportunities for UNCDF to continue to offer critical catalytic assistance are outlined in detail in the companion reports.

4.5 Conclusion

Support for the development of a microfinance sector is increasingly driven by the aim to **deepen** the financial sector, making it more inclusive and less isolated as a separate industry or development "strategy." This implies extending the frontiers of finance to reach those that have been excluded from formal finance and promoting the efficient allocation of microfinance in the financial system.[38]

In the cases of Kenya and Haiti, there is a clear need to develop microfinance support strategies that begin to situate microfinance institutions and their clients within the overall financial system. This becomes more likely now as microfinance proves itself in many contexts. It is also becoming increasingly necessary as it becomes evident that satisfying massive demand requires access to local financial and international capital markets, governments, multilateral and bilateral organisations, and other public sector agencies.
But also in nascent sectors such as Nigeria and Malawi, keeping the eventual sustainability of the sector at large in mind from the outset, is a more dynamic view and next step to the institution-by-institution approach to building microfinance sectors, supporting microfinance development in a way that is appropriate for the sector at the given stage in its development.[39] It implies more attention to the importance of competitive forces and a level playing field for MFIs to accelerate the development of a thriving, client-oriented sector.

Integrating microfinance into the formal financial system will not be easy, especially given the number of constraints and immediate risks the financial sectors in the majority of LDCs are face (i.e., fiscal and monetary pressures leading banks to invest primarily in treasury bills; limited credit to the private sector; high average non-performing loans in some countries; political pressure; and deep recessions or spill-overs from global economy trends).

UNCDF is already pursuing a more systemic approach to making financial sectors more inclusive, and attempting to break ground in a number of countries on how to approach and address emerging issues. It is important that the Fund recognise that the task of promoting microfinance as an integral component of financial systems development in LDCs – moving microfinance from a sub-sector of development to the mainstream – implies entering into a more challenging operating context. UNCDF will need to do a competency assessment to identify institutional gaps. The budget cuts of recent years have clearly limited programme reach, monitoring and follow up. Nevertheless UNCDF continues to hold a unique place among microfinance sector actors. Building on its identity and ensuring high level capacity on the ground, UNCDF will be well-placed to play a leadership role in engaging with governments and other major financial actors to facilitate more enabling financial environments. The evolution of microfinance calls for a balanced and flexible mix of downstream and upstream activities on the part of UNCDF. Concentrating on mutually reinforcing programme outputs it can support the development of a solid microfinance sector and deepening of the financial sector at large.

Opportunities are emerging in the case study countries, and likely even more broadly, for UNCDF to play an important role in the future of the microfinance industry. Considering its comparative advantages, there are indications that UNCDF could consolidate its niche as a sector leader as a result of a number of sector tendencies (see Box 15).

[38] The concept of extending the finance frontier is used by J.D. Von Pischke in *Finance at the Frontier*.

[39] See the lifecycle assessment approach of the microfinance sector elaborated upon in: Sousa-Shields, de, M. 'Social Investment and Financing a Sustainable Microfinance Sector', 2002. It is argued that greater "market-like" decision making in allocating capital – risk or institutional growth capital in particular – could prompt greater productivity gains and improved client service among MFIs.

Box 15: Microfinance Sector Emerging Tendencies

- Increasingly improved coordination among donors and willingness to seek partnerships with others; more opportunity for UNCDF to leverage its resources.
- The need for flexibility because of a faster pace of change within microfinance sectors; UNCDF is one of the most flexible UN agencies and microfinance support organisations.
- More need for innovation, also due to rapidly changing microfinance industries, including the emerging industries because of "leapfrogging"; the ability to innovate is a UNCDF comparative advantage.
- Increasing number of informed decision makers; easing upstream work, where UNCDF has a comparative advantage because of its UN status and ties to the UNDP global network.
- Globally, there is also increasing evidence that microfinance can contribute to financial sector development, which opens more doors and makes financial sector deepening an emerging discussion.

Sector changes and UNCDF's comparative advantages are such that UNCDF can play a catalytic role in moving the sector forward at a number of levels:

- Establishing an international network of information exchanges among MFIs and key players within the broad microfinance sector, with a focus on those currently active in UNCDF programming, including sharing the lessons learned from the:
  - Multiple evaluations UNCDF carries out each year of the projects under support;
  - Major initiatives supported by UNCDF; and
  - Adaptation and application of programmes across target countries.
- Continuing to promote best practices with MFIs, through demonstration effects and support to network organisations;
- Studies/in-depth research and building of its knowledge-centered competency;
- Helping to lay out needed sector building blocks – local R&D capacity, local technical service providers, second-tier funding, credit bureaus, auditors with microfinance expertise, etc. – and accelerating their creation, development or strengthening;
- Assisting in formulating national strategies and action plans for microfinance;. and
- Working with key actors in government and at the Central Bank level to create an enabling environment for microfinance, including offering basic training about microfinance and best practices.

The rapidly changing nature of microfinance worldwide and the strict limitations facing most donors are such that UNCDF's comparative advantages of high programme flexibility and relatively high risk tolerance, global reach through the UNDP network and the uniqueness of UN neutrality, and the excellent emphasis on evaluation (begging a similar emphasis on follow up and dissemination) suggest that it can play an increasingly important leadership and support role in the development of the microfinance sector industry globally.

PART III – CONCLUSIONS & RECOMMENDATIONS

1.0 GENERAL RECOMMENDATIONS

In the spirit of continuous improvement, we suggest three broad areas for improvement (see Box 16). We follow with several related recommendations for each impact area in section 2.0, and specific recommendations for each of the case study MFI in section 3.0.

Box 16: Summary Conclusions and Recommendations

UNCDF's programme theory has been effective in reaching poor people, strengthening MFIs and contributing to the creation of an enabling environment. The Fund can further increase its impact by taking note of the conclusions and recommendations below.

- The 1999 policy shift generally improved UNCDF programming. Its swift internalisation, within each of the four case study countries, demonstrates that UNCDF can effectively change course. Nevertheless, UNCDF's capacity as a "learning organisation" needs to be enhanced. There is limited lateral learning through the dissemination of its successes and failures. Moreover, weaknesses in monitoring and the need for corrective action were found among the case studies and also noted in numerous previous evaluations.
  Recommendation: Internalise "learning organization" concepts at all levels, including within the UNCDF Microfinance Unit itself, enhancing the existing evaluation culture through more systematic follow up, monitoring and timely internal and industry-wide dissemination of lessons learned.

- A number of programme weaknesses at all levels (clients and products, institutional capacity-building and funding sources) can be traced to the essentially supply-driven nature of the microfinance industry.
  Recommendation: Run all proposed programme areas, activities and implementation modalities by the test question of whether they are demand-driven and will contribute to the development of a healthy market/competitive environment.

- We believe that with a few key investments UNCDF is well-placed to be a leading pioneer among the actors in the international financial architecture to meet the emerging challenge to make conventional financial systems more inclusive and thereby increase financial access to the poor.
  Recommendation: Move from a passive funder role to step up engagement in networking, collaboration, and partnerships, and continue to contribute to the deepening of financial systems through concerted, high impact interventions.

2.0 CONCLUSIONS& RECOMMENDATIONS PER IMPACT AREA

Client Impact

- UNCDF-supported MFIs enabled poor people to acquire more assets, increase household welfare, and to better cope with vulnerability. The needs and demand of poor heterogeneous populations, like in any market, can be even more appropriately met through market segmentation to better understand each segment's demands, differentiate among them, and understand the sources and uses of finance by a given segment. *Recommendation: Promote market segmentation.*

- As with any product development process, market research should drive the process. However, in the four case study countries, and the microfinance industry in general, market research is largely overlooked. The results are often low customer retention rates and sub-optimal client satisfaction and impact. These, in turn, lead to costly delays in moving MFIs towards institutional sustainability. *Recommendation: Support market research for designing products: encourage MFIs to have designated personnel responsible for collecting and processing data and participating in the design of products and services and use frontline staff more* *effectively in gathering ongoing feedback from clients. UNCDF could further provide funding for training in MFI market research tools.*

- Women are more likely than men to spend their profits on household and family needs. Targeting women not only empowers them, but generates a multiplier effect that can enlarge microfinance impact. This potential was not always harnessed in the case study countries. For instance, in Kenya women encountered obstacles to borrowing because of collateral requirements. *Recommendation: Encourage and support creative designing of products and processes that include poor women in partner MFIs.*

- UNCDF does not capitalise enough on the experience gained from the many projects it has supported.[40] Though it attaches high importance to evaluating, documenting, and analysing lessons learned and was at the cutting edge with its "learning agenda", it does not yet seem to have an efficient mechanism to disseminate learnings among its programme partners let alone to other MFIs, funders, and even with the private sector. *Recommendation: Consider developing more links with microfinance sector, academic and research institutions to disseminate key lessons learned, and further develop the management of the knowledge the Fund generates. First establish a simple system to share lessons learned among programme partners and within the UNDP group.*

Institutional Sustainability

- UNCDF generally has been successful in improving efficiency and increasing outreach among the MFIs it supports. Nevertheless, UNCDF could pay more attention to the underlying factors that determine truly sustainable operations, and which can prolong the time it takes MFIs to reach full financial sustainability. *Recommendation: Assess key drivers of sustainability such as leadership, governance, staff capacity, internal controls and a customer orientation.*

- Financial indicators alone are insufficient for monitoring investments, notably, when there is no clear ownership structure.[41] *Recommendation: Intensify UNCDF Microfinance Unit monitoring and refine instruments to better identify and track key weaknesses to which catalytic support should be geared. Add a selected few key institutional capacity indicators to its reporting format. This will help UNCDF to identify and resolve problems at the MFI level early on.*

- Capital assistance for supporting systems, such as an accurate and reliable management information system whether automated (Kenya) or manual (Haiti) can have profound impacts on the institutions' abilities to service its customers, track its loans and other customer accounts and produce financial statements. *Recommendation: Extend the attention to accurate and reliable information systems to also ensure functioning internal controls, from the outset.*

- Out-sourcing technical assistance is a sound approach to institution building.[42] Nevertheless, UNCDF has not paid sufficient attention to thinking through conflicts of interest in programme execution. For example, UNCDF's own Regional Advisor conducted the mid-term evaluation in Kenya; the TSP PMSL reported to itself in Malawi; and having a sole LTSP can be problematic if MFIs are not pre-selected by another party. Moreover, the selection of an individual as LTSP instead of a local firm is

[40] Similar findings also emerged from assessments of the other impact domains.
[41] See the widely used corporate performance evaluation tool Balanced Scorecard, or the federal Baldridge tool, where financial performance is one axis to be monitored among a set of others such as client orientation, learning organisation and internal controls.
[42] It was also the modality chosen for the successful bank downscaling in Haiti and is being employed by IFC in Nigeria.

risky. In most sectors, it is likely better to build in flexibility for the prime contractor to sub-contract to more than one LTSP to adequately respond to the wide ranging MFI demand for technical advice. *Recommendation: Be more vigorous in the strategy pursued to create sustainable LTSP capacity and allow flexible TSP arrangements, if need be, ensuring that LTSP selection and monitoring process not only produces quality results among target MFIs, but also contributes to the development of a competitive sector support structure.*

Policy Impact and Strategic Positioning

- UNCDF interventions have affected policy as well as replication impact in the microfinance sectors of the case study countries. Whereas the demonstration effect of downstream policy impact remains invaluable, UNCDF, together with UNDP, is well placed to take on more upstream tasks, concentrating on mutually reinforcing programme outputs which can spur sector development at large. *Recommendation: Where appropriate, assume a (leadership) role in assisting governments in formulating national strategies and action plans for microfinance (e.g., Nigeria) and schedule the microfinance donor training workshop UNCDF co-sponsors with CGAP where a better understanding among donors is imperative (e.g., Malawi).*

- UNCDF's broader sector intervention policy shift (2003) encourages concerted, constructive efforts to put in place basic sector building blocks for a healthy, thriving, competitive environment without abandoning strategic support to potential breakthrough MFIs. The case of Malawi, a sector flooded with donor money without many tangible results, evidences the importance of keeping overall sector development in mind. *Recommendation: Employ the appropriate type and combination of capital, capacity building and enabling environment support to create a level playing field*;

- Although UNCDF has forged partnerships in the area of microfinance, other than the one with CGAP, they generally do not extend beyond the country level. Moreover, at the country level, no systematic liaison or explorations of potential opportunities for strategic partnerships or collaboration exist. *Recommendation: Pursue networking objectives strategically and deliberately, building specific activities and targets into workplans to reach out to partners (beginning with IFC, World Bank, DFID's Financial Sector Deepening and similar initiatives, social investors, multi- and bilateral donors active in microfinance in the region), engage in joint initiatives and mobilise resources. UNCDF should strategise in each of its programme countries vis-à-vis bilateral donors as to how it can best use its comparative advantage as a neutral multilateral, complementing or being complemented by others. It is imperative that UNCDF ensure – within its budgetary constraints – both financial and human resources required to undertake these activities.*

- In addition to being a multilateral with access to the global UNDP infrastructure, an important UNCDF value proposition is its combination of relatively high risk institutional tolerance, a specialised microfinance team, its evaluation infrastructure, its commitment to innovation and its flexibility and its willingness to act. These characteristics differentiate UNCDF from many other donors which often lack an active investor approach. Like a risk capitalist, UNCDF can remain actively involved in servicing and protecting their investments, which allows it to venture into somewhat higher risk but potentially catalytic, paradigm-shifting investments.[43] *Recommendation: UNCDF's willingness to invest in what might be perceived as higher risk, innovative pilot projects is a key strategic asset in both nascent and fast growing microfinance sectors. It should be actively exploited and employed to attract potential investors.*

[43] de Sousa-Shields, M. 'Social Investment and Financing a Sustainable Microfinance Sector', 2002.

3.0 CONCLUSIONS AND RECOMMENDATIONS PER MFI

EBS, Kenya

Design and implement a comprehensive risk management strategy – Increase attention to risk management, especially the new risk inherent in an IT-dominant environment and the increased risk of fraud as personnel profiles change with increased staffing.

Carefully monitor the administrative cost ratio – Management must monitor current administrative cost ratios carefully to avoid negative impact on profits.

Allow non-traditional collateral – Offer loans using group-based social collateral as well as physical collateral. Allow borrowers to pledge chattel as collateral.

LAPO, Nigeria

Ascertain reliability of information – Ensure that discrepancies in business processes at the various levels in the organisation are reduced and rectified over time. Conduct an independent audit at each branch to assess the portfolio quality, on a loan-by-loan basis, including the ageing of the portfolio.

Improve governance – Recruit board members who can provide active financial oversight and can help to meet the challenges of rapid growth.

Financial management capacity – LAPO must enhance its financial management capacity to ensure it is at a level of competence that is in keeping with the growth needs as the organisation expands its operations.

PRIDE Malawi

Improve governance – The corporate culture could be better attuned to sustainable microfinance, notably through greater attention to and interest in customer satisfaction. Board and senior staff microfinance capacity and communication procedures should be further developed to play a more constructive role in guiding institutional growth.

Regularly assess product attributes – In order to address high client exits, products should meet client demand. Current immediate potential high impact measures that emerged from the research are that group liability should only apply at the Enterprise Group (5 person) level and the use of Loan Insurance Fund (LIF) should be used only as a last resort and should not be y deducted without prior notice.

Monitor cost structure – Conduct a detailed review of the overall cost structure and make necessary changes.

Savings and Loan Cooperatives, Haiti

Further improve portfolio quality management – Impart a corporate culture of zero tolerance for delinquency. Improve training on loan appraisal.

Conduct market research to identify better loan products – Develop capacity in low-cost market research techniques to decrease delinquency and increase lending.

Increase planning capacity at the cooperative level – Each of the cooperatives in the North East should develop a business plan.

ANNEX 1: TERMS OF REFERENCE SUMMARY[1]

Independent Programme
Impact Assessment (PIA)
of UNCDF-Supported Microfinance Operations

Terms of Reference for the Impact Assessment of:

Kenya: MicroStart Kenya

Nigeria: MicroStart Nigeria

Nicaragua: FNI Nicaragua

Malawi: Pride Malawi

February 2003

[1] The full Terms of Reference is 19 pages and can be made available upon request to UNCDF or Enterprising Solutions.

Background and Objectives of the UNCDF Independent Impact Assessment (IIA)
The Executive Board of UNCDF, in its decision 99/22, requested an independent evaluation of the impact of UNCDF programmes and projects and that its findings be reported to the Board in 2004. The Conceptual Framework for the UNCDF Impact Assessment provides the full background to this exercise[2].

Objectives: In serving the need for organizational accountability both to the Executive Board and to stakeholders for results, the main objective of the IIA is to assess whether UNCDF has effectively implemented the recommendations of the 1999 independent ITAD evaluation of UNCDF[3] and whether, as a result, its local governance and microfinance programmes have had the intended impact in terms of their effect on individuals, households, communities, institutions, policy and replication. The Impact Assessment will also generate useful lessons and recommendations for UNCDF and partner institutions on programming, strategic positioning and organizational effectiveness at the country, regional and corporate levels.

The overall IIA of UNCDF will be based on two sets of externally conducted exercises to be carried out in 2003, the findings of which will appear in a Synthesis Report:

(i) **Programme Impact Assessments (PIAs)**, which will take selected countries as "case studies" and assess the outcomes and indications of impact of UNCDF-supported local governance and microfinance operations at the programme/field level—analysing evidence and the potential of the approaches adopted to achieve the intended impact.

(ii) An **Organizational Performance Assessment (OPA),** which will assess UNCDF's organizational performance and effectiveness in formulating and managing its local governance programmes and microfinance programmes at both the HQ and in the field.

This TOR concerns itself only with the PIAs of UNCDF's microfinance operations.

Scope of the Microfinance PIAs
The purpose of the PIAs is to test the programme theory of UNCDF Microfinance Operations, to establish whether in fact the programmes show evidence of or potential for the intended impact. The scope of the PIAs therefore, following the above programme logic, and with reference to the three impact areas identified for assessment in the Impact Assessment Concept Paper, and to the complementary intended microfinance programme results expressed in the UNCDF Strategic Results Framework[4], will involve an assessment, in each of the selected countries, of:

(i) the achievements of UNCDF-supported MFIs with respect to **poverty reduction**;
(ii) the viability and **sustainability** of UNCDF-supported MFIs; and
(iii) UNCDF's achievements in **influencing policy and promoting replication** and microfinance best practices.

In addition to these "programme-centred" assessments, the PIA will make a "development-centred" assessment of the **strategic positioning and comparative advantage of UNCDF** in its areas of intervention in the broader microfinance context in the country and vis-à-vis other players in the microfinance arena. The **relevance and significance** of UNCDF investments and TA to UNDP-funded MicroStart programmes will also be assessed from this perspective.

The findings and analysis of the PIAs for all four country studies shall be presented in a single main report, with explicit sections covering all of the components in the following table for each of the four countries. Supporting data for the analysis shall be presented in a separate report, and shall be clearly cross-referenced in the main report.

Main evaluation questions to be answered:
IMPACT AREA 1: Poverty Reduction

- Is there increased access to financial services by the poor (in particular poor women) as a result of UNCDF-supported microfinance interventions?
- What are the nature and magnitude of changes in people's lives (women's in particular), and in communities served by microfinance services, in respect of, *inter alia*, poverty reduction and empowerment, as a result of their increased access to the financial services supported by UNCDF?
- Has increased access to financial services supported the development of clients' productive enterprises and generated employment?
- Are poor current and exited clients satisfied with the level of access to, type, quality, and consequence of microfinance services provided by UNCDF-supported MFIs? What improvements are suggested?

IMPACT AREA 2: Sustainability (institutional and capacity development)

- Is there increased access to financial services by the poor (in particular poor women) as a result of UNCDF-supported microfinance interventions?
- What are the nature and magnitude of changes in people's lives (women's in particular), and in communities served by microfinance services, in respect of, *inter alia*, poverty reduction and empowerment, as a result of their increased access to the financial services supported by UNCDF?

[2] UNCDF (Feb 2004) A Conceptual Framework for the UNCDF Impact Assessment
[3] ITAD (1999) Evaluation of UNCDF Synthesis Report, p65
[4] See http://www.uncdf.org/english/about_uncdf/corporate_policy_papers/index.html

- Has increased access to financial services supported the development of clients' productive enterprises and generated employment?
- Are poor current and exited clients satisfied with the level of access to, type, quality, and consequence of microfinance services provided by UNCDF-supported MFIs? What improvements are suggested?

IMPACT AREA 3: Policy Impact and Replication

- What policy changes (in terms of norms, legal and regulatory frameworks, macro and micro policy) in the country are attributable to UNCDF-supported microfinance interventions?
- Is there evidence of acceptability and/or replication of the MFI and its products in the market?

ASSESSMENT OF UNCDF STRATEGIC POSITIONING

In addition to assessing the programmes themselves and related outcomes/impact according to the above criteria, the PIAs will also make an assessment of the strategic positioning of UNCDF in terms of:

- The *relevance and significance* of UNCDF-supported interventions, programme objectives and actual activities/outputs/outcomes to (i) the development of microfinance in the country; (ii) government priorities and national needs; (iii) the UN System goals as expressed in the UNDAF; and (iv) the Millennium Development Goals[5] and Programme of Action for the LDCs.[6]
- How *responsive* UNCDF has been to significant changes in the country's microfinance context
- The *comparative advantage* of UNCDF in providing support to microfinance services in the country, vis-à-vis other private sector entities or donors.
- The effectiveness of *partnerships* made by UNCDF in pursuit of its objectives and *synergy and alignment* of UNCDF support with other initiatives and partners.
- How UNCDF could, in future, best (re)position itself to provide added value.

Organization, composition, duration and costs of the mission

The PIAs shall be carried out and reports finalised between April and October 2003, earlier if possible.

Team leaders for poverty assessments and CGAP appraisal: an international consultant with microfinance and impact assessment expertise and specific applied experience in using AIMS and MicroSave Africa assessment tools, and extensive experience in conducting microfinance assessments, and an international consultant with specific applied experience in using CGAP Institutional Appraisal tools respectively. Familiarity with Malawi, Kenya, Nicaragua and Nigeria would be an advantage. In addition, the team leaders shall have excellent team-management and writing skills, and will be responsible for preparing the analysis of findings and research data to feed into the main report and companion report.

Team members: will consist of international and local consultants who shall possess applied experience with LFA (Logical Framework Analysis), be familiar with the AIMS/MicroSave Africa assessment tools and/or have applied experience in participatory qualitative and quantitative research techniques and knowledge of the local microfinance context and CGAP institutional assessment tools. They shall have good knowledge of the regional and country microfinance environment

Summary of deliverables

One bound copy and an electronic version each of the main report and the companion report shall be submitted to UNCDF HQ. In summary, the outputs required of the evaluator are:

1. Detailed workplan
2. Detailed methodology plan
3. Summaries of Key Findings (prepared for each in-country debriefing)
4. Minutes of all PIA Wrap-up Meetings
5. Interim Report
6. Draft main report
7. Draft companion report
8. Final main report
9. Final companion report

[5] See http://www.undp.org/mdg/ for Millennium Development Goals and indicators.

[6] See http://www.uncdf.org/english/news_and_statements/current/lauzon-statement_06Aug-02eng.html for Statement of Executive Secretary referring to the Programme of Action for the LDCs 2001-2010

ANNEX 2: LIST OF PEOPLE INTERVIEWED

Nigeria

MFIs
Ms. Olusola Adegbesan, General Manager Outreach Foundation
Mr. Akin Akitola, Executive Director Community Development Foundation
Ms. Anna Emaholo, Coordinator, Micro-Credit Programme, Outreach Foundation
Ms. Adhiambo Odaga, Representative for West Africa, Ford Foundation

Government and Donors
Ms. Juliet Amego, Director Programme National Poverty Eradication Programme (NAPEP)
Mr. Bashir Dikko, NAPEP
Mrs. Anne Sambo, Deputy Director, Outreach Services, NAPEP
Ms. Nancy Asanga, Deputy Resident Representative UNDP Nigeria
Mr. Bertram Egwuatu, Assistant Resident Representative (Prog.), UNDP Nigeria
Mr. Shu'aibu Musa, Programme Analyst, UNDP Nigeria
Ms. Anne Flueret, Senior Strategic Analysis Advisor USAID
Ms. Denise Rolli ns Director, Office of Program and Project Development USAID Nigeria
Mr. Frank Ajilore, Investment Officer, IFC
Ms. Irene Arias Business Development Officer, Small and Medium Enterprise Department, IFC
Mr. Stanley Hiwa, Senior Agricultural Economist, Worldbank

Financial sector
Chief Abiodun T.Salami, Deputy Director Development Finance Department, Central Bank of Nigeria

Lift Above Poverty Organization (LAPO)
Mr. Godwin Ehigiamusoe, Executive Director
Josephine Nmachukwu, Finance Manager
Stanley Aifuwa, LADEC
Abel, Operations Manager
Moses, General Manager Financial Services
Gebrin, Administration
Cynthia Ikponmwosa
Goddey Usisa
Ms. Eunice Ogisemwonyi, Board
Ms. Osaghae, Board
Ms. Ehigiamusoe, MicroInvestment services

Other
Aminur Rashid, Association for Social Advancement (ASA)
Mike Getubig, GF-USA
Andrew Ejoh and Company, External auditor

Kenya

<u>MFIs</u>
Gerard Macharia, Executive Director, Faulu Kenya
Ingrid Munro, Jamii Bora
Costa Malai, Microfinance Partners
Omondi Okoyo, Catholic Relief Services
Kimanthi Mutua, MD K-Rep Bank
Aleke Dondo, K-Rep NGO
Betty Sabana, Association of Microfinance Institutions (AMFI)

<u>Government and Donors</u>
Winnie Karingithy, Ministry of Labour and Human Resources
Fortunatus Okwiri, UNDP Program Advisor, Ministry of Labour and Human Resources
Francesco Rispoli, UNCDF Kenya
Graham Wright, MicroSave
David Ferrand, Financial Sector Specialist, DFID
Zach Ratemo, USAID Kenya

<u>Financial sector</u>
Timothy Biwott, Head of Microcredit Unit, Cooperative Bank
Lynette Dawa, Manager Special Loans, Kenya Commercial Bank
JM Kitili, Deputy Director – Supervision, Central Bank of Kenya
George Omino , Microfinance Manager, Central Bank of Kenya
John Kashangaki, K-Rep Advisory Services
Ben Mbai, Managing Consultant Jitegemee Trust
Mwai Mbuthia, Partner, Mungai and Associates, CPA

<u>Equity Building Society (EBS)</u>
Joseph Geita, R&D
Winnie Imaniara, HR/Marketing Manager
MK Kafuro, Uthayi Branch Manager
Jeremiah Kamau, Thika Branch Manager
Njunge Kamau, Finance Manager
Simon Minyoike, Corporate Branch Manager
Peter Munga, Chairman of the Board
John Mwangi, Chief Executive Officer, Board Member
James Mwangi, Finance Director, Board Member
Alan Mwangi, Internal Audit Manager
Ambrose Ngari, Credit Manager
Dennis Njau, Marketing/research
John Staley, Chief Operating Officer
Samuel Tiras, Tom Mboya Branch Manager
Gerard Warui, Chief Accountant/Operations Manager

Haiti

MFIs
Jean Claude Cerin, Country Manager MEDA
Christon Domond, World Concern/ACLAM
Anne Hastings, Director, Fonkoze,
Mr Raymond, Director, ACME
Mr Ruben Dieudone, Director, MCN

Government and Donors
Chantal Santelli, UNCDF Haiti
Wilfred Bien-Amie, UNCDF Haiti
Fernando Campero, Inter-American Development Bank (IADB)
Marie Pascale Theodate, Programme Officer, UNDP
M. J. St Hillaire, DID
Gabriel Verret, Microfinance/Economic Policy Officer, USAID
Mr. Lloyd, FINNET
Jens Schutz, EU

Financial sector
Charles Castel, General Counsel, RBH
Mr Boisson, Chairman Sogesol
Michelle Cesar Jumelle, Directeur General Delegue, SOPHIDES
Ms Lamothe, BUH Kredi Popiile

ANACAPH/DID
Danielle Albert, Conseillere aux operations, DID
Jacques Durochet, Chef de Project, DID
Alphonse Labissière, President of Board and Acting Director, ANACAPH
Jocelyn Saint-Jean, DID
Eddie Prezil, DID
Gustave Neocles, Chairman of the Board, KPTAT
Metellus Geemps, Board KPTAT
Celigny Orinivil, Board KPTAT
Angrand Megane, Board KPTAT
Claude Baptiste, Manager KPTAT
Louis Guilbo, KPTAT
Audate Molelyn Laurant, Manager, CPAM
Francois Wilner, CPAM
Yvonnie Rene, Board, CPAM
Mettelis Jean Baptiste, Board CPAM
Lucien Desamour, CPHAO
Rolain Antoine, CPHAO
Laithaud Charles, CPHAO
Chelestil Jean-Robert, CPHAO
Icianie Felix, cashier CPHAO

Malawi

MFIs
Mr. K. Appenteng, CEO, Opportunity International Bank, Malawi
Mr. R. Voorhuis, Manager, Opportunity International
Mr. G. Kumwenda, Head Commercial Credit Division, MFRC
Ms. J. Mlelemba, FINCA
Mr S. Kadzola, CEO MUSCCO
Mr H. Bowa, Project Hope
Ms. Mdala, ECLOF
Ms. J. Chirwa, Acting General Manager, DEMAT

Government and Donors
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Mr. B. Nampuntha, Special Assistant to the Vice President
Mr. A. Chintezda, Office of the Vice President
Mr. B. Chanza, National Programme Officer, UNCDF Malawi
Mr. Peter Kulemeka, Assistant Resident Representative, UNDP Malawi
Ms. Z. Nuru, Resident Representative, UNDP Malawi
Ms. T. Mackay, Deputy Programme Manager, DFID
Ms. T. Hoven – NORAD
Mr. Stanley Hiwa, Senior Agricultural Economist, World Bank

Financial sector
Mr N. Niongoro, Deputy General Manager, Reserve Bank of Malawi
Mr .A. Chithenga, National Bank of Malawi (NBM)

PRIDE Malawi
Mr. B. Ole Sambu, Acting General Manager, PRIDE Malawi/PMSL
Mr. M. Sawerengera, General Manager
Mr. C. Majawa, Finance and Administration Manager
Mr. X. Byarufu, Operations Manager
Mr. J. Kajamu, Operations Manager (as per May 2003)
Mrs. M. C. Kaluwa, Area supervisor, Central Region
Mr. A. Lungu, Area supervisor, Northern Region again
Mr. G. Sibale, Area Supervisor-Southern Zone
Ms. G. Tsakama, Manager, Limbe Branch
Mr. T. Khonje, Branch Manager, Mzuzu Branch
Mr. D. Chavula, Branch Manager, Lilongwe Branch
Ms. E. Cheserem, MIS Manager
Mr. B. Wamburi, Training Manager
Ms. Audrey Namwaza, Training Coordinator

Other
Mr. R. Malima, Executive Director, PMSL
Mr E.W. Chirwa, University of Malawi
Mr. M. Murotho, Chairman MAMN

ANNEX 3: MAIN REFERENCE DOCUMENTS

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[7] A full listing of all documents reviewed for each country is included in the companion reports, e.g. government policy documents, UNDAF, Common Country Assessment, CCF, and other UN reports, project documents, evaluation, donor strategies, etc.

ANNEX 4: METHODOLOGY

1.1 Client Impact Assessments

Considering timing and funding constraints, the UNCDF and Enterprising Solutions evaluation teams agreed to pursue a "low to mid-range" client impact assessment methodology for the Microfinance PIA.[8] The tools used were based on an adaptation of a SEEP/AIMS impact assessment and MicroSave tools, and included:

- The Impact Survey and the Client Exit Survey (quantitative);
- The Empowerment Interview (qualitative);
- The Savings and Loan Use Strategies over Time Interview (qualitative); and
- Client Satisfaction Focus Group Discussions using Product Attribute Ranking and Financial Sector Analysis (qualitative).[9]

Each of the above tools was used to collect data at the household, enterprise, individual and community levels. For several impact domains, the use of multiple tools helped not only to triangulate findings but also to garner rich and textured data on the processes of impact as they take hold (see Box 1). The client impact assessment was undertaken by a team of professionals, including: the main consultants responsible for delivery of the survey and analysis of the results, enumerators, data entry and data cleaning specialists and various management, programme and administrative personnel from the MFI programmes assessed.

Details of the methodology and results of the various assessments are provided in the companion reports (questionnaire, sample size, organization, Chi-square tests and regression analysis results, etc.) and a summary table with the sample demographics is provided in the next annex.

1.2 Determining Institutional Sustainability

The objective of the institutional assessment was to assess: i) institutional factors and strategic objectives; ii) services, clientele and market; and iii) MFI financial performance and systems analysis – accounting, MIS, and internal controls. The institutional sustainability assessment was conducted by a three-person team. Each member was responsible for a specific area of organizational development, with the team jointly discussing and deliberating on key findings. In the case of Malawi, the assessment relied on the Institutional Assessment carried out in late 2002 by another evaluator[10].

In order to establish the sustainability and efficiency of the selected MFIs, current indicators of efficiency, sustainability and outreach were compared to the same indicators from the time when UNCDF commenced its engagement with the institution.

[8] A "low to mid-range" impact assessment methodology seeks not to "prove" causality between impact and programme participation but to establish "plausible association".
[9] The SEEP/AIMS tools are a collection of low to mid-range quantitative and qualitative impact assessment tools jointly developed and field tested by USAID and the Small Enterprise Education and Promotion (SEEP) Network.
[10] 'Sustainable Financial Services at the District Level Malawi – Institutional Assessment'. Dec. 2002 prepared by G. Perrett and E. Chirwa.

Box 1: Levels of Impact, Impact Domains, Evaluation questions, and Tools Used to assess impact on Poverty Reduction

Level of Impact	Impact Domain	Question to be Answered	Tools Used
Individual	Women's Empowerment	Does participation in UNCDF-supported microfinance programmes lead to increased access to financial services by the poor (in particular poor women)?	Impact Survey Loan Use and Savings Strategies over Time Empowerment Interview
		Does participation in UNCDF-supported microfinance programmes lead to increased control over resources by women? Does participation in UNCDF-supported microfinance programmes lead to increased contribution of income by women to the household?	Impact Survey Loan Use and Savings Strategies over Time Empowerment Interview
		Does participation in UNCDF-supported microfinance programmes lead to increased self-esteem and ability for negotiation and decision-making power on the part of women?	Impact Survey Empowerment Interview
	Client Satisfaction	Do products and services offered by UNCDF-supported microfinance programmes satisfy the needs and wants of clients with regards to factors such as access, type, terms and conditions, cost, delivery, support, usefulness, etc.?	Client Exit Survey Client Satisfaction FGDs Savings and Loan Use Strategies Over Time
		What recommendations do clients of UNCDF-supported microfinance programmes suggest to improve products and services offered in terms of access, type, terms and conditions, cost, delivery, support, usefulness, etc., so that they better satisfy clients' wants and needs?	Client Exit Survey Client Satisfaction FGDs Savings and Loan Use Strategies Over Time
Household Level	Household Income	Does participation in UNCDF-supported microfinance programmes lead to increased household income?	Impact Survey
	Poverty Alleviation	Does participation in UNCDF-supported microfinance programmes lead to movement out of poverty by programme participants?	Impact Survey
	Household Expenditures	Does participation in UNCDF-supported microfinance programmes lead to increased household expenditures on basic necessities (e.g., food, clothing, medicine)?	Impact Survey Loan and Savings Use Strategy over Time
	Household Assets	Does participation in UNCDF-supported microfinance programmes lead to increased household expenditures on tangible assets (e.g., housing and housing improvements, appliances, vehicles, livestock, etc.)? Does participation in UNCDF-supported microfinance programmes lead to increased levels of household asset acquisition?	Impact Survey Loan and Savings Use Strategy over Time
	Household Welfare	Does participation in UNCDF-supported microfinance programmes lead to increased household welfare as measured by the following indicators: food security, education, type and frequency of coping strategies, and access to and use of health services?	Impact Survey Loan and Savings Use Strategy over Time
Enterprise Level	Enterprise Returns	Does participation in UNCDF-supported microfinance programmes lead to increased enterprise returns?	Impact Survey
	Enterprise Assets	Does participation in UNCDF-supported microfinance programmes lead to increased acquisition of enterprise assets?	Impact Survey Loan and Savings Use Strategies Over Time
Community Level	Jobs Created	Does participation in UNDCF-supported microfinance programmes lead to increased creation of non-family full-time paid jobs? *This will be asked only for programmes which had job creation as an explicit objective.*	Impact Survey

Three main sets of tools were used:

- CGAP Appraisal Format for institutional assessment (adapted to ensure an emphasis on gender issues);
- Ratio Analysis; and
- Benchmarking with Micro-Banking Bulletin industry data.

The tools included an analysis of secondary data, portfolio, financial and progress reports, as well as semi-structured interviews.

The CGAP Appraisal Format was adapted to ensure the emphasis on:

i) Gender issues, such as:

- Female representation on the Board, in senior staff and operational staff positions;
- The percentage of female clients historically, trends;
- A review of products from gender perspective; and
- Whether MFI has done any market research work to tailor services to female clients.

ii) Additional sections on TA received by the MFI

1.3 Policy Impact and Replication

The research objective of this component of the study was to assess UNCDF's achievements in influencing policy and promoting replication and microfinance best practice. Determining the policy impact of UNCDF involved a three-step process:

1. The collection and analysis of baseline information of UNCDF instruments employed in the four countries, noting potential policy impact;
2. A comparative analysis of the policy environment in the selected countries at the present time against the policy environment when UNCDF began its engagement with the country; and
3. The systematic identification of changes in the policy environment over the period, super-imposing them against UNCDF instruments employed during the same time period.

Policy Impact

The team attempted to isolate the causes and sources of the change through analysis and establish to what extent UNCDF has had an impact on the policy environment as per the UNCDF's Illustrative Policy Issues Matrix.

This matrix covers four areas of policy issues. The broadest level of the policy impact assessment has to do with the broad political options and directions being taken by national political authorities with regards to microfinance, and is often tied to the wider debate (if there is debate) within the political fora, as well as to pressure from opposition parties, civil society, advocacy groups, the media, and to some extent, from donors. The sum of the positions taken determines the national political stance and the overall enabling context for microfinance to develop. An analysis of top-performing microfinance institutions found that among the broad policy directions that matter, the only macroeconomic conditions which were prohibitive for microfinance were hyperinflation and rigorously enforced interest rate controls (Christen, Rhyne and Vogel). *Broad policy direction or macro policy of key importance to microfinance are thus financial sector policies, such as inflationary controls, interest rate policies, monetary policy and financial sector reforms.* Our analysis therefore singled out these key areas for analysis at the broad policy level.

Another important level at which to assess policy impact is the legislation and statutory framework. Legislation may be more or less favourable to microfinance, for instance requiring licensing or not so favourable collateral laws. The assessment focused on identifying legislation and statutory frameworks that result in bottlenecks to be addressed.

Besides legislation, many aspects of the legal framework are further translated into more detailed decrees, directives, regulations and circulars (i.e., minimal capital requirements that can hamper microfinance development or constrain their operations). As the sectors mature effective prudential regulation by the Central Bank is needed for the deposit taking MFIs and will enhance investor confidence.

Finally, national policy is also expressed in less formal norms, i.e., systems, procedures, guidelines, and practices which are officially accepted.

Replication
In order to assess the replication impact of the UNCDF in the microfinance sector, the team undertook a similar three-step process using the UNCDF's Replication Matrix slightly modified combining the areas of replication in terms of sequential upscaling and private sector replication.

Because UNCDF's focus has been on start-ups and young promising operations, the key elements for promoting replication entail assisting MFIs to reach scale based on the acceptance by the market of quality products, and reaching a sustainable operational level. Therefore, replication was assessed according to the benefits that the programmes have brought to the market, such as the extent to which:

- *MFIs have become valued and accepted by the financial sector;*
- *MFIs have successfully developed new products and services that can reach a different market and be replicated by others; and*
- *The practical experience of supported MFIs has contributed to sector development.*

The methodology considered that it would not always be possible to establish a direct correlation between policy changes or replication and UNCDF instruments. Therefore, to the extent possible, the assessment team sought to determine whether changes could be attributed to UNCDF and/or whether they can be attributed to effective partnerships in which UNCDF is engaged. Tools included an analysis of secondary data on policy initiatives and changes as well as semi-structured interviews with key players in the microfinance sector.

1.4 UNCDF Strategic Positioning

The objective of this component was to assess the strategic positioning of UNCDF within the microfinance sector in the four countries. The analysis sought to identify firstly, whether the programmes assessed were in line with the 1999 policy shift. Secondly, if so, how this type of intervention has enabled UNCDF to intervene strategically and optimally position itself in the microfinance sector (taking into account sector demands, relevance of intervention to organizational goals, country priorities, MDGs, Programme of Action for the LDCs, etc., and the ability to be flexible and responsive to evolving sector contexts). Thirdly, the assessment makes recommendations on how UNCDF could (re)position itself in the future to achieve a high impact in the sector, by itself, and through its partnership with other agencies. With regard to the latter, the analysis considered SUM's most recent shift towards a sector approach with its microfinance interventions.

Tools included an analysis of secondary data on each country's strategic priorities for the microfinance sector; semi-structured interviews with key sector players including MFI practitioners, bankers, officials at the Central Bank and government, the local microfinance network organizations, socially responsible investors, the research community, academics and sector analysts.

Initially, the evaluation team envisaged using Porters' Five Forces tool to contribute to the assessment but ultimately it was replaced by a general strategic positioning process. The main steps consisted of: (i) a standard industry analysis; (ii) a customer value analysis, a capability analysis and an assessment of comparative advantage; and (iii) based on these, an assessment of the strategic positioning of the UNCDF/SUM in the past, and the development of options for sound positioning in the future.

Figure 1: Determining Positioning

Step 1	**Step 2**			**Step 3**
Industry Analysis	Customer Value Analysis	Capability Analysis of UNCDF	Comparative Advantage	
What is the market size and penetration rate?	Who are UNCDF's clients?	What are UNCDF's core competencies?	Who are the other donors/investors?	
What does the industry look like, main players?	What do they value?	Where have they been particularly cost-effective?	What segment are they serving? How well?	→ POSITIONING
How is it changing?	How well is UNCDF serving them?	What capacities are needed to serve the clients?	Potential areas of cooperation	
What are the gaps in the sector?	What else do they need?			

ANNEX 5a – Key Specific Findings from Client Impact Assessment

The various research tools (quantitative and qualitative) used, lent much insight into the changing dynamics at the household, enterprise and individual levels as a result of participation in the UNCDF-supported MFIs. Table 1 provides an overview of the number of interviews the findings are based upon. The findings by each impact domain have been triangulated across the various research tools (where applicable) and synthesized below by programme.

Table 1: Summary Table of Sample Demographics

Demographic Indicators	LAPO, Nigeria	PRIDE, Malawi	AMNE, Haiti	EBS, Kenya
1. Quantitative Impact Survey				
Mature clients	209	245	149	
Exit clients	87	115	62	
New clients	175	182	135	
Total	471	542	346	
Gender Distribution				
Male: Treatment group (mature and ex-clients)	56%	61.8%	44.5%	N/A*
Control group (new clients)	53%	50.0%	53.3%	
Female: Treatment group (mature and ex-clients)	44%	32.2%	55.5%	N/A
Control group (new clients)	47%	50.0%	46.7%	
Location				
Urban: Treatment group (mature and ex-clients)	87%	76.9%	N/A.	N/A
Control group (new clients)	92%	62.1%		
Peri-urban: Treatment group (mat. & ex-clients)	13%	23.1%	29.4%	N/A
Control group (new clients)	8%	37.9%	47.4%	
Rural: Treatment group (mature and ex-clients)	N/A	N/A	63.5%	N/A
Control group (new clients)			52.6%	
Sector of Economic Activity				
Trade: Treatment group (mature and ex-clients)	49%	51%	66.7%	N/A
Control group (new clients)	52%	45.6%	28.6%	
Agro-business: Treatment group (mat. & ex-clients)	32%	18.1%	3.0%	N/A
Control group (new clients)	22%	20.3%	13.3%	
Service: Treatment group (mature & ex-clients)	15%	10.9%	24.2%	N/A
Control group (new clients)	21%	8.8%	28.6%	
Manufacturing: Treatment grp. (mat. & ex-clients)	3%	10.3%	6.1%	N/A
Control group (new clients)	1%	14.3%	28.6%	
2. Client Empowerment Interviews				
Male	0	24	9	N/A
Female	17	25	13	N/A
3. Loan and Savings Use Case Studies				
Male	0	5	2	N/A
Female	10	5	6	N/A
4. Client Satisfaction Focus Group Discussion (FGDs)				
Male	0	61	24	N/A
Female	98	55	40	84
Total	98	116	64	84

LAPO, Nigeria

Household Level

Poverty targeting is successful with 90.7% of LAPO's clients categorized as "poor" or "very poor". LAPO clients are more likely than non-clients to see an *increase in household income* over the past twelve months. The main reasons cited were "increased enterprise returns", followed by "starting a new business". *Increases in the contribution to household income* and *in household expenditures on basic necessities* over the past 12 months appears to be independent of participation in LAPO, however, the qualitative research identified some cases where clients had increased their contribution with participation in LAPO. An *increase in household asset acquisition* is clearly associated with membership in LAPO. Members had higher acquisition rates of household assets such as motorcycles, refrigerators, cars, plots of land, grinding machines, generators, radios, and furniture. Similarly, an *increase in household expenditures on tangible assets is associated with LAPO membership.* Investment in real property includes repairing or improving existing houses, adding to existing houses, purchasing new houses, purchasing land, and/or moving to bigger houses.

In terms of indicators of *increased household welfare,* benefits from participation in LAPO were noted in the following areas:

- *Children's education* increases with LAPO membership, particularly as reflected in higher levels of secondary school attendance of clients' children relative to non-clients. Business income is often used to pay for children's school fees;
- *Food insecurity* coping strategies are similar among mature and new clients, including gifts or loans from friends and family, or eating less. The notable difference was that a higher percentage of mature clients also coped using LAPO loans;
- *Sickness and disease* expenses typically are covered from the current income for members and non-members alike. Mature clients are more likely to pay for medical costs with LAPO loans, as well as gifts or loans from friends or family, than new or non-clients; and
- *Emergencies and crises*, similarly, are paid for from current income, gifts or loans from friends or family, and savings. LAPO clients also use LAPO loans to cope.

In summary, LAPO impacts client households in many domains, including income, assets, and some aspects of household welfare such as higher levels of secondary school attendance, and coping strategies against sickness and disease and emergencies.

Enterprise Level

Participation in the programme appears to be associated with slightly *higher enterprise profits.* An increase in the acquisition of *enterprise assets* is associated with LAPO membership with respect to "making minor investments in the marketing site" and "purchasing a structure for the marketing site".

Overall, evidence of impact at the enterprise level exists on income as well as the select acquisition and investment of assets.

Individual Level

Access to financial services is clearly important to LAPO clients. Though participation in LAPO is not associated with increased savings, LAPO clients save in a wider variety of ways than non-clients. Additionally, LAPO clients earmark some savings for investment or emergencies. LAPO tends to be the sole credit source for its clients. However, both clients and non-clients have equal access to loans from "contributions" and esusu collectors, the most common informal sources.

Client Empowerment does not indicate a clear relationship with programme participation, as measured by the quantitative empowerment indicators (self-esteem, respect by family and peers, optimism regarding the future, or intra-household decision making) as all respondents felt "empowered". This said, the qualitative client empowerment interviews highlighted some areas where LAPO participation affected empowerment:

- *Self-esteem* increased with participation in LAPO as a result of being able to contribute to household income, which correspondingly instilled in clients more of a sense of belonging to their households;
- *Decision-making at the household level* increased with participation in LAPO, as improved financial situations gave women more of a voice on household issues, though decisions continue to be made jointly on major investments such as acquisition of assets; and
- *Decision-making at the enterprise level* became the full responsibility of clients within their own businesses since joining LAPO.

Client Satisfaction with loan products and policies, savings policies, staff and management, and LAPO overall is high. Those who leave the program, however, cite "problems with loan policies and procedures", "personal reasons" and "problems with group lending" as the top three reasons for exiting the programme. Dissatisfaction with the "loan amount" and "loan length" are also noted motivations for exiting the programme. In addition, clients disliked the "inability to access savings at short notice".

PRIDE, Malawi

Household Level

PRIDE Malawi has been successful in *poverty targeting*, reaching "very poor" and "poor" people (according to the international poverty standards established by the World Bank). Programme participation did not lead to an *increase in income.* In fact, there appears to be an inverse relationship between programme participation and household income growth, although the qualitative assessment indicated examples of income growth. This finding may be explained due to the sharp economic decline and its impact on MSEs, as well as the impact of depleting income due to forced compensating for defaulting group-members. Changes in enterprise returns, whether up or down, are by far the major reason given for changes in household income over the past 12 months. Notably, however, is the fact that an *increase in household asset acquisition* occurred more with PRIDE membership among mature than new clients. This is evidenced by the acquisition of land and refrigerators over the last 24 months. The same was reflected in an *increase in household expenditures on tangible assets*, similarly related to land purchased by mature clients over the last 24 months. Clients also claim to have purchased houses and vehicles.

An *increase in the contribution of income by women to the household* has not occurred as a result of participation in PRIDE over the last 12 months, although the qualitative research yielded some contextual evidence of increased contribution to household income through business profits. Similarly, an *increase in household expenditures on basic necessities* is not associated with PRIDE membership, although client empowerment and loans and savings use research identify some exceptions.

In terms of indicators of *increased household welfare*, the following was found:

- *Education of children* increased for primary and secondary school with PRIDE membership;

- *Food insecurity* did not change as a result of PRIDE membership. Primary coping strategies included eating less, PRIDE loans and loans or gifts from friends or family;
- *Sickness and disease* coping strategies did not differ for PRIDE clients, although more mature clients used PRIDE loans to pay for medical care, suggesting that loans are diverted when necessary for emergency needs. Primary coping mechanisms include current income, handouts from family and friends, free healthcare, and savings; and
- *Emergencies and crises* coping strategies did not change with PRIDE membership, though PRIDE loans are frequently used by mature clients to meet emergency needs. Other primary mechanisms include current income, handouts from family and friends, savings and other loans.

In summary, the acquisition and investment in assets and in higher levels of school enrolment among clients' children are impacted by PRIDE's services. There is evidence of clients using loans for consumption-smoothing, welfare maximizing and coping with crises. Little positive impact occurred on income and expenditures and food security at the household level.

Enterprise Level

As noted above, an *increase in enterprise returns* did not occur with programme participation. In fact, the relationship between programme participation and enterprise returns is negative at worse, or non-existent at best. The *acquisition of enterprise assets* did not increase with participation in PRIDE, either. Enterprise acquisitions included the purchase of small accessories, minor investments in marketing sites, structure for marketing sites, means of transportation, and major tools. Again, both of these results may be partly related to the sharp economic downturn.

In summary, there is little positive impact at the enterprise level of PRIDE Malawi.

Individual Level

At the individual level, *increased access to financial services* by the poor (in particular poor women) did not appear to encourage PRIDE clients to save more. In fact, programme participation, at worse, decreased the amount saved and, at best, provoked no change. In terms of credit, few clients reported to have borrowed from organizations other than PRIDE.

Client Empowerment did not seem to change with PRIDE membership when considering the four empowerment indicators in the quantitative survey (self-esteem, respect by family and peers, optimism about the future, or intra-household decision making). Both mature and new clients tended to feel "empowered" upon entering the programme. This finding reflects perhaps a self-selection phenomenon among PRIDE clients, also seen among the other case study institutions.

- Client *self-esteem* increases with participation in PRIDE in relation to their increased ability to provide for their family. Similar positive perceptions exist regarding clients' entrepreneurial abilities, as they assume greater control of their businesses through adopting better business practices;
- *Decision-making at the household level* did not change due to PRIDE services. With few exceptions, most clients claimed to make household and family decisions jointly with their spouses. Notably, most women save without their husband's knowledge; and
- *Decision-making at the enterprise level* is not impacted by PRIDE membership. Few men discuss business issues with their wives, while most women make decisions jointly with their husbands. Decisions on loan and savings use are made independently by clients.

Client Satisfaction among PRIDE Malawi clients is generally low. PRIDE Malawi's products and processes, such as repayment frequency and grace period, are less preferred by clients in comparison to its competitors. The main reasons given for exiting the programme are related to products, including dissatisfaction with loan length, loan repayment schedule, group guarantee and vulnerability of losing savings due to default. Satisfaction with staff and management is neutral. This said, qualitative research identified positive reaction to the loan term. Fortunately, the research also indicates that many of the attributes causing the dissatisfaction can be easily addressed. As the client drop-out crisis was not fully resolved at the time of the mission, this research can help the management of Pride Malawi review its products and processes and better tailor them to the needs of its clients.

AMNE, Savings and Loan Cooperatives in the North East, Haiti

Household Level

The cooperatives have been successful at poverty targeting reaching both "very poor" and "poor" people. Nevertheless, no *increase nor contribution to income* occurred as a result of cooperative membership over the past 12 months. It is likely that the severe economic downturn in Haiti may have swamped any potential positive impacts. Similarly, no *increase in household expenditures on basic necessities* as a result of cooperative membership was noted, although cooperative members were able to meet their basic needs. At the same time, *household asset acquisition*, particularly in terms of large assets such as land, increased with cooperative membership. Again, an *increase in household expenditures on tangible assets* resulted from investment in land.

Household welfare indicators reported the following:

- *Food security* coping mechanisms changed with cooperative membership, as members use loans to purchase food. A higher percentage of non-members use gifts from family and friends to finance food purchases. Primary coping strategies in both groups include eating less, loans and gifts from friends or family and withdrawing savings;
- *Sickness and disease* coping did not change drastically with membership, although clients do use cooperative loans for healthcare needs. Other strategies include receiving handouts from friends and family or borrowing from outside of the program;
- *Emergencies and crises* are handled the same way by members and non-members. Primary coping mechanisms in both groups were current income, handouts from family or friends, selling assets, loans from family and friends, and withdrawing savings.

In summary, impact was found at the household level in the domains of acquisition of land as an asset. There was considerable evidence in welfare-maximizing through access to cooperative financial services, especially for food, medical care and crisis-protection. There is no evidence of impact on household income or asset acquisition other than land.

Enterprise Level

Though borrowers represent fewer than 15% of the members, an *increase in enterprise returns* did not occur as a result of cooperative membership over the past 12 months. One major difference, however, is that members were less likely to seek new markets for their enterprises during this time period. The *acquisition of enterprise assets* did not change considerably with cooperative membership, although qualitative assessment identifies some use of financial services to acquire assets.

In summary, there is no evidence of impact on enterprise assets.

Individual Level

Access to financial services did not increase how much people save, but does affect *where* they save. There is no evidence that savings practices differ between the control and treatment groups. An oddly counter-intuitive finding with respect to accessing credit is that a higher percentage of cooperative clients take loans from usury lenders, suggesting that cooperatives members, after creating a stable risk-protecting financial platform through savings, are looking for funds for generating income. The cooperative is clearly not fulfilling the credit needs of these clients.[11] New clients, on the other hand, are probably at the stage of creating a stable financial platform and are not looking to invest, hence their lack of interest in borrowing.

The quantitative survey also found that in the case of North East Haiti, *client empowerment* is not increased by membership.[12] Empowerment is defined as respect by family and peers, optimism about the future, or intra-household decision making. In some cases, cooperative membership may be associated with lower levels of empowerment, suggesting that the repayment pressure of loans and a feeling of indebtedness may lead to negative perceptions of self and the future. Again, this may also be related to the sharp economic downturn being experienced nationally. The qualitative research found that:

- *Self-esteem* increased for those clients who were unemployed before joining. Clients who were previously employed did not show any change as to how they feel about themselves;
- *Decision-making at the household level* improved most for married female clients who were able to start their own businesses with their loans. Moreover, as active contributors to the household income women now feel they can be more involved than previously in the decision-making process in terms of their children's schooling and healthcare;
- *Decision-making at the enterprise level* has seen changes as clients become savvier about business, i.e., creating higher profit margins by minimizing cost and/ or maximizing revenue, as well as giving themselves an opportunity to manage an endeavour of their own.

Client Satisfaction is lukewarm among programme members regarding loan products policies, savings policies, and staff and management, although at the same time, the drop-out rate is extremely low. The main reasons cited for programme exit were product related. The least preferred attributes of the programme were the penalty, the lending interest rate, the guarantee and the administration fee. Clients are generally satisfied with access to savings, follow-up loans and loan terms. Despite the moderate levels of satisfaction, the cooperatives rank the highest in popularity among the financial providers in North East Haiti due to their ability to offer a relatively wide range of client-responsive products.

In summary, cooperatives provide a much-valued savings and limited loan service. The cooperatives' popularity is highest even though client satisfaction findings from the quantitative survey show moderate satisfaction.

Equity Building Society, Kenya

Unlike the other three case studies, EBS chose not to participate in the quantitative survey preferring to undertake qualitative research inline with their research programme. Unfortunately, the techniques ultimately used failed to explicitly discuss the issue of impact. As a result, evidence for impact was inferred from other focus group discussions and contexts.

[11] Rutherford, Stuart in *Money Managers: The Poor and Their Savings* MicroSave-Africa Briefing Note #13 identifies this process adopted by the poor.

[12] It should be noted here that both treatment and control groups report high levels of personal empowerment with the exception of self-esteem, in which they both report moderate/neutral levels of empowerment.

Household Level

Poverty targeting could not be determined, but notably, the average EBS loan size has been declining – from US$646 in December 2001 to US$306 in July 2003.[13] *Changes in household income* appear to be positive, including higher incomes, improved socio-economic status, and a greater propensity to save. However, it is difficult to attribute EBS' role in this change through the qualitative research ultimately undertaken. An *increase in household expenditures on basic necessities* appears to have occurred as a result of EBS services. Clients use their savings and loans in multiple ways which include coping with natural disasters, sickness and disease and, lifecycle crises. Similarly, *increases in household assets* have been influenced by membership, as clients use loans or savings to pay for many acquired assets.

Increases in household expenditures on tangible assets result from the use of loans and savings. Tangible assets include appliances, furniture, electronics, home purchases, construction and improvements, and land and vehicles. *Household welfare* is also greatly affected by financial services. Clients use loans and savings from EBS to meet household cash-flow needs, suggesting that participation in EBS enhances overall household welfare by better managing emergencies, natural disasters, sickness and disease, death and other lifecycle crises. The use of loans and savings is frequently used for children's school expenses, as well as for higher education.

In summary, there is evidence of an increase in income, expenditures on basic necessities, assets and improving household welfare among clients. But the nature of the research does not allow for attributing the improvements in assets and income to EBS.

Enterprise Level

Enterprise returns are generally positive among clients who use business proceeds to meet household cash flow needs, including medical costs, purchase of cars and motorcycles, food, clothes, education, etc.. Unfortunately, the information from the group exercises does not allow for a reasonable estimation of the extent to which EBS loans contribute to positive enterprise returns.

Overall, there is some indirect evidence of increase in enterprise returns but attribution to EBS is indeterminable.

Individual Level

Increased access to financial services by the poor (in particular poor women) remains inconclusive as women's access to EBS is reported to be constrained relative to potential because of the institution's collateral requirements and women's corresponding lack of the capital necessary to start a business. As for *client empowerment*, there is no relevant data to adequately address this impact domain. *Client satisfaction* is fairly high but there remain some areas of dissatisfaction. Key sources of satisfaction include: friendly and helpful staff and management; speed, efficiency, and convenience; the variety of products offered by EBS; flexibility in rescheduling loans; payments against uncleared cheques; unlimited savings withdrawals; affordable ledger fees and long opening hours. Sources of dissatisfaction include poor customer service at times; the lack of offices in rural or other marginal areas; the lack of technology (ATMs) which limits outreach and imposes at times high transaction costs; and the failure to keep commitments/promises made to clients.

EBS compared favourably to informal lenders and SACCOs on overall customer service, minimum balance requirements, notice on withdrawals, and security/stability. Clients also compared EBS unfavourably to commercial banks on overall customer service, length of queues/waiting times, public relations, and trust placed in customers.

[13] The EBS mission is not to target the poor, rather middle-to low-income SMEs, their employees and small-scale commercial farmers in Kenya.

ANNEX 5b – Impact on Assets

Table 1: Impact on Assets – Nigeria
Percentage of Clients Who Acquired Assets over Last 24 Months

Asset	(%) Treatment Group N=300	(%) Control Group N=176	T-Value	Stat. Sign.[14]
Motorcycle	6.3	4.5	2.74	.10
Fridge	23.0	19.9	2.59	.10
Car	9.3	3.4	25.75	.00
Plot of land	10.3	6.3	9.61	.00
Grinding machine	7.3	2.8	17.86	.00
TV	29.3	26.7	1.55	.21
Generator	3.0	0.6	13.31	.00
Radio	27.0	22.7	4.47	.03
Video	36.3	35.2	0.23	.62
Jewellery	1.0	1.7	1.76	.18
Sewing Machine	2.7	2.3	0.28	.59
Fan	4.0	2.8	1.74	.18
Work equipment	6.3	5.7	0.32	.56
Furniture	7.0	2.8	15.75	.00
Build House	1.7	2.3	0.87	.35
GSM Phone	1.7	1.7	0.00	.95

Table 2: Impact on Assets – Haiti
Percentage of Clients Who Acquired Assets over Last 24 Months

Asset	Treatment Group N=211 (%)	Control Group N=134 (%)	T-Value	Stat. Sig.
Radio	29.9	33.6	-0.72	.46
Fridge	1.4	2.2	-0.56	.57
Television	10.0	9.6	0.09	.92
Plot of land	16.2	8.9	1.95	.05
Bicycle	24.2	23.9	0.06	.95
Clothes	93.8	92.6	0.45	.65

Table 3: Asset Acquisition – Malawi
Percentage of Clients Who Acquired Assets over Last 24 Months

Asset	Treatment Group N=359 (%)	Control Group N=182 (%)	T-Value	Stat. Sig.
Bicycle	26.2	32.4	-1.52	.12
Fridge	16.7	9.9	2.14	.03
Car	10.6	7.7	1.07	.28
Plot of Land	45.4	34.1	2.53	.01
Radio	62.7	70.9	-1.89	.05

[14] The impact for an asset item is statistically significant at the 10% level if the figure in this column is below 10%.

ANNEX 6a: Specific Institutional Findings – Comparative

Overview

Key findings on MFI institutional and capacity development, financial sustainability and outreach are summarized below for the case study countries. Full CGAP appraisal reports are presented in the companion reports. The executive summaries of the appraisals are included in Annex 6b.

MFI Institutional and Capacity Development

Institutional Structure

The UNCDF investments in Nigeria, Kenya, Malawi and Haiti covered a range of institutional types, including a non-profit company, a building society, an NGO, and savings and loan cooperatives. As a result, the impact of UNCDF investments varied greatly in terms of leadership, human resource capacity, systems and internal controls. *The promotion of such diversity enhances the sector, as no one type of institution adequately responds to all needs in all countries though a clear ownership structure or good proxy oversight systems are imperative.*

Leadership

In Haiti, through technical support, and in Malawi, through decisions on ownership structures, UNCDF greatly influenced MFI leadership structures. Less impact is evident in Nigeria and Kenya. Whereas the MFI in Kenya had strong management and governance before MicroStart, in Nigeria gaps in senior management positions have not yet been corrected by the programme. *Future investments should assess leadership strengths and weaknesses to ensure that capacity gaps are filled.*

Human Resources

Human resource capacity was improved in Haiti and Nigeria, while UNCDF's investment had minimal impact on human resource development in Kenya where institutional improvements can be traced more to the MIS and MicroSave product improvements. As PRIDE Malawi was a start-up, it should be noted that human resource training was clearly part of the strategy, but that the transition from expatriate to local staff did not receive sufficient attention. *Ongoing focus on human resource capacity building will continue to be needed in the future.*

Responsiveness to Weaknesses

All of the evaluated MFIs undergo external audits, but responsiveness varied. Kenya and Haiti clearly demonstrate management and governance concern for correcting identified weaknesses. Although the MFI in Malawi responded to the problems identified, the audit was contracted seven months after the end of the fiscal year, limiting the possibility of reacting promptly. In Nigeria, recommendations of external audits appear to have had no impact on policy or strategy. *Future investments should ensure that technical support and monitoring include corrections of identified weaknesses.*

MIS and Internal Controls

While the investments in Management and Information Systems (MIS) in Kenya (see Figure 1 and Figure 2 for the jump in deposits and profits after a new MIS was introduced at EBS in June 2000), and technical support in Haiti, have had profound impacts on the information management and performance of the MFIs, breaches in operational policies in Malawi have gone undetected for a long period of time, contributing to weaknesses in the portfolio quality.

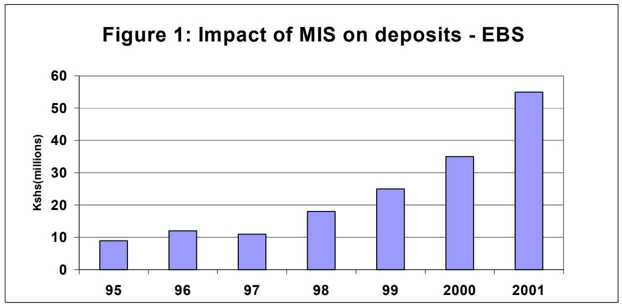

Figure 1: Impact of MIS on deposits - EBS

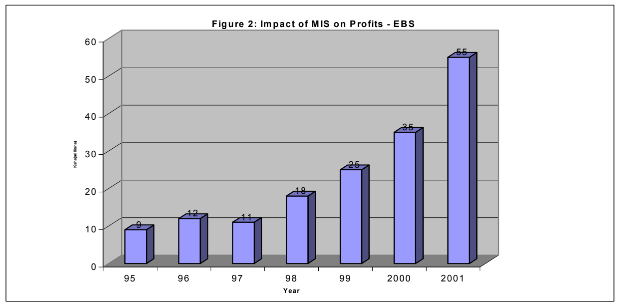

Figure 2: Impact of MIS on Profits - EBS

In Nigeria, widespread weaknesses in internal controls received insufficient attention and have exposed the MFI, and subsequently donors, to high risks.[15] It is recommended that UNCDF underscores the importance of meticulously tracking internal controls and other key institutional and capacity development indicators in the ToRs with the TSPs. *UNCDF/SUM staff should closely monitor internal controls and other key institutional and capacity development indicators as it does with outreach and financial key performance indicators. It could add a number of key institutional capacity indicators to its reporting format.*

Productivity and Administrative Efficiency

Table 1 presents trends over the past three years. Three of the programmes, in Haiti, Nigeria and Kenya, have demonstrated significant improvement in efficiency, a signal that they have managed growth well. It should be noted that for LAPO's MicroStart funded branches, the administrative efficiency, excluding full headquarter cost allocation, is reported to have improved from 70% to 5% over the period 2000-2002 – an extraordinary result. In this case this does not show in the table because of overhead costs and newly recruited credit officers in starting branches where loans/loan officer ratios are not yet stable. In Malawi, an improvement can be seen in loans per loan officer; however, by 2002, the improvements in administrative efficiency are not representative of the size of the institution. *Besides branch and credit officer efficiency, overhead cost-structure is an important item to be monitored.*

Table 1 Product Use

	Administrative Efficiency		Loans/Loan Officer	
	12/2000	12/2002	12/2000	12/2002
Nigeria	46.1%	51%	207	165
Kenya	49.1%	26.6%	430	1,537
Malawi	242.7%	196.8%	180	234
Haiti	147.0%	56.9%	115	175

[15] It should be mentioned, that some of these issues are addressed under a USAID grant, that was approved at a very opportune time.

Financial Sustainability

Portfolio Quality

Table 2: Portfolio at Risk > 30 days

	12/00	12/02
Nigeria	N/A	N/A
Kenya	14.59%	8.5%
Malawi	1.6%	12.6%
Haiti	38.9%	10.2%

Among the case study MFIs, PaR of greater than thirty days as of December 2002 ranged from 8.5% in Kenya to 12.6% in Malawi. While Kenya and Haiti have demonstrated efforts to curb this problem, their PaR also remains well above the 5% standard. In Nigeria, PaR is reported at 6.4%, but inadequate portfolio management implies that this is likely understated. [16] Malawi has experienced increasing delinquency rates, resulting from a combination of overemphasis on outreach, unresponsive products, sometimes poorly implemented policies and drought. *UNCDF should further assess the relationship between outreach and sustainability and establish future targets accordingly. In addition, UNCDF/SUM itself should more closely monitor investments and not leave this to third parties.*

Self-sufficiency

The UNCDF-supported MFIs have shown improvement in sustainability indicators. Haiti and Kenya are both operationally sustainable, demonstrating movement toward full financial sustainability. Besides the progress of the evaluated MFIs in Nigeria and Malawi, however, the organisations are also facing serious shortcomings and corrective action to reach a level of efficiency will be necessary to run a sustainable operation.

If one compares progress on UNCDF's two key objectives of outreach and sustainability, among the investments in Nigeria, Kenya, Malawi and Haiti, UNCDF appears to score better in expanding services to the poor than in advancing MFIs to become fully sustainable institutions. *As mentioned earlier, the balance between increasing outreach and helping MFIs become profitable and thereby sustainable can be improved.*

Products and Pricing

In more competitive markets, pricing is increasingly related to how costumers value the services provided by MFIs. The product mix is therefore inherently related to pricing.

In terms of product pricing, two of the MFIs re-evaluated their interest rates during the project period. Nigeria adapted its lending interest rates to the market realities as a direct result of the MicroStart technical support. Kenya, as noted, underwent a re-structuring of its products and adjusted prices, and this change can best be attributed to MicroSave support. Identifying and adapting products and services to client needs has proven extremely effective in the case of EBS and we believe that overall, UNCDF could also have been more effective in its interventions in the other case study countries if it had built on its experience with EBS and actively disseminated the benefits of a focus on customer satisfaction and product diversification.

In Malawi, high delinquency appears to result to a large extent from inappropriate products. In Haiti, cooperatives offer the lowest lending rates. Although they are able to cover their current costs, the rates are rather similar to what the cooperatives can earn by placing savings in CDs with commercial banks; the fact that CDs offer a less risky

[16] The overall portfolio at risk of the MicroStart branches of the eight MFIs grew from below 1% to 16%, which has to be seen in the light of the fact the programmes are all expanding, but should be mentioned and monitored.

return on assets serves as a disincentive to lending. *Malawi and Haiti could benefit from a price review.*

Liquidity

The differences in institutional structures results in drastically different liquidity ratios between the four case study MFIs partly due to their differing institutional and legal structures. In Kenya and Haiti, a large majority of clients are savers, resulting in extremely high liquidity rates; in Kenya, the liquidity ratio is over 50%, while the cooperatives in Haiti maintain on average 43% of their assets liquid. In both cases, liquidity is regularly monitored by management considering investment possibilities.

The MFI in Malawi has a liquidity ratio of 11%. It has recently developed an annual cash flow projection which it monitors regularly. With decreasing cash inflows, both in terms of grants and client income, as well as savings withdrawals, it will likely soon face tight liquidity without an additional cash injection. *Ensuring that management has a clear understanding of recommended liquidity benchmarks for each type of institution is relevant to ensure sustained growth of outreach*

ANNEX 6b: Specific Institutional Findings per MFI

Haiti - Executive Summary CGAP Appraisal
Savings and Loan cooperatives North East Haiti – AMNE project

Background

The UNCDF-funded AMNE project provided support to six savings and loan cooperatives in the North East province of Haiti. The cooperatives are subject to the cooperative law, passed in July 2002 with the assistance of the UNCDF partner, Développement International Desjardins (DID). Relatively strong elected boards govern these member-owned institutions. As a result, most cooperatives operate in a transparent manner, protecting member savings.

The current situation in Haiti presents many challenges. Approximately 85% of the population lives below the poverty line. The North East province, where AMNE operated, is one of the least accessible and poorest provinces. The environment, throughout the country, is characterized by insecurity, macroeconomic decline and limited human resources. These challenges, together with weak regulation, put the cooperative sector at risk. A recent, nation-wide pyramid scheme shook client confidence, as many lost their savings when several large cooperatives closed and management fled the country. More locally, two of the cooperatives in the North East province were victims of theft. One, which resulted from internal fraud and theft, was unable to recover from the losses and forced to close; the other suffered an external theft, but has continued to function and grow. It is, therefore, no small accomplishment that through self-regulation processes established by DID and the National Association of Haitian Cooperatives (ANACAPH), the AMNE cooperatives have continued to grow despite these challenges.

Cooperatives in the North East face varying degrees of competition. In urban areas, the entrance of MFIs and banks has increased competition. In rural areas, cooperatives remain the only financial service providers. Competition will force cooperatives to be more responsive to market pricing for savings. Currently, although the two major savings products and all loan products are priced at market rates, term deposits earn significantly less interest than in commercial banks.

The two most important alliances for the six UNCDF-supported cooperatives are the AMNE technical service provider, DID, and ANACAPH. Their support over the life of the project has enabled the AMNE cooperatives to transform from relatively weak structures to promising institutions, most of which have attained operational self-sufficiency. DID assisted in recruiting qualified directors, training staff and establishing governance structures as well as facilitating membership in ANACAPH. Through network membership, the cooperatives gained access to audit services, policy and procedures manuals, training seminars, printing and representation at the national level. This assistance has enabled them to overcome challenges such as the inaccessibility of their province and low human resource capacity.

Systems and Products

All of the cooperatives use the policy and procedures manual prepared by ANACAPH for its members. The manual lays out the management information system (MIS), internal controls as well as human resource and administrative policies. With the exception of one cooperative, which continues to demonstrate weaknesses, the AMNE cooperatives respect the internal control systems and have policies that minimize the risk of fraud. Operational and financial procedures and processes are generally well understood by staff and management. The current paper-trail MIS serves the cooperatives' current needs but does not capture all relevant lending and savings operations of each client under one file. However, ANACAPH and DID are investigating a computerized system to better assist especially the larger cooperatives to manage future growth and such limitations. Additionally, the cooperatives undergo an annual audit by ANACAPH and have recently completed an audit by an independent firm. The cooperatives are responsive to audit recommendations and demonstrate progress toward addressing weaknesses.

The cooperatives' main services are four savings products. Only 12% of their members have outstanding loans. DID has attempted to diversify loan products to make them more accessible. One example of a new loan type is a product developed for the fishing industry, facilitating the purchase of equipment. Cooperatives also offer check cashing and Western Union money transfer services. Despite this diversity, more work is needed to ensure that products meet client demand in the North East.

Performance

Overall, the cooperatives have demonstrated improvement and growth over the duration of the project. Five of the six are operationally sustainable and half show positive equity. Outreach has improved as membership in the North East has grown from 7,736 in 2001 to 12,518 in 2003, 50% of whom are women. In the same period, loan clients increased from 575 to 1,545, a 269% increase. The programme deepened outreach to the poor and very poor through opening outlets which served communities too small or inaccessible to support a cooperative. Additionally, progress in efficiency indicators demonstrates that growth has been managed well. Administrative efficiency dropped from 166% 2001 to the current 43.2%, and active clients per loan officer have increased from 96 to 258. Growth, however, can only be maintained through planning; one of the greatest remaining weaknesses in the cooperatives is the absence of business plans. Under AMNE, each cooperative followed a plan but with the end of the project, they no longer have growth and profitability targets.

The cooperatives still face several hurdles. The high cost of technical assistance is the greatest challenge to financial sustainability. Membership in the ANACAPH network will eventually decrease some of these costs, as a nationwide network jointly contracts services such as training and audit, lowering the cost to the individual cooperative. Despite this, costs will remain high into the foreseeable future. Portfolio quality presents another obstacle to future sustainability, although the situation has dramatically improved. In 2000, PAR was 38.9%, and by 2002 it stood at just 10.2%, but increased again in 2003. The cooperatives and their networks recognise that new strategies are necessary to tackle this problem. Improving loan appraisal and reassessing products are two potential tactics. Additionally, current loan loss provisioning is insufficient. Loan loss reserve calculations based on portfolio quality are done as per policy, but errors in accounting have meant that these calculated reserves have not been put aside.

An issue which has not challenged the sustainability of the cooperatives, as it has other MFIs, is the depreciation of the Gourd. 97% of the liability base comes from domestic savings, which have not been impacted by increasing costs as external loan funds have.

All past evaluations and the recent external audit have noted very high liquidity among the cooperatives. DID benchmarks differ from PEARLS, encouraging cooperatives to maintain relatively high levels of liquidity. Only 44% of assets are invested in the loan portfolios. Pricing is one reason for this. With banks offering CD rates as high as 25%, the cooperatives have little incentive to invest in riskier loans with a maximum interest rate of 30%. This, coupled with an adversity to risk resulting from relative high delinquency, has discouraged aggressive lending. Although this does not put the sustainability of the cooperatives at risk, it does not encourage outreach of credit services either.

Conclusion

AMNE had a profound impact on improvements in these six cooperatives and made a significant contribution toward expanding and deepening outreach, as well as moving the institutions toward sustainability. Although there continues to be a need for technical assistance and monitoring, the cooperatives have come out of the project much more capable of working independently. DID was an appropriate technical service provider for these specific cooperatives and for the overall cooperative sector.

Recommendations

Looking toward the future, support for the AMNE cooperatives could be best targeted in a few areas:

1. More planning capacity is needed at the cooperative level, and possibly the network level

None of the cooperatives in the North East has a business plan, nor do the current directors know how to develop one. At the level of ANACAPH, the strategy has been clearly laid out. Although projections exist, ANACAPH was unable to provide them to the evaluation team, which raises the question of how closely they are monitored.

2. Further support toward portfolio quality management and ensuring proper provisioning

This weakness was readily identified by all cooperatives visited as well as by DID. It is an area which needs to be strengthened, especially if cooperatives are to increase outreach in their lending services. Improvements made over the years have not enabled the cooperatives to come within industry standards of 5% PAR of greater than 30 days. Further support to enable DID to develop training on loan appraisal is one way in which this could be addressed.

3. Market research to identify better loan products

The AMNE project took significant steps toward market research and product diversification. More work needs to be done, however, to ensure that the products offered respond to market demand. Assisting DID in developing capacity in low-cost market research techniques for the cooperatives could assist in this area. Positive impacts of this intervention will likely include decreased delinquency and increased lending.

4. Encourage lending through revisiting loan pricing and recommended liquidity benchmarks

Low levels of lending are partially due to internal policies. By offering loans at equal to or lower than the CD rates offered by commercial banks, cooperatives have little reason to invest in the loan portfolio, which is riskier without offering higher returns. Higher interest rates could encourage increased provision of loans, as the market is somewhat price-inelastic and savings and loan cooperatives price competitively. Equally important is meeting the ANACAPH benchmark of a maximum of 70% of assets invested in the loan portfolio. International standards for cooperatives suggest 70%-80 as the standard of excellence

5. Channelling support to DID and ANACAPH to develop capacities in the areas noted above will ensure that such services are available not only to AMNE cooperatives but throughout the country.

6. Finally, all future contracts between UNCDF and TSP should have specific agreed upon benchmarks and targets to avoid confusion or contradicting goals, such as questions on liquidity and sustainability that have been raised over the course of the AMNE project.

Kenya - Executive Summary CGAP Appraisal
Equity Building Society (EBS)

The Equity Building Society provides loans and saving services to over 183,000 Kenyans via thirteen branch offices. Both its deposits and loans have grown steadily, by over 25%, over the last four years. Its profitability, high ratings and positive external evaluations during this period reflect the institution's ability to manage growth while at the same time upgrading its technology.

This period coincides with two UNDP support initiatives, i.e. MicroStart and MicroSave. The report "Understanding the Re-birth of Equity Building Society in Kenya" states that "in terms of quantitative and visible impact, perhaps MicroStart's partnership in helping to establish Equity's MIS could have had the greatest impact. This particular development assistance could be seen as a truly strategic contributor to Equity's overall, albeit recent success". Subsequently, the improvements in EBS's product development and demand driven orientation made EBS an extremely popular institution.

This year, Equity rolls out its new corporate structure complete with a new Chief Operating Officer and eight new middle managers. This is a dramatic shift from the small executive team that has led Equity through its recent success period. This new structure will be accompanied by an improved IT infrastructure, redesigned policies and procedures as well as remodeled offices. Additional capital has been secured through a new institutional shareholder and Equity is laying the ground-work to transform themselves from a building society into a commercial bank.

The proposed restructuring should enable Equity to achieve its aggressive growth targets for the upcoming three years, as reflected in the business plan. The Board of Directors continues to play an active role in leading the institution and has approved a detailed business plan to guide management through this new phase.

Since 1999, Equity has set its sights high and has imbued staff with the vision of becoming not only the biggest, but the best microfinance service provider, as evidenced in the repeated goals of becoming "the provider of choice" and reaching one million borrowers within the next five years. While the likelihood of reaching this figure may be questionable, the sentiment conveys the sense that growth is as much a part of Equity as customer service.

The new corporate structure is just taking shape. Most positions have been filled, though managers have not assuming their full responsibilities just yet. As a result, it is difficult to draw conclusions as to the system's efficacy. However, one area which has not yet received sufficient attention from management is addressing the possible downside to restructuring. Specifically, staff who once had access to the executives and who now must go through a middle manager could feel disgruntled. New policies, procedures and technology which decrease the ability of those responsible for customer service, such as the branch managers, to be flexible could hurt both employee and customer morale. Customers may feel that the personalized service they have come to expect from Equity has been replaced by a more centralised decision making process. For example, credit scoring technology will make loan processing much more efficient and decrease costs, but customers will have much less recourse to persuade managers to change decisions. Likewise, credit officers and branch managers may feel that their role has become nothing more than a rubber stamper or a compliance officer. This personal dimension to restructuring must be taken into account if Equity is to retain the high level of staff and customer commitment to the institution.

The following recommendations will ensure Equity's continued success throughout and beyond the restructuring:

1. *Appoint a transformation project manager*. Management is already considering hiring a change manager, but it is recommended that a project manager be appointed to track the progression of the activities outlined in the business plan. This would be an interim position for a period of 18-24 months whereby the individual hired would report to management on progress towards the successful accomplishment of the business plan objectives. By that time the department managers should have developed performance monitoring systems to take the place of the project manager.

2. *Design and implement a comprehensive risk management strategy*. Planned strengthening of the internal audit function will contribute to improved risk management. However, the board should increase its attention to risk management in all areas, especially the new risk present in an IT dominant environment and the increased risk of fraud as the personnel profile changes as more employees are hired.

3. *Ensure business plan guide operating plans*. The new business plan was only approved in August and, therefore, only the executive management fully understands the plan. For Equity to achieve its objectives, the plan must be incorporated into for each branch and department's operating targets. This will be particularly important as the new departments integrate themselves into Equity's operations.

4. *Implement a policy of writing off non-performing loans*. Currently all loans are secured and there have been very few instances of Equity liquidating a security. However, there is a need for a clear policy. With the coming introduction of non-secured lending, writing off bad debt will be an important part of asset and liability management.

5. *Closely monitor the administrative cost ratio*. The current administrative cost ratio of 24% is relatively high, although this can be explained by rapid growth. Management should monitor this indicator carefully to avoid having a negative impact on profits.

Malawi Executive Summary CGAP Appraisal
PRIDE Malawi

Source: 'Sustainable Financial Services at the District Level Malawi – Institutional Assessment'. Dec. 2002 prepared by G.D. Perrett and E. Chirwa.

1.1). Background

1.1.1). The project was conceived within the framework of the Country Strategy Note that was agreed between the Government of Malawi (GOM) and the UN Agencies, including UNCDF. The Note identified the areas of future areas of cooperation to include gender, sustainable livelihoods, youth, decentralization and HIV/AIDS. The agreement was followed by a Memorandum of Understanding (MOU) signed between UNDP and UNCDF that identified the complimentary areas of cooperation between them as being district development funds, microfinance, and community based natural resources management.

1.1.2). It was felt that a microfinance project would help achieve these goals by supporting the establishment of a sustainable microfinance institution (MFI) offering microfinance services using microfinance "best practices". The MFI would focus on the very insecure poor, especially women, in the rural and urban areas. The original targets included having 18,000 active clients, of which 65% would be women, and achieve operational sustainability within four years[17].

1.1.3). In December, 1998 eight MFIs were invited to submit proposals for the establishment of a microfinance program. After careful consideration, Pride Africa (PA) was awarded the contract, based on the competitive advantages of its tried and proven operating model, its existing facilities, and readily available, experienced staff.

<u>1.2). Project Description.</u>

1.2.1). The goal of the project was that operational sustainability would be achieved within four years and that by project end, clients would total at least 18,800. Simultaneously, the loan portfolio would exceed US$ 2.44 million, and the savings under the Loan Insurance Fund (LIF) scheme would amount to US$ 2.08 million. Initially, the project would start in the southern region, and would expand from there. The project would follow microfinance "best practices".

1.2.2). The project document envisaged the use of the PA standard methodology, which is a combination of solidarity group lending and village banking. Clients are formed into solidarity groups (called Enterprise Groups [EG]), who cross-guarantee each others' loans. Ten such groups are formed into a Market Enterprise Committee (MEC), which meets on a weekly basis at the local PM office to conduct transactions. The overall MEC acts as a second-tier or cross guarantee for the individual EGs if they have insufficient funds to cover the losses of a defaulting member. The PA system has a compulsory savings component, which requires each client to contribute a set amount of savings. The MECs make all credit and membership decisions, with the Credit Officer (CO) providing advice and assistance as and when needed. Accessibility to loan amounts is by cycles, the maturities of which start at 16 weeks for the first cycle and progressively increase to 50 weeks by the fifth cycle. The loan amount ceilings also

[17] Summary of data and information from the Project Document.

increase progressively, starting with 5,000 MK for the first loan cycle and reaching 200,000 MK by the eighth cycle.

1.2.3). Funding for the project is provided by UNCDF in the sum of US4 3,486,868.

1.2.4). The Project document was signed in February 17, 2000, and implementation commenced in March 2000. The initial strategy was for PM to concentrate on the major market centers, and when critical mass had been reached; the project would expand out into the more rural areas. The first tranche of funding was made available on March 2, 2000.

1.3). Objectives Of The Institutional Evaluation

1.3.1). The Institutional Appraisal component of the assignment encompassed the assessment of the performance of Pride Malawi (PM), its overall institutional strength, and its potential for outreach and sustainability. The appraisal followed the CGAP format, and covers both institutional development, and the impact PM and UNCDF have had on policy and replication in Malawi. [18] The appraisal was to be undertaken in conjunction with the Interim Evaluation, together with several other specific assignments including:

1. Evaluate the revised business plan.
2. Review the loan portfolio and loan portfolio systems.
3. Review the strategy for the Localization of Management Staff
4. Review the Liquidity Position of PM
5. Review the accounting and management systems and expertise.
6. Assess the likely effectiveness of the recently appointed Board of Directors.
7. Assess the quality of services being provided by PMSL to PM, and PMSL's medium term financial viability.
8. Assess any external and internal factors that may hinder or facilitate implementation.

1.3.2). This report is to be read in conjunction with the Interim Evaluation Report

1.4). Composition Of The Mission Team And Evaluation Methodology

1.4.1). The two-person Mission team consisted of two microfinance specialists, G.D. Perrett and E. W. T. Chirwa. Since the emphasis of the assignment was on the institutional impact and appraisal, the Mission followed the guidelines as outlined by CGAP, with adjustments made where necessary. For example, the review of savings, the role of other donors, and the review of other financial services were omitted. Conversely, greater emphasis was placed on certain other areas (management, financial reporting) than normally would be the case. The methodology used consisted of an initial consultation with the UNCDF by telephone, followed by an extensive review of the documentation relevant to the project. The team leader then spent several days in Nairobi, Kenya reviewing the activities of PMSL prior to traveling to Malawi. UNCDF staff in Lilongwe then briefed the Mission team. Thereafter, the Mission visited two selected branches/outlets in each of the three regions of Malawi where PM conducts operations, and had meetings with PM staff, donors, government officials, clients of PM and other interested parties. The meetings with the clients were held in both individual and group formats to help identify impact, the strengths and weaknesses of the project, and gather suggestions for improvements. During these field visits additional data and documentation relevant to both PM specifically, and microfinance in general, was reviewed.

[18] Consultative Group to Assist the Poorest

1.4.2). An Aide Memoire, summarising the team's preliminary observations and findings was prepared and presented at a debriefing meeting held in the Lilongwe offices of UNDP on November 26, 2002. Feedback and issues raised, where appropriate, have been incorporated into this report.

1.4.3). The Mission would like to thank the staff of Pride Malawi (PM) for their high level of hospitality and cooperation during the course of the review, as well as conveying its appreciation to the local office of UNDP/UNCDF for facilitating the visit.

1.5). Financial Performance to Date:

1.5.1). The performance of the project to date, and the current projections are as follows:

1.1 SUMMARY OF KEY DATA

						PROJECTED	
	ITEM	Dec-00	Dec-01	YTD Oct-02	Proj. Dec-02	Dec-03	Dec-04
1.	Number of active loans	2515	6021	6315	10488	12219	15084
2.	Total outstanding loan balance (US$)	118299	659592	844928	1333676	1755276	2724401
3.	Average loan balance (2/1)	47	110	134	127	144	181
5.	LIF Balances	55795	243111	364218	254807	386663	585537
6.	Loan loss rate	3.0%	2.6%	19.0%	0.0%	0.0%	0.0%
7.	Delinquency rate (portfolio at risk basis > 30 days late)	1.6%	1.8%	12.6%	4.0%	3.0%	2.0%
8.	Administrative efficiency	243.0	275.4	167.4	104.0	79.0	59.0
9.	Portfolio yield	11.2	94.2	77.8	75.2	117.5	107.0
10.	Operational self-sufficiency	6.2	37.7	43.9	73.1	148.7	168.4
11.	Return on equity	-124.0	-141.1	-143.9	-6.0	9.0	11.0
13.	Year-end free market exchange rate	79	65	75	65	70	72

1.6). Findings, Lessons Learned and Recommendations:

1.6.1). Findings:

The findings of the mission relating to the Institutional Appraisal are as follows:

1. The able and productive poor, who work in the urban and peri-urban areas have access to microfinance services, which are provided by a variety of MFIs. Despite a difficult 18 months, several of these MFIs (PM and OI) have a respectable chance of achieving operational sustainability in the medium term.

2. PM, thus far, has been very successful in providing financial services to women. To date the performance criteria agreed with UNCDF have been exceeded. Looking ahead, however, it may be difficult for PM to reach the 60% criteria, given that several of the competitor NGOs focus exclusively on women.

3. The UNDP/UNCDF has played a useful role in supporting the approval of the Microfinance Policy and Acton Plan, which outlines an appropriate strategy for the GOM in the development of microfinance. Further work needs to be undertaken in this regard, however, to ensure that the parastatal microfinance providers adhere to best practices.

4. A review of the operating procedures indicates that there are widespread breaches of standard operating procedures at the branch level. These include the credit officers depositing the weekly receipts with the teller; incorrect record keeping at the level of the Enterprise Groups (EGs); widespread low attendances at the weekly MECs, and a high level of late arrivals at the MEC meetings. These breaches were a major cause of the loan portfolio crisis.

5. PM has recruited a well-qualified and enthusiastic Board of Directors. The Board should be encouraged to fully exercise their duties and obligations.

6. In the opinion of the Mission, PM should delay, for the time being, the development of special rural outlets, as envisioned by the Project Document. Management resources will be better spent on strengthening the existing, quite adequate, network.

7. There is a clear need to ensure that PM follows good accounting practices. This includes the charging of loan losses to the Income and Expense Account, rather than deducting them from net equity without any explanation or information trail. Good practice and internationally accepted accounting principles also require that an adequate provision for potential loan losses be charged against current revenue on an ongoing basis. Regarding the basic accounting / MIS systems, there seems to have been considerable improvement since the UNCDF review in October 2001. With the introduction of the Bankers Realm integrated MIS system, many of the current information shortcomings should be overcome.

8. Prompter action by management and the Board regarding the loan portfolio crisis could have been triggered if certain sound management practices had been implemented. These practices include i) the commissioning of the external audit so that it was undertaken sooner than seven months after the end of FY 2001; and ii) the prompt hiring of an internal auditor, who is a critical element of internal control and problem identification in an organization of 13 branch offices.

9. The methodology for calculating and reporting of portfolio at risk (PAR) under the PRIDE methodology is unclear to many staff members. Moreover, it could lead to possible misunderstandings by the wider circle of interested parties of what the statistic means.

10. The GOM's strategy towards microfinance appears to be operating at two different, and possible contradictory, levels. On the one hand Cabinet recently approved a Microfinance Policy and Action Plan, which aims to promote a sustainable microfinance industry. On the other hand, however, the GOM continues to support parastatal

microfinance suppliers who tolerate low loan repayment rates that negatively impact the credit culture of the participants.

11. The majority of the staff of PM is young, has a tertiary education and is very enthusiastic. They are also inexperienced. This inexperience results from the high staff turnover and that most are recruited direct from university. This inexperience is a contributing factor to the loan portfolio crisis. These young officers lack the necessary presence and firmness in pressing for repayment when dealing with older, more experienced clients who are in default.

12. PM remains heavily reliant on expatriate staff. The current business plans calls for these staff to be progressively replaced by Malawians over the next 13 months. Advertisements already have been run for the Operations Manager position. Management is confident that the staff can be completely localized by the end of FY 2003. Going forward, training and career development will need to be concentrated on local employees.

1.6.2) Lessons Learned:

The lessons learned include the following:

1. The importance of having a strong management team who understand how changes in the economic environment can impact the short to medium term business plans, and will vary their strategies accordingly. Furthermore, they will raise these issues in an open and frank manner with funders, stakeholders, directors, and other interested parties.

2. The activities of petty traders and hawkers recently have been curtailed in several large urban centers. As a result, many of them have lost their businesses and/or locations. These factors have had a commensurately larger impact on PM's loan portfolio, since this business sector accounts for more than 80% of the client base. The use of portfolio diversification policies, to set a ceiling on exposures to specific activities and locations, would have helped limit the impact these extraneous events had on the overall loan portfolio of PM.

3. The Pride methodology has been designed, developed and implemented over a fourteen-year period. The policies, procedures and practices build on this experience and apparently have worked well for PA as a whole. When deviation from these policies, procedures and practices occurs, the risk of loan defaults rises sharply.

4. An Internal Auditor plays a critical role in ensuring that policies, procedures and practices are being followed. Their role is especially important when an MFI is establishing a network of branches, as was the case with PM.

5. With the policy of having PMSL undertake a direct oversight role of PM, UNCDF has had a limited impact to date on the policies and practices adopted by PM. Regarding the sector overall, however, UNDP/UNCDF has had a positive influence. This has been achieved by its support of a likely sustainable MFI, its impact on the recently approved GOM policy paper regarding microfinance, and through its invention with the GOM on behalf of microentrepreneurs.

***1.6.3). Recommendations*:**

The following recommendations are made:

1. Management to review both the operating structure and procedures to identify how the overall productivity of loan officers, as measured by client caseload can be improved. This should include ensuring that MECs contain their full complement of 50 members.

2. A detailed review of the overall cost structure of PM be undertaken. This includes the review of the number of levels of staff, the service agreement with PMSL, and general administrative costs. Break-even analysis needs to be undertaken to identify the minimum portfolio needed for the branches/outlets to cover their operating costs, and the minimum portfolio size needed to cover the costs of fielding a loan officer.

3. The Board of Directors to be both encouraged, and permitted, to play their proper role in the management of PM. Additionally, the future role of the stakeholders needs to be defined.

4. PM should form a team of more experienced, and preferably older, staff members to manage the more recalcitrant loan defaulters.

5. PM should introduce loan portfolio risk management techniques to limit their exposure to the various sectors of the economy and geographic locations.

6. UNCDF should consider changing the focus of its support to microfinance in Malawi, from individual MFIs to the overall microfinance sector. Possible future areas of intervention would be supporting the MMN, helping coordinate between donors and MFIs, lobbying the GOM on behalf of the microfinance sector, providing technical assistance and training, and assisting in the establishment of a Credit Bureau.

Nigeria – Executive Summary CGAP Appraisal
Lift Above Poverty Organisation (LAPO)

Since its founding in 1987, the Lift Above Poverty Organisation (LAPO), a Grameen-style poverty-focused microfinance institution (MFI), headquartered in Benin City, Nigeria, has played an important role in the delivery of financial services to the poor, particularly women. LAPO received long-standing support from the Grameen group and the Ford Foundation, and more recently UNDP/UNCDF's MicroStart and the USAID Implementation Grant Program which is managed by Grameen Foundation USA (GF-USA). It grew to a sizeable broad based NGO offering a select number of non-financial services such as health, consulting and awareness programmes to support its credit operations, and successfully serve its mission to overcome the multiple dimensions of poverty in Nigeria.

The organisation has made significant improvements in the past three years since MicroStart's introduction of ASA of Bangladesh as the international technical service provider. Under the guidance of ASA, the number of LAPO branches has increased from 11 to 23 (as of June 2003). For LAPO's MicroStart funded branches, the administrative efficiency, excluding full headquarter cost allocation, is reported to have improved from 70% to 5% over the period 2000-2002 – an extraordinary result. Moreover, LAPO has replicated the ASA methodology in non-MicroStart branches and new branches that are starting up with support from USAID and GF-USA. The client base grew from 8,849 to 16,611 members and 15,454 borrowers, all of whom are women, and most of whom are quite poor. The simplification of products and standardisation of procedures introduced by ASA was particularly appropriate given the need for management to improve oversight of operations and its management systems.

Milestones already reached include: achieving a critical mass in terms of the absolute numbers of clients reached as well as an applaudable depth of outreach. LAPO is clearly among those microfinance institutions serving the poorest people in Nigeria. There is considerable evidence of its impact on clients. Specifically, participation in LAPO appears to increase household income, attendance of secondary school by children, household asset acquisition, investment in household property, enterprise profits and investment in some enterprise assets (see client level assessments undertaken under this same assessment).

Other milestones reached are the intention to separate financial from non-financial services, introduction of a proven credit methodology, internal audit function, and office premise solution. Moreover, staff is very dedicated and clients were satisfied with LAPO services and the LAPO staff. LAPO has demonstrated vision and an ability to make things happen through its securing of access to commercial loans to finance growth and cover cash flow needs.

Notwithstanding the above admirable achievements, significant work remains. In order to successfully implement the aggressive growth strategy being pursued, LAPO must ensure full implementation of the Implementation Grant Program capacity building work and address the pertinent issues identified during this assessment. More specifically, LAPO must enhance its financial management capacity to ensure it is at a level of competence that is in keeping with the growth needs as the organization expands its operations. Additionally, the institutional assessment undertaken by Enterprising Solutions Global Consulting, LLC indicates that LAPO suffers from a lack of adherence to procedures at headquarters and branch level, especially the older branches, and could benefit from improved internal controls. Furthermore, it would be timely to intensify the governance: invite board members that provide active financial oversight and can help the rapidly growing financial institution to surmount challenges to come. Some examples of discrepancies include:[19]

- The interest on savings is not consistently calculated nor recorded; in 2000 no interest was calculated on savings and no credit was passed in the financial statements; interest on savings is not given to clients who drop out of the organization, nor does it appear on members' cards;
- There is no fixed asset register in the organization for either the branches or head office. This means that there is no record of fixed assets;
- None of the balance sheets reviewed for the three years balanced; an external audit agreed that it has been difficult to confirm the accuracy and validity of transactions due to lack of documentation; and
- Clients and COs are to sign their CO Register and also the client's passbook, which is held by the group leader respectively. But at the time of the mission, a number of instances were encountered were this did not happen. Moreover, there was no systematic process in which branch managers regularly reconcile the credit officers' registers to client membership cards.

A number of these problems were previously identified in an assessment undertaken by MicroRate in March 2002. Although one can say that the MicroStart assessment was a driving force in the capacity building programme, LAPO has made tremendous strides since 2000 and concrete actions seem to have been and continue to be taken under the Implementation Grant Program, it should be underscored that this mission encountered a number of areas were LAPO is exposed to high risks.

Conclusions and Recommendations

We recommend a detailed analysis to identify the actual causes of the many identified discrepancies, *and to rectify them*. In addition, we recommend that the organization's corporate culture and human resources reflect the capacity to ensure that policies are *adhered to*. As these types of issues were part of the technical assistance, we recommend an updated analysis to be carried out to confirm that the institutional strengthening has addressed the range of discrepancies and lack of accountability. Finally, we recommend that LAPO take immediate measures to establish its current portfolio quality via a *comprehensive audit at each branch on a loan-by-loan basis preferably conducted by an independent party*.

The focused technical assistance under the USAID Implementation Grant Program consolidation phase and MicroStart phase II activities are ongoing and LAPO is – with this help – expected to soon be at a crucial juncture to move forward with full confidence to achieve sustainability. Financial sustainability is desirable not only to faster expand outreach but also to elicit more profound poverty impact. Although the client impact assessment (see separate document for full details) found evidence of positive impact among LAPO clients on income, assets and welfare, global impact assessments have demonstrated a strong correlation between clients' length of time in programmes and poverty impact; sustained service delivery maximizes the poverty alleviation potential.

Nigeria is Africa's largest country. One out of every four Africans is a Nigerian. Nigeria's informal market is a very dynamic one and the market for microfinance in Nigeria is sometimes described as limitless. LAPO is known as one of Nigeria's premier MFIs.

[19] This is not an exhaustive list of problems encountered; chapter II documents a full list of observations from this review.

UNCDF has selected to support an organisation with potential, drive and the strong poverty orientation required to make a significant impact on poverty reduction. The LAPO branches after conversion to the ASA methodology under the MicroStart programme have demonstrated dramatic operational improvements and have also provided LAPO with valuable experience in establishing highly cost-effective branch level operations.

In principle, if the internal controls installed under the USAID- Implementation Grant Program institutional strengthening are functioning, and if the main cost driver – head office – is strategically managed, the institution could reach financial sustainability in the not too distant future. Moreover, if LAPO has consolidated its operations and thoroughly internalized the range of prudent measures recommended, the organisation is poised to have a dramatic impact on tens of thousands of very poor women.

USAID should be commended for taking the risk of investing in an indigenous institution in Nigeria, rather than fully funding a U.S. NGO start-up from scratch. In the same vein, LAPO needs to recognize that if it does not make intensive use of USAID/GF-USA, UNDP and UNCDF/SUM's assistance to fully address its weaknesses, it is highly likely that it will not find other donors willing to do so in the future.

N.B. It should be noted that the timing of the assessment was when a USAID-Implementation Grant Program international financial consultant was still in the process of addressing many of the problems and concerns raised in this report. If time is allowed to enable LAPO to implement the recommendations and new systems put into place by the consultant, which were completed only in the first week of September 2003, the overall picture could be different. As such, this document illustrates past trends and identifies the key issues until June 2003. Future appraisals can compare progress made against the areas for improvement identified in this document. Further, the report can serve as checklist of areas needing strengthening, some of which are immediate and being addressed, and some of which to be incorporated into a plan.

ANNEX 7: Evidence of Policy Impact by Country

The Companion Reports detail and illustrate the findings below. Table 14 in the main text provides a summary overview in bullet points.

Nigeria

In the case of Nigeria, enhancing performance is informed not just by the need to strategically position itself within the framework of national development priorities and corporate policy directions but, more fundamentally, to respond to the challenge of how programmes can bring added value to a country of such tremendous significance to Africa and the sub-region. The mere size of the country, demands a highly strategic intervention in order to truly have an impact on development.

At the downstream level, UNCDF's policy impact was felt through forceful demonstration effect. After only three years of the MicroStart program, there appears to be acceptance of the best practice standards introduced by ASA, Bangladesh by the microfinance community and in so doing, there has been some impact on creating norms and guidelines for the sector.

UNCDF seems to have made little use of upstream activities in Nigeria in terms of influencing donor policy in microfinance, except for its partnership with USAID in the case of LAPO, where the introduced lending methodology is replicated. Despite many efforts on the part of UNCDF, its closest ally and sister organization UNDP, continues to pursue its policy of unsustainable lending programs through the Integrated Community Development Project (ICDP). Further work has to be done within the UNDP/UNCDF family to ensure that a synchronized message is sent through the UNDP group's microcredit programmes. The recent evaluation of the overall UNDP programme in Nigeria also noted concern among other donors involved in microcredit about the use of different interest rates by UNDP-supported projects.[20] UNCDF, which specialises in this area and has considerable experience in Nigeria, could presumably manage the whole sub-programme if possible or else adopt new approaches to influencing UNDP.

On the other hand, UNDP/UNCDF jointly play a role at the policy level through the MicroStart Advisory Board (MAB) which includes representatives from the Central Bank, NAPEP and the National Planning Commission. This MAB is proving to be an effective facilitator of policy linkages and NAPEP will be using MicroStart as a vehicle for part of its funds. Lessons learned here could influence other programmes. Moreover, assistance was provided on limited scale to the Central Bank, firstly, by funding attendance of training on microfinance and secondly, by introducing the idea of guidelines for microcredit in the form of a policy.

Malawi

In Malawi, UNCDF had impact through upstream activities at the regulatory framework and microfinance policy level as well as in the area of systems, procedures guidelines and practices. As could be expected policy impact was limited in terms of the broad policy environment.

An important success in *influencing concrete policy making* took place in Malawi with the drafting of a formal microfinance policy. In a case such as Malawi, where large scale government direct lending and parastatal-subsidised lending programs have reached such a critical mass that they

[20] For example UNDP charges 14% as opposed to the prevailing market rate of 19%.

have hurt the sector dramatically, a microfinance national policy can be useful in guiding future activities. A UNCDF expert advised the Malawi Ministry of Commerce and Industry, playing an important role in the process and development of the national microfinance policy.[21] Moreover, through UNCDF support, a first attempt was further made at collecting sector-wide data. UNCDF/UNDP also helped to familiarise the government with regards to the role it could play in the microfinance sector and in terms of establishing a conducive legal and regulatory framework for the sector. Specifically, UNDP and UNCDF played a role in stimulation of the discourse on a preferred legal and regulatory framework and undertaking of studies on a number of laws. UNCDF has not yet moved on the window of opportunity created by the passing of the policy in Malawi to promote microfinance best practice and further shape the enabling environment. But as the policy and action plan were only passed in 2002, there is still time to work with other sector actors to develop strategic next steps.

Downstream activities also resulted in some policy impact. Firstly, the support of PRIDE Malawi showcased best practices in terms of market interest rates and repayment, impressing many with its fast growth and increase in outreach.[22] The UNCDF support also helped to familiarise policy makers with microfinance best practices, and, to a certain extent, to encourage the development of best practice standards. UNDP support to the microfinance network, Malawi Microfinance Network (MAMN), which took place under the auspices of the UNCDF microfinance technical advisor role, is contributing to the development of norms on many fronts. The network has already passed a Code of Conduct.

Kenya

The broad microfinance policy direction could not have taken a greater change for the worse in the relatively mature Kenyan microfinance environment, during the period under study. Specifically, the financial industry witnessed the astonishing reintroduction of regulated interest rates with the passing by Parliament in 2002 of the Donde Act, which intends to introduce an interest rate ceiling. The Kenya Bankers Association (KBA) is protesting the interest rate cap, fixed at 3% annually above T-bills (currently T-bills are around 1%). The court has prevented the Central Bank of Kenya from applying the Act during a repeal attempt by KBA. The threat of the Act triggered all financial institutions, including MFIs, to forcefully protest against it. Its passing would be a particularly significant blow to the microfinance sector, rendering most institutions financially unviable.

In terms of the specific microfinance legal framework, the Kenyan Association for Microfinance Institutions (AMFI), in collaboration with the Central Bank of Kenya, drafted a first proposed MFI bill in April 2000. The draft bill has been prepared, discussed and redrafted by the stakeholders and is currently awaiting final approval by the Minister of Finance. The Bill proposes to confer authority to the Central Bank to license, regulate and supervise MFIs, especially those authorized to take deposits from the public.

Neither UNCDF nor UNDP played a direct role in influencing the microfinance policy environment, although they funded a workshop on microfinance legal environment and

[21] The first draft of the project document actually had a sizeable '"upstream'" component to focus on policy development and training. In response to the 1999 policy shift, the programme was reformulated with an emphasis on downstream institutional support, to help demonstrate the feasibility of sustainable microfinance, leaving much of the upstream work to other donors. Possibly because of the absence of another donor clearly stepping in at that level, UNCDF continued to play an important role at the upstream level, while also working directly with PRIDE Malawi.

[22] It did not demonstrate best practises in terms of products. For the very reason of being a widely promoted demonstration project, it is imperative that the situation at PRIDE be rectified.

regulation. The Kenyan experience was practitioner-led, reflecting a more mature microfinance sector than in other countries.

The MicroStart Advisory Board served as a forum for upstream activities, but despite its broad composition, never got to play an important role, likely due to the administrative problems the programme was faced with. The programme had a number of immediate objectives, outputs and activities foreseen at the policy level, which were never implemented, also likely due to the administrative problems.

Though one of the oldest microfinance sectors in Africa, Kenya has few officially endorsed or accepted systems of performance or reporting for MFIs. This said, the establishment of the MicroStart indicators are a first start and AMFI, which is funded by UNDP among other donors, is beginning to work on this as well. Also recently, MFIs have procured off-the-shelf MIS packages instead of internally developed often cumbersome applications.

The forces most likely to influence industry standards in Kenya are AMFI, the new Microfinance Act, the performance of market leaders such as K-Rep Bank, EBS and Faulu, new entrants.

Haiti

In Haiti, UNCDF had a lasting influence at the policy domain through its contribution to the development of legislation of the cooperative sector in partnership with USAID and CIDA. The joint effort succeeded in the passing of the 2002 Cooperative Law, which has been important in ensuring client confidence in the cooperative sector, particularly after the recent promulgation of pyramid schemes.

The MicroStart Advisory Board (MAB) has also served as a forum for upstream activities for UNCDF/SUM in Haiti, albeit in an informal and unstructured manner. Composed of key donor agencies, including the IADB and the Dutch Embassy, technical assistance providers such as DID and the USAID FINNET project, as well as a representative from the Ministry of Planning, the MAB cannot be credited with direct policy impact but is one of the reasons that donor coordination has been strong in Haiti.

Microfinance as a whole is contributing to financial sector deepening in Haiti, in particular the cooperative sector.

Downstream activities also impacted the general sector. Firstly, they assisted the development of systems for local financial intermediaries. Furthermore, UNCDF supported – though not in a formal way nor on a national scale – the development of microfinance best practice standards (efficiency, cost-recovering interest rate setting, and zero tolerance for delinquency).

ANNEX 8: Replication Impact by Country

As a small-scale investor, UNCDF's impact at the country level emanates from its ability to provide stakeholders with concrete operational results on the ground, on a pilot scale, paving the way for larger-scale replication and policy impact. UNCDF is an agency that manages to leverage resources beyond its own. UNCDF interventions during 1999-2002 have triggered most replication in Nigeria and Kenya, although evidence of non-financial replication could also be found in Haiti. Table 1 provides a synopsis of the financial replication impact in the four case study countries.

Table 1: Financial Replication

	Co-financing	Sequential scale-up
Nigeria	US$3,022,938	US$1,828,000
Malawi	0	200,000 – 500,000 (likely)
Kenya	US$ 4 million	US$ 6.5 million
Haiti	US$ 1,379,000	Hard to quantify
Total	US$ 7.4 million	US $ 8.5-8.8 million

The following briefly outlines the evidence of replication impact found in the four case study countries. Table 13 in the main texts provides the summary in bullet points.

Nigeria

Nigeria, together with Kenya, among the four case study countries of the PIA, were where the most replication impact could be identified as a result of the UNCDF intervention between 2000 and 2002. Close to US$5 million has already been mobilized, in terms of co-financing and upscaling of the programme, by government, donors and private sector.

Non-financial replication impact in influencing the microfinance sector was observed in the form of ad-hoc influence on non-MicroStart MFIs, engaging interest in learning the ASA methodology which culminated in the organising of exchange or demonstration visits. MicroStart-supported ASA standards for microfinance have become the widely accepted best practice among a variety of MFIs

Another replication impact is the observed use of the UNCDF Distance Learning Course which provides an introduction to microfinance and best practice training.

UNCDF could have forged more partnerships in the area of microfinance, certainly in a country like Nigeria, with so many needs, complexities, and the number of donors ready to enter the sector.

Malawi

To date no financial replication is confirmed although UNCDF is currently involved in brokering some funds from a socially responsible investor for PRIDE Malawi. The replication of programmes and activities often takes years to happen and usually must be preceded by several years of demonstrated success in order to generate enough recognition and cachet for other donors to want to emulate. PRIDE Malawi, as a start-up MFI, successfully recruited 7,000 clients in a relatively short time but, considering its client exit rate, has yet to provide overwhelming evidence that its products are winning concepts in Malawi. Though PRIDE's systems are well developed and clients appear positively impacted in a number of domains, neither PRIDE Malawi's customer satisfaction nor client retention rates signal yet that its current products are worthy of replication to better serve microfinance clients in Malawi.

Whether this can be attributed to start-up problems or not, in order to sustain the accomplishments to date, PRIDE needs external assistance to address the current problems it faces. In the light of the fact that some of the problems are sector-wide, and to contain the system risks posed by the external environment, UNCDF should only continue assisting if it is part of a broader sector support programme.

In other areas of industry development, one could argue that the database on microfinance service providers started at the Ministry of Commerce and Industry was followed through by the microfinance network organization, which has assumed responsibility for the database and is planning a more comprehensive system, though not that much had happened as yet at the time of the mission.

Haiti

The MicroStart programme was co-financed with US$ 1.38 million by the Embassy of the Netherlands. In terms of sequential up-scaling, although no major donor has invested in DID or MicroStart partners as a result of UNCDF funding, some smaller donors have invested in the associated cooperatives in the North East province as a direct result of increased donor confidence resulting from the establishment of a UNCDF project office in the province. The cooperatives have yet to improve their links to the formal financial sector for private sector involvement and replication impact to take place; however, the new law, passed with UNCDF support, will allow the cooperatives to establish a federation which will facilitate the purchasing of government-issued bonds. The legal framework also facilitates access to credit lines for cooperatives. In addition, two MicroStart partners have access to formal sector financing.

There has also been evidence of non-financial replication. Two programme initiatives piloted by UNCDF in the North East have been disseminated throughout the ANACAPH network, funded by other donors such as CIDA and USAID, and may eventually influence their program strategy. These are:

- The introduction of outlets to cooperatives, which has deepened outreach; and
- The adaptation of the solidarity group loan product to better meet the needs of female clients, developed in the North East through UNCDF's emphasis on product diversification.

A more indirect replication effect occurred through MicroStart complementing the intervention of the larger USAID/FINNET project. The USAID/FINNET drive to establish industry-wide performance standards was aided by the MicroStart program and MicroStart's performance reporting methodology was jointly developed with FINNET, adopted by all FINNET partners, and could become a guide for the sector.

Kenya

Following the MicroStart support, EBS attracted funds of in total more than $3 million from SwissContact and more recently, from the UK Department for International Development (DFID) and the AfriCap Microfinance Fund (AfriCap). The investors came in with distinct approaches and as such cannot be considered as also replicating UNCDF/UNDP approaches, but by investing in the same MFI, are building on the previous support and helping to carry development to a next stage. UNCDF and UNDP have also been founding parties of MicroSave, and UNCDF in its capacity as technical advisor to UNDP, has continued to promote the initiative and lobby for co-financing funds from UNDP and others. So far approximately $4 million has been mobilised.

Non-financially, the investment in the flagship MicroStart MFI triggered significant replication. EBS showed dramatic improvement in almost every key performance indicator, after it procured a new MIS with the MicroStart funds. In combination with the more client-driven products that EBS developed at the same time with the support of MicroSave, it quickly increased its market share and has impacted client services throughout the sector. For example, client financial service transaction time was reduced from 40 minutes to seven minutes (and is now close to two minutes), enabling EBS to offer its clients longer service hours (as less end of day process time is needed). This led their competitors to firstly try to improve their efficiency as well to also extend their opening hours, secondly, to influence a wave of investments in MIS in the sector during those years. Moreover, EBS' success with its product development, pushed others to innovate as well. The trend in product diversification is said to be one of the main factor contributing to an eventual take-off of the MF industry in Kenya.

ANNEX 9: UNCDF Strategic Positioning by Country

Nigeria

The significant changes in *Nigeria* include:

- Processes are well-underway to establishing a critical mass of credible MFIs;
- Acceptance of microfinance best practice norms: procedures, prescribed systems, guidelines and practices; and
- Formation of a second wholesaling organization.

A number of MFIs have changed their lending methodology to the highly efficient, worldwide recognised lending methodology of the Association for Social Advancement (ASA). The administrative efficiency of eight of the better MFIs improved dramatically (i.e., the average decrease was from 35% in 2000 to 11% in 2002 while the number of borrowers per credit officer increased from 136 in 2000 to 265 in 2002).

In *Nigeria*, MFI capacity is still the main constraint. Bank downscaling, like in Haiti, could be a major driving force of the sector, but is not evident, though IFC will soon be spearheading a pilot initiative. The widespread emulation of MicroStart practices would increase by sharing the lessons learned from the eight participating MFIs in – a structured way, both among the group and more widely within the larger microfinance community in Nigeria.

UNCDF has missed opportunities to undertake relative cost-effective capacity building activities of other non-retail MFI structures that play a vital role in the development of the sector. For example, it would likely have been a good use of resources to support the work of the Community Development Foundation (CDF), as a second-tier institution that can play a complementary role in lieu of a formal regulatory body in facilitating the development of industry standards. Nigeria also saw the creation of the Growing Business Foundation (GBF), a pseudo-second tier for-profit entity that brokers loans to MFIs from private banks at a few percentage points above the direct rate by banks. While we understand the 1999 Policy Shift for UNCDF did not encompass building capacity of second-tier institutions, it is to be reconsidered – and is under UNCDF's new policy – as an appropriate strategy, particularly in large countries like Nigeria; once again supporting wholesale fund should be possible in the latest policy shift to microfinance sector support. Finally, UNCDF could play an important role in sensitising donors and government on key issues, something that has been done only to limited effect to date.

Potential activities forward for UNCDF include to parallel MicroStart activities with the development of a vision for the sector. This will include the establishment of a process and plan for using microfinance to reach the MDGs and other national poverty reduction goals, identification of the key agencies and their respective roles to make the above possible.

Malawi

Two key events took place in *Malawi*:

- The passing of Microfinance Policy and Action Plan; and
- The establishment of the microfinance network organization Malawi Microfinance Network (MAMN).

The national microfinance policy stipulates that a healthy microfinance industry consists of private and autonomous institutions operating according to widely accepted best practices, within a set of conducive policies enacted by government. It also underscores the need to foster the adoption of best practices in all microfinance institutions; microfinance institutions will, for instance, be encouraged to adopt cost recovery interest rates, aggressive collection of debt, introduce effective incentives to repay loans, and be cost-effective.

The network has already contributed to the start of the process of the development of norms (systems, procedures, guidelines, practices) through offering a forum for regular dialogue between key sector actors, establishing a code of conduct, and capacity building (e.g. a workshop on governance). The network could also help to influence and reduce the government's role in direct and targeted lending.

In Malawi, products offered by MFIs are rigid and not customer-oriented as evidenced by the high client drop-out rate. There is little diversity in lending methodologies and the prevailing microfinance methodology – solidarity group lending offering short-term working capital loans through groups with joint-liability, stepped loans and weekly repayment – seems not to be the most appropriate for the country conditions.

Government is focusing more and more on limiting its role to the creation of the enabling environment, but has not yet completely withdrawn. Some social welfare-oriented microfinance programs are still in existence without clear sustainability targets and impact adversely on the credit culture by offering subsidized interest rates and targeting clients who do not have the capacity to repay the loans, thereby indebting them.

MFIs have limited geographical coverage and competition in urban and peri-urban areas is fierce. Despite sizeable injections in the microfinance sector, institutional capacity appears still relatively weak..

UNCDF should consider broadening its focus in Malawi to strengthen the sector at large.[23]

Kenya

The main changes in Kenya are:

- An eventual take-off of the microfinance sector;
- The network organization 'AMFI' gets its own premises and staff;
- Product development and diversification with the help of MicroSave;
- The closure of the main broad capacity building facility, AFCAP;
- Commercialisation (NGOs changing institutional charter, new entrants, MFIs starting to access banks for lines of credit to on-lend, mergers and acquisitions)

The stalemate in development of the sector came to an end in the early 2000s. Though outreach is still extremely limited, there seems to finally be movement in the sector.

[23] We believe it to be imperative that UNCDF work with Pride Malawi to address its current weaknesses. For what was to be a model breakthrough MFI to fail could result in the exercise actually damaging as opposed to helping the sector.

The formalisation of AMFI is a significant step towards providing a framework for the development of a solid, professional and reliable microfinance sector in Kenya.

A more outward-oriented attitude, combined with the emerging capacity to develop products that better respond to client needs through the tools developed by MicroSave and research by K-Rep NGO, is perhaps the key change that has taken place in Kenya over the last couple of years. EBS led the way in client driven product development and is now offering five savings products and seven loan products, and client satisfaction appears high.

In Kenya, geographic constraints need to be overcome, especially in rural areas where critical physical support structure is lacking. Capital is also a major gap, especially as the Central Bank does not recognise the loan book as collateral. Donors such as UNCDF could help to develop the local capital market for microfinance, including linking MFIs to banks to meet growing capital needs of non-deposit taking institutions. DFID has a sizeable project on financial deepening of the pipeline

Most MFIs have just gone through or are going through an exercise of improving their MIS systems, some with more problems than others. Although MIS is no longer a major gap, it will be important to monitor needs, regularly update systems and to use the data to build sector knowledge. Credit referencing also would definitively strengthen the sector, especially as the qualitative research and other market surveys indicate that almost all microfinance clients have loans from other MFIs as well. Though this happens in some other markets, the prevalence and scale is particularly high in Kenya. Providing catalytic support for the establishment of a credit bureau would be an activity UNCDF could fund with another donor, USAID, DFID, or EU.

Haiti

The main changes in Haiti include:

- Microfinance arms of commercial banks contribution to demonstrating the good risk of micro lenders;
- More MFIs on the way to becoming sustainable; and
- The general acceptance of microfinance best practice norms: procedures, prescribed systems, guidelines and practices.

Banks are pushing the sector to adopt better procedures and policies, market versus subsidised rates, develop new information systems and products to better serve micro-lenders and to professionalise its work force. MFIs have reacted well to the entrance of commercial players by improving their services and advancing on the path towards sustainability. Like in other cases, where no government regulatory authority nor supervisory body governs the microfinance industry, MFIs develop standards themselves, with the assistance of the MFI network, the second-tier institutions and the FINNET support project.

Main gaps are skilled employees, information and a supportive environment. Skilled MFI managers and loan officers, as well as opportunities for management training, continue to be needed given the limited human resource capacity prevailing in Haiti. A number of MFIs do not operate with appropriate MIS systems, sector data is incomplete and credit bureaus are called for by many. There is also room for continued support on product development for cooperatives through the ANACAPH network as well as MFIs. The central bank currently lacks information, regulation and the supportive legal and judicial framework to protect MFIs.

Opportunities for UNCDF to add value can be found both at the downstream level as well as the upstream level. Like many MFIs in Haiti, cooperatives also struggle with delinquency management. Continued support to the cooperative network could be developed in two ways. With the passage of the new law, ANACAPH, with the support of DID, is seeking to create a federation. UNCDF could join with CIDA in supporting this effort. Based on this experience, a few other roles UNCDF could play at the upstream level include establishing a wider and more international network of information exchanges. UNCDF could play a role with the government and the Central Bank in helping to improve the legal and regulatory framework. Given the ample resource needs to this end, and UNCDF's experiences, in for instance Mongolia and Uganda, there is room for UNCDF to make financial and human resources available to assist in this process.

Other lead donors are prevented from working with the government, being bilateral agencies, because of the ongoing sanctions against Haiti. The uniqueness of the UNCDF as a multilateral agency can clearly be used to its fullest in this environment.

At a broader policy level, assisting with the process of establishing an improved judicial framework, possibly through the local governance project could be explored. A strong law enforcement system is mandatory for successful micro lending operations and establishing credibility in the sector.

ANNEX 10: COMPARATIVE OVERVIEW CASE STUDY COUNTRIES 12/2003

All financial figures are in US$, unless otherwise stated
MM = Millions

	Kenya	Malawi	Nigeria	Haiti
Population (2002)	31.3 million	10.7 million	133 million	8.3 million
Population Density (sq. km)	53	93	144	288
GNI / Capita (Atlas Method)	$350	$160	$290	$480
GDP / Capita (current dollars)	$364	$151	$365	$460
GDP / Capita (PPP US$,1999)	$1,022	$586	$836	$1,464
Gini co-efficient	.44	.41	.51	.50
% Below Poverty	50%	65%	60% (40% in absolute poverty)	80% of rural poor (70% of total population)
Currency Exchange Rate	1 US$ (USD) = 73.75 Kenyan Shilling (KES) 100 KES = 1.36 USD	1 US$ (USD) = 89.36 Malawi Kwacha (MWK) 100 MWK = 1.12 USD	1 US$ (USD) = 126.8 Naira (NGN) 10,000 NGN = 78.87 USD	1 US$ (USD) = 41 Gourde (HTG) 100 HTG = 2.44 USD
Inflation Rate(2002)	6%	27% 15% (1/2003)	18%	16%
Interbank Lending Rates	9% (12/ 2002) 1.6% (6/2003)	Range: 30-40% (1/2003)	15% (2003)	12.5% (2002)
Commercial Bank Lending Rates	14.7 (1/2003) 19.6% (2001)	40-46% (2003)	Capped at 19% (2003)	26% (2002)
91 day Treasury Bill rate (8/2003)	3.9%	44%	15.7%	14.5%
M2/GDP (1999)	42%	13%	13%	30%
Credit to private sector (US$ MM)	$203,443	$5,391	$582,606	$1,250
Credit to Private Sector (% of GDP, 2001)	24.6	6.8	17.8	15
Savings Ratio (Private sector savings/credit to private sector)	12%	4%	25%	10%
Manufacturing Sector (1995 prices) MM	$814	$201.5	$1,631	$850
Size Manufacturing Sector as % of GDP	12.5%	12.9%	4.2%	24%
General enabling environment	Improving after elections 12/2003. Economic conditions had been falling in Kenya for more than a decade.	Declining with continuing parastatal subsidized lending and upcoming elections. One of 7 African countries in drought. Largely rural population	Diversity between north and south. Political and religious friction.	Per capita income declined 5% a year in last 20 years. Civil unrest is high and safety is low. Country uses International Development Association, (IDA), World Bank's concession lending window.

Gross Exports	$2,981	$455.5	$19,798	$327
Main exports	Tea, Coffee, Corn, Horticultural Products, Fish	Tobacco (50% of Exports), Tea, Sugar	Oil (20% of GDP), Coal, Vegetable Oils	Coffee, Sugarcane, Mangoes, Rice, Labor
Debt as % of GDP	4%	15%	8%	33%
Gross Domestic Savings (% of GDP, 2002)	5.5% (2001)	-1%	26%	10%
Exchange Rate Nominal Real	 153 120	 472 118	 501 284	 51
Foreign Direct Investment (FDI) US$ MM	5.3	58.4	1101.4	2.9
Aid per Capita (current US $, 2001)	14.7	38.1	1.4	20.4

Sources:
Population, Population Density: World Bank, World Development Indicators
GNP: World Bank
Gini: World Bank, Human Development Network, Development Data Group
Gini Haiti: Pederson, Lockwood, "Determination of a poverty line for Haiti," 2001
% Below Poverty: UNDP
GNI: World Bank data
GDP, PPP: World Bank, Human Development Indicators
Currency: UNIDO
Inflation: African Development Bank, World Bank (Haiti)
Commercial Bank Lending Rates: World Bank, Standard Bank Research Reports
Interbank Lending Rates: Respective Country Central Bank Website
T-Bill Rates: Liquid Africa.com, World Bank
Credit to Private Sector: African Development Bank, World Bank (Haiti)
Credit to Private Sector (%): World Development Indicators 2003
Savings ratio: African Development Bank, World Bank (Haiti)
Manufacturing Sector: African Development Bank, World Bank (Haiti – 1991)
General Enabling Environment: Various
Gross Exports: African Development Bank, World Bank (Haiti)
Main Exports: CIA Factbook
Debt as % of GDP: African Development Bank, World Bank (Haiti)
Gross Domestic Savings (as % of GDP): African Development Bank, World Bank (Haiti)
Exchange Rate, nominal, real: African Development Bank
Aid per Capita: World Bank