Microfinance

Joint Evaluation of the Contribution of CFAs to the Microfinance Sector, 2003-2007

Synthesis Report

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Executive Summary

Introduction

Acting on behalf of four of its members (Cordaid, Hivos, ICCO and Oxfam Novib, all active for an extensive period in microfinance), PARTOS has selected the ECORYS-Carnegie-EOS-Evaluatiegroep consortium (led by ECORYS) for the implementation of a joint evaluation of these four co-financing agencies' (CFA) contribution to the microfinance sector.

The objective of the evaluation was:

> **to gain an insight on the extent to which the Co-Financing Agencies (CFAs) have contributed to building sustainable and socially performing MFIs during the period 2003 - 2007, for the sake of accountability and to draw lessons for the future**

The evaluation answered three main questions:
- To what extent did the CFAs succeed in supporting the Microfinance Institutes (MFIs) to go from start-up, emerging to mature and commercially viable MFIs?
- To what extent have CFAs and the supported MFIs been able to maintain the poverty focus? To what extent is there a correlation between question 1 and 2?
- To what extent have the CFA-supported activities been able to change the enabling environment for poverty-oriented micro finance? Were they efficient, effective and relevant within the context?

Organisation of the evaluation

The evaluation, which started in September 2008, was guided by the Coordination Group, consisting of representatives of each of the CFAs and PARTOS. An External Reference Group played an independent quality control role.

The three evaluation questions were answered based on an evaluation framework defining in detail the judgment criteria and indicators to be used during the exercise. On the basis of the evaluation framework the study was carried out in several steps:
1. a literature study;
2. a study of the policies of the four CFAs as well as a statistical analysis of the entire microfinance portfolio of the four CFAs over the period;
3. a detailed files study of a sample of 50 selected microfinance partners in 5 developing countries (Bolivia, Ethiopia, Indonesia, the Philippines and Tanzania); and
4. a detailed study of a large number of cases out of this sample in four countries (Bolivia, Ethiopia, the Philippines and Tanzania).

Various documents were produced: a report containing the results of the literature study; a report on the policy analysis and the file study; four country reports; and a synthesis report.

Sources of information for the study were the general literature on the topic, different policy and good practices documents, evaluations, files concerning CFA cooperation with specific microfinance partners (including documents such as progress reports and intake forms), interviews with representatives of the CFAs and members of the management and board of supported microfinance partners but also with other agents active in the field (for

example staff of the financial intermediaries HTF, Oikocredit and Triple Jump, DGIS, FMO, Rabobank Foundation, other MFIs, clients and client groups of the MFIs etc). The evaluators' observations in the field came to enrich these sources of information.

CFAs and their Microfinance Policies

Microfinance is an important and growing sector for the CFAs, as demonstrated by the evolution of funding, geographical coverage and increasing professionalization.

During the period 2003-2007 the total amount of funds disbursed by the four CFAs in the support to the sector amounted to almost EUR 185 million, an amount which grew from some EUR 28 million in 2003 to EUR 43 million in 2007. Total disbursement as well as average disbursement is highest for Oxfam Novib (EUR 72 million over the period 2003-2007) and lowest for ICCO (EUR 27 million over the period 2003-2007). ICCO, however, has the highest number of partners (180 compared to 172 for Oxfam Novib). Relatively sophisticated financial modalities such as subordinated loans, guarantees and equity play still a minor role, the large majority of modalities applied consist of grants and loans (for all CFAs over 80 percent, with the exception of Hivos which disburses some twenty percent of its funds through equity and seed capital).

The CFAs are active in a large number of countries (72), however 43 percent of the combined number of interventions take place in nine countries. Most microfinance interventions take place in Africa (37 percent), although this continent attracts fewer funds than Asia (the largest recipient of CFA support in the field of microfinance). In Latin America, most funds are provided in the form of loans, demonstrating the maturity of the microfinance instrument in this continent. Africa and Asia receive proportionally more grants.

The expansion of the CFA support to microfinance went hand in hand with the professionalisation of these activities within the CFAs. A distinction can be made between the CFAs that handled all microfinance-related activity in house (Cordaid and Oxfam Novib till 2006) and those which delegated the more advanced financial services (such as lending and equity) to specialised intermediaries (ICCO to Oikocredit, Hivos to the Triodos bank-managed Hivos Triodos Fund - HTF and Oxfam Novib since 2007 to Triple-Jump). Since 2005 ICCO channelled the support to microfinance activities in Africa through a special consortium of ICCO, Oikocredit and Rabobank Foundation, called Terrafina Microfinance. Over the period, the CFAs sought to increase collaboration among themselves through the Dutch Microfinance Platform and Microned.

The policies and strategies of the four CFAs have developed over time and are grosso modo coherent with good practices (as defined by e.g. CGAP) on microfinance. The very nature of microfinance (complexity of financial services, availability of alternative funders) poses serious challenges for CFAs. The fact that policies and strategies are laid down in a large number of scattered documents per CFA complicates the reconstruction of the intervention logic and limits the insights into specific policy orientations of CFAs.

Policies and strategies of CFAs regarding microfinance have been laid down in a large number of documents. The main underlying intervention theory for all CFAs is that access to finance is assumed to help poor people gain access to markets; improve agricultural production and set up enterprises; and more broadly improve their income and livelihoods. In addition, CFAs do not set up microfinance institutions themselves, but do so through the selection of adequate partners.

The very nature of microfinance poses serious challenges for CFAs embarking on support to microfinance, such as additionality of the instrument, i.e. its critical value added and necessity given the availability of alternative and private funding for the sector, compatibility of the instrument with pro-poor objectives of the CFAs and the need for financing and banking skills. When new challenges have arisen these have been addressed most of the times by the CFAs, but so far no concise policy documents on microfinance have been produced. It was investigated in the course of the evaluation whether this created a burden.

The global microfinance community (e.g. Consultative Group to Assist the Poor - CGAP) agrees on a number of principles regarding support to the microfinance sector. The microfinance policies of the CFAs are largely coherent with the literature and best practices on micro finance. In accordance with these guidelines, none of the CFAs is itself involved in the delivery of services to the final target group. The tools available to the CFAs to achieve their objectives are the careful selection and intake of partners, including the choice of appropriate modalities; monitoring and timely exit; and exit and handover procedures. Intake and monitoring appear to be critical.

CFAs have explicit and different policies for selecting countries, regions and partners. There is however no significant difference between the portfolios of the CFAs in terms of type of organisations supported or the location (rural, urban) of their partners.

The main criterion for the selection of partners is concurrence with the CFA goals and overall strategies. For certain CFAs (Cordaid, Oxfam Novib) the partner selection is still conditioned to various degrees by already-existing relationships and overall regional policies. Nonetheless, new strategies, such as Oxfam's drive to diversify its portfolio in order to help create a stronger and more efficient microfinance in the countries in which they are active, are gaining in importance. ICCO has a specific policy focus on 'green field' countries and regions. The ì10+ policyî of Hivos (whereby concessional support is to be phased out or replaced with commercial lending after ten years), induces it to renew its portfolio of partners from time to time. Only ICCO has chosen to focus its microfinance activities explicitly on rural and remote areas. The other CFAs also emphasise the rural sectors, but they do not exclude urban MFIs.

The concentration of interventions in nine countries (see above) may, in theory, restrict the additionality of the activities, which may be reinforced by the large extent of 'partner overlap', i.e. the number of cases where two or more CFAs support one partner. In the sample of 50 partners, twelve partners were supported by more than one CFA, one of these by three.

There is an explicit poverty and gender policy in the microfinance policies of all CFAs. In the strategies of the financial intermediaries, financial performance however appears to receive more attention than social performance.

The poverty focus is clearly translated in the selection and monitoring strategies of the four CFAs. No uniform poverty indicators were however observed during the evaluation period, apart from 'average loan size' and 'location (rural)'. Observations related to events after the evaluation period demonstrate that such indicators are under development.

The gender strategies of the CFAs aim mainly at reaching more women through microfinance with a view of improving their economic outlook, but do not address the cause of gender disparities in access to finance or empowerment.

In the strategies of the financial intermediaries, in the selection and monitoring process, financial performance of the (potential) partner receives more attention than social performance.

The grant operations and other operations managed by the CFAs themselves are not supported by proper administrative systems, including monitoring.

It took the evaluation considerable time and efforts to gather the correct financial data from the CFAs on their microfinance commitments and disbursements. Often data available in the overall information sheet provided initially to the evaluators was not compatible with figures in grant agreements and other data. Ambiguity prevailed on the nature of some instruments mentioned in the portfolio overview: guarantees, equity etc. The portfolio analysis had to be repeated several times because the CFAs felt compelled to correct their data.

Did the CFAs succeed in supporting their partners to improve operational and financial performance?

The so called A-B-C segmentation, a segmentation which is based on indicators of financial and operational self-sufficiency. has proven to be a rather useful evaluation tool. Furthermore, it is a potential good tool for CFAs for decision making on application of funds and modalities.

In this evaluation in line with the requirements of the TOR a distinction has been made between A, B and C segments. MFIs which are neither operationally (OSS) nor financially sustainable (FSS) belong to segment A, operational sustainable but not financially sustainable MFIs belong to segment B whereas financial and operationally sustainable MFIs belong to segment C. The ABC segmentation is an accepted tool to determine which role CFAs should play (and with which instruments) and to decide whether there is still a role for CFAs.

The borders between the segments are not sharp and unambiguous. Since OSS and FSS indicators fluctuate, MFIs may at cases fluctuate between segments. Especially the calculation of FSS is a theoretically complicated issue, which makes the borderline between segment B and C diffuse. Nevertheless, 'grosso modo' the segmentation has been a useful evaluation tool, and can be equally considered a good, be it not ideal, tool for decision making by CFAs.

Although the applied financing tools are in principle adjusted to the status and corresponding needs of the beneficiary MFIs, exceptions to this rule apply. The use of grant funding to support relatively mature partner MFIs is not sufficiently justified. Exit strategies from segment C organisations have been rarely applied.

The underlying principles concerning the type of support an MFI should receive are additionality and avoidance of market distortion. It is generally accepted that public (or donor) money should not crowd out private money. An authoritative source on the matter, the CGAP- developed guidelines, suggests that:

- grant funding should be exceptional for more mature organizations (i.e enjoying a certain degree of self-sufficiency);
- lending on commercial terms should not be provided to less mature organizations (i.e not having achieved operational self-sufficiency, hence unable to service the loans);
- concessional lending should only be provided to mature organizations for very specific reasons (risky operations /innovations /pilots).

In the practice of the four CFAs, it was observed that in a number of cases grants and even seed-capital was still provided to relatively mature organisations. Arguments for funding through grants operationally and financially viable organisations are often found in the s.c. 'lateral strategy',[1] i.e. next to loans given in order to strengthen the lending capacity and breadth of outreach, grants are provided for new activities which do not (immediately) result in a financial return. The issue remains whether the organisations now supported with a grant could not have financed these out of concessional or even commercial loans (or equity). Evidence from the field case studies suggests that these options are not always fully explored by CFAs. Providing loans to less mature organizations occurs rarely and is declining.

CFAs have selected and supported partners with potential for development, but risk management and especially governance remain critical. An impressive improvement of the size of operations (breadth of outreach) was not accompanied by improved efficiency, resulting in rather stagnant development of financial performance, and hardly any change to higher segments of maturity.

The size of operations of the large majority of the partners has, sometimes significantly, increased in terms of number of branches, clients and loan. Doubling or tripling of the size of the operations is not exceptional. Often the introduction of new products like individual loans resulted in deterioration of the portfolio. The increase in the size of operations was not accompanied by necessary improvements in management and systems, most noticeably MIS. The majority of partners report that MIS is assured with simple and inappropriate instruments. Credit rating is only a common practice in Bolivia. It is absent in Tanzania and just growing in importance in the other countries, in the case of Ethiopia with the active support of Terrafina. The lack of improvement in management and systems made that the increase in size of operations is not reflected in a structural improvement of OSS. Equally, financial performance of the reporting organisations, as well as efficiency, has not significantly improved. With the exception of Bolivia, this is (still) weak.

There are no significant differences in the improvement of the performance of the MFIs supported by different CFAs, the more so since several MFIs have been supported by more than one CFA.

Exit strategies for mature organisations have not been systematically applied, which is detrimental to the additionality of CFA funding

For an optimal allocation of available funds, adjusted to the needs of the beneficiary, it is essential that a mechanism is in place which triggers a change in the modality used to support a partner or an exit from the relationship. There are several examples of cases where partners, having initially obtained grant funds, are further supported with credits. Few cases were however observed in the file study of explicitly halting the cooperation because the mature status of the supported MFI made further funding unnecessary.

The option of 'handing over' the partners to more commercial funders, including the partners Triodos Bank and Oikocredit, have been rarely utilised within the sample. Moreover, in the framework of cooperation between CFAs and financial intermediaries, it seems that insufficient attention was paid to the value added of CFA supported operations (i.e HTF vs. regular operations of Triodos and ICCO-guaranteed vs. regular operations of Oikocredit).

There were the financial intermediaries use the CFA funds (guarantees) on operations which they would have funded also in the absence of these funds, the additionality is at risk and there is a chance that the CFA funds 'crowd out' the regular funds of the intermediaries.

Quality of management, governance and MIS are critical issues within most of the supported MFIs

Among the various case studies, only in Bolivia do management and governance appear to be conducive of further expansion and sustainability. In the other countries management and especially governance is a critical issue. Even mature organisations are occasionally reported by a rating agency as being inappropriately governed. Governance problems include poor representation of ownership on the Board, overdependence on one individual or a young and inexperienced staff (this latter issue being particularly problematic in Africa). Also changes in legal status, i.e. from an NGO to a limited liability structure, often dictated by a desire for accreditation as a full-fledged bank, create governance problems. In several instances, such problems resulted in the MFIs failure or a need to turn around and rescue the organisation. In the studied sample, virtually all cases of withdrawal of support on the side of the CFAs could be attributed to governance issues, rather than to external circumstances

The majority of partners report that MIS is assured with simple and inappropriate instruments. It is still quite common that branches report with large intervals and send their reports in 'hard copies' to head quarters where they are processed, providing already outdated and not reliable information. Manual processing entails a large risk of errors, especially when cumbersome procedures are in place. In at least one case in the studied sample a crash in MIS resulted in the end of the co-operation with a Dutch CFA.

With minor exceptions, those partners active in other fields than just microfinance, have put in place separate organizational structures for their microfinance activities. The CFAs have insisted on this, which is in line with good practice, as it has a net beneficial effect in terms of transparency.

The breadth of outreach of most supported MFIs has significantly increased. Deposit handling as a service is clearly less present than credit services.

There is a clear growth in both average number of branches, clients and loan portfolio served by the partners of the CFAs. Doubling or tripling of the size of the operations is not exceptional. Regional outreach differs, and is, in the case of Tanzania and Ethiopia, limited. In Bolivia, only recently there is more interest in the remote rural areas.

The growth in the amount of deposits collected is restricted to a few cases. The fact that NGO-MFIs are not allowed to take deposits is often a serious hurdle for the operational development. Only in Bolivia savings are a major source of loan funds.

Increase in the size of operations did not translate into a higher level of operational and financial maturity, nor in improved efficiency.

Operationally, the large majority of the partners have improved their performance. However, most partners have remained in the same ìsegmentî of operational and financial maturity. This can largely be explained by governance and management problems. Since the increase in the size of operations was not accompanied by necessary improvements in management and systems (most noticeably MIS) operational self-sufficiency remained stagnant or even deteriorated. Often the introduction of new products like individual loans resulted in a deterioration of the portfolio.

Financial performance of the reporting organisations has not significantly improved and, with the exception of Bolivia, is (still) weak. Financial performance in 2007 for most organisations

is comparable to the continental benchmark data provided by Mix Market. Most MFIs are predominantly debt funded, which means a low solvency and a high dependency on borrowed funds, including possibly high costs of serving the latter. All supported partners in Africa and a limited number in Latin America score worse that the respective continental benchmarks on the aspect of debt financing. CFAs and their financial intermediaries are concerned that the inefficiencies are passed on to the clients, thereby making the products less accessible to the poor.

Although CFAs have used the 'conditionality instrument', e.g. by insisting on an improvement of PAR as a condition for continued funding, CFAs have very limited options to improve MFIs performance and to counter negative developments. Only equity investment, through a representation in the board of MFIs, allows for direct influence. This instrument is however still rarely used, and has the embedded disadvantage that exit will be cumbersome at a later stage.

There is no significant difference in the operational performance of the MFIs supported by different CFAs.

Changes in the overall performance of the portfolio of individual CFAs are caused by either improvement in the performance of individual partner MFIs or changes in the composition of the portfolio, especially when exceptionally performing partners join or leave. Some MFIs with an outstanding broad outreach significantly boost the average performance in the sample for the respective CFAs. There are however no significant differences in the improvement of the performance of the MFIs supported by different CFAs, also since several MFIs have been supported by more than one CFA in the sample.

Some innovations were encountered, aiming to enhance efficiency and relevance of the MFI services.

Among the innovations identified to improve the value of the services, those related to agricultural value chain improvement are the most noticeable. The database developed by a Bolivian MFI on different agricultural products has limited the risk and contributed to diminishing defaults on agricultural loans. CFAs contributed to some of these innovations.

Have CFAs and the supported MFIs been able to maintain the poverty focus?

CFAs and supported MFIs have maintained their focus on the productive poor, and the desire for operational and financial strengthening has not diverted the attention from this target group. The majority of the clients of the MFIs in the sample is still urban or peri-urban. Gender remains an issue, especially in Africa. All MFI partners supported by the CFAs have a clear and explicit focus on the poor. Definition of poverty is however largely restricted to the 'entrepreneurial or economically active poor'.

All CFAs focus on poverty alleviation as a final objective. The social charters of the MFI partners largely coincide with the aims of the CFAs. This shows that the policy of considering this aspect as paramount in the selection of partners as advised by CGAP in the pink book is consistently applied.

The academic debate about the relationship between microfinance and poverty is still open.

One position maintains that the goal of microfinance is to provide sustainable financial services to low income people, but not necessarily the poorest of them. Another vision is to consider poverty reduction and empowerment as the ultimate goal of microfinance. Considering the first approach - providing financial services to people having no access to the regular financial institutions - all MFIs meet the standard. Considering the second approach, the situation is more diffuse.

First of all, in the evaluation sample, measuring poverty in a systematic way, within the sample, only occurred in the Philippines and in Bolivia. Furthermore, among the MFIs studied 'in situ' in all cases the profile of the client corresponds to that of the 'productive poor' or 'economically active poor.' Most of the MFIs do not restrict themselves fully to the poor. Often, expanding the portfolio to more 'up-market' clients is seen as a way to foster operational and financial growth, and remain or become viable. Organisations supported by the CFAs do not serve the poorest, i.e. subsistence farmers, the jobless and the landless. A focus on specific underprivileged groups such as HIV/AIDS victims or displaced persons was only found in a small number of isolated cases among the MFIs studied.

There was a bias to urban and peri-urban clientele in the sample. Rural SACCOs are potential intermediaries between the more formalised and traditionally urban-based MFI industry and clients in the rural areas.

With the exception of the Philippines, the majority of clients served by the partners in the sample appear to live in urban or peri-urban areas. This is sometimes the result of rural infrastructure that is not conducive of microfinance development outside the urban centres (very noticeable in Tanzania).

NGOs supporting rural Savings and Credit Co-operatives (SACCOs), although reaching down to relatively poorer groups are often restricted to a limited geographical area. However well-governed rural SACCOs or comparable Rural Financial Institutes (RFIs), are actively searched by MFIs and down-scaling banks as clients in rural areas. They are therefore potential intermediaries between the more formalised and traditionally urban-based MFI industry and clients in the rural areas.

In terms of loan size and type of loans, the services of the supported MFIs are accessible and relevant to the poor, but less so for agricultural producers. In Tanzania and the Philippines the prices of the financial products are high, and overall there appears to be a problem with the transparency of the prices of the products.

Although a variety of products is being delivered, group and solidarity loans (acknowledged as the most appropriate form of microcredit for the poor) are still the most widely-provided products. Only two of the partners in the sample have restricted themselves to individual, more 'up-market' products. Most often the classical MFI products are less or not useful for agricultural purposes, since the loan repayment profile does not coincide with the seeding and harvesting cycle.

Average loan size, an indicator of the accessibility of the products for poorer clients, is relatively high in Bolivia. In the other countries it is close to the regional benchmark, or, as in the Philippines, below. The apparent lack of thresholds for a minimum loan size also keeps microfinance available to poorer clients.

Pricing is another important indicator for the accessibility and the relevance of microfinance for the poor. In Bolivia, the products of the microfinance sector are affordable, reportedly the cheapest in the world, which may be a result of competition. In Ethiopia the products are also affordable, largely due to the subsidized provision of funds through a governmental scheme. In the Philippines and in Tanzania microfinance products are expensive. Often, through the application of flat rates, up-front fees etc. the pricing is not transparent, which hampers a fair competition. High prices of products occur simultaneously with poor marks for efficiency. The so obtained income is therefore most likely used by the MFIs to cover unnecessarily high operational costs.

An analysis was made of the competition, i.e. the access of clients to alternative services, to assess the additionality of the supported MFIs for their clients. From this it appears that in all countries still large parts of the population are not served with banking services. In some places (cities, towns) poor people have a choice of providers. All of these alternative providers are however MFIs.

The gender focus is very different between the countries and, especially in Africa, insufficient.

Women participation is high in the Philippines, but Philippine MFIs are increasingly moving away from an exclusive focus on women for a variety of reasons. Especially in Africa women participation among the clients of the supported MFIs is low, despite efforts from the supporting CFAs to increase this participation.

Some innovations were encountered, aiming to enhance accessibility of the MFI services to the poor. Social Performance Measurement is however still rare.

Formal social performance rating is restricted to the Philippines and Bolivia, while in Ethiopia two MFIs are supported to introduce this. Terrafina is also supporting innovative products to improve accessibility of the services to the poor, through the innovation fund.

A trade-off between financial and social performance could not be observed in the study. If at all, organisations who restrict themselves to products like group loans may be more efficient than those who added 'up-market' services to the package.

The discussion as to whether there is a trade-off between on the one hand financial self-sustainability and on the other hand a focus on poverty stands central in the literature on microfinance. Such a trade-off could not be observed in this study. MFIs have introduced new products, with the aim to grow, increase turnover and financial performance, and to keep developing clients on board. Even SACCOs have adjusted some of their products to 'growing' clients. This development has however not gone to the detriment of accessibility to the original target group. Often the average loan size has increased, but the minimum loan size for the group loans stayed at the same level. The group loans represent still the largest (and often safest) group of products.

It should be kept in mind however that the concept 'poverty' is normally restricted by the MFIs to the group above the USD 2 p/d line.

To what extent have the CFAs been able to change the enabling environment?

The CFAs have selected relevant organisations as partners, who have the trust and the mandate of their members to represent the microfinance sector. Support by the CFAs has had clear value added for their partners.

The CFAs do not themselves interfere in national legislation, in line with good practices as worded by CGAP. They support improvement of the enabling environment through co-operation with partner organisations (network, lobbying or umbrella organisations), which have the legal mandate and the recognition of the industry to influence the environment to the benefit of the microfinance community. The CFAs support the functioning of such organisations through grants, which is the appropriate modality in line with industry guidelines. The support has been used to finance studies, set up systems such as registration and regulating systems, promotion through national media etc. Such organizations are supported in all countries visited, except for Tanzania, primarily because no suitable partner seems to exist there.

The partners selected by the CFAs have been successful in helping to improve legislation, strengthening regulation (e.g. self-regulation of officially non-regulated NGOs in Bolivia), promote microfinance etc.

Recommendations

The following recommendations were formulated for the CFAs:

Recommendation 1:
CFAs should further develop their microfinance policies and strategies and make their policies more accessible, while exploiting their comparative advantages.

Recommendation 2:
Administrative systems within CFA should be improved, while also more attention should be given to measuring social performance of MFIs especially in the case of outsourcing.

Recommendation 3:
The CFA funds should be more explicitly used by the intermediaries to focus on MFIs, which would otherwise have been too risky for the intermediaries.

Recommendation 4:
In principle, segment C organisations may be considered sufficiently mature to access and absorb funding under commercial terms and therefore CFAs should actively start considering exit strategies once an MFI approaches or enters segment C.

Recommendation 5:
The reasons for providing grants to MFIs, especially segment B and C MFIs, should be further clarified by CFAs, while the choice between grants and loans needs to be better argued for.

Recommendation 6:
The critical importance of governance within the MFIs necessitates improved selection and monitoring of partners on performance in governance and organisational aspects. A good dialogue on governance issues between the CFA and its partners is a very important instrument in this regard.

Recommendation 7:
Separating financial operations from other activities, at least in the books, is necessary. This will promote transparency.

Recommendation 8:
Providing support to wholesale organizations who effectively address the governance and management problems of SACCOs can be a very effective strategy for CFAs.

Recommendation 9:
A larger share of women mainly in middle-management (loan officers) and more attention for gender in the development of specific products should be encouraged by the CFAs.

Recommendation 10:
Non transparent pricing practices should be discouraged, and a transparency policy regarding pricing should be mainstreamed in the support effort.

Recommendation 11:
Continuation of support to lobbying and network organisations, active in the enabling environment, seems warranted

Final conclusion

The purpose of this evaluation was to provide insight into the extent to which the CFAs have contributed to building sustainable and socially performing MFIs for the sake of accountability. Without any doubt the evaluators can state that the CFAs indeed contributed to building these sustainable and socially performing MFIs. Of course, the more difficult question to answer is the extent to which this was the case. There are positive elements and elements that require more attention.

On the positive side, it can be concluded that the four CFAs have indeed provided support through a variety of instruments and aid modalities to assist a large number of MFIs to become more sustainable. This support has enabled many MFIs to increase the size of the operations significantly. The supported MFIs indeed serve the productive poor and aim for increased women participation. The CFA also support relevant network and lobbying organisations in microfinance that have had clear added value in improving the enabling environment.

No trade-off between financial and social performance could be observed.

On the critical side, little development in terms of efficiency, risk management and commercial viability of MFIs could be reported. Governance problems are the root cause of this problem, and CFAs still search for the right instruments to deal with governance issues. Additionality is another issue of concern that has to be addressed in the near future by the CFAs. Regarding social performance, important observations are that (i) the concept 'poor' is by all MFIs restricted to the economically active poor, in a majority of cases urban or semi-urban based, and (ii) the MFIs, in a thrive for more turnover, do not restrict themselves to the poor. In Africa, women participation both within the MFIs and among clients is disappointing.

The main challenge for the CFAs is to further develop their own microfinance profile. There is ample room for more specialisation and for better utilisation of the options specifically open to the CFAs (the degrees of freedom of non-profit organisations).

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List of abbreviations

Abbreviation	Meaning
ACB	Akiba Commercial Bank
AEMFI	Association of Ethiopian Microfinance Institutions
ASFI	Autoridad de suvervisión del Sistema Financiero
ASHI	Ahon Sa Hirap, Inc. (Phil.)
ATM	Automatic Teller Machine
AVFS	Africa Village Financial Services
BoT	Bank of Tanzania
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CARD	Centre for Agriculture and Rural Development
CEO	Chief Executive Officer
CFA	Co-Financing Agency
CHI	Cashpor Housing Index (Indicator)
CIDR	Centre International de Développement et de Recherche
CGAP	Consultative Group to Assist the Poor
D:E ratio	Debt: Equity Ratio
DECSI	Dedebit Credit and Savings Institute
DFE	Directorate of Field Education (now ICCDE)
DFI	NGO (in Spanish)
DGIS	Departement-Generaal voor Internationale Samenwerking
INAFI	International Network for Alternative Financial Institutes
IOB	Policy and Operations Evaluation Department (of the Ministry of Foreign Affairs of the Netherlands)
FADES	Fundación para Alternativas de Desarrollo
FAIDERS	Facilitation for Integrated Development and Relief Services
FISAP	Financial Sector Advisory Project
FFP	Limited Liability Body (in Spanish)
FIE	Fondo Financiero Privado para el Fomento a Iniciativas Economicas
FONDECO	Fondo de Desarrollo Comunal
FSS	Financial Self-Sustainability (Self-Sufficiency)
FSU	Financial Services Unit (within Oxfam Novib)
GDP	Gross Domestic Product
GNI (p/c)	Gross National Income (per capita)
ICCDE	Institute of Continuing Cooperative Development and Education (prev DFE),
IFD	Financial Development Institutes (in Bolivia)
IFI	International Financial Institutes
IT	Information Technology
KADERES	Karagwe Development and Relief Services

Abbreviation	Meaning
KAMFI	Kagera Microfinance Institute
KPS SEED	KPS Small Enterprise and Economic Development Inc.
MCPI	Micro Finance Council of the Philippines
MFI	Microfinance Institute
MIS	Management Information System
MIX (Market)	Global web-based database providing information on the microfinance industry
NATCCO	National Confederation of Cooperatives
NMB	National Microfinance Bank (Tanzania)
NBE	Natonal Bank of Ethiopia
NGO	Non Governmental Organisation
OSS	Operational Self-Sufficiency (Self-Sustainability)
PAR	Portfolio at Risk
PATMIR	Project of Technical Assistance for Rural Microfinance
PEACE	Poverty Eradication and Community Empowerment
PEF	Peace and Equity Foundation
PPI	Progress-out-of-Poverty Index
PRIDE	Promotion of Rural Initiatives and Development Enterprises
ProMujer	Programas para la Mujer - Bolivia
PWR	Participatory Wealth Raking (Indicator)
QAT	Quality Audit (Assessment) Tool
RFI	Rural Financial Institute
RoA	Return on Assets
RoE	Return on Equity
ROSCA	Rotating Savings and Credit Associations
RUFIP	Rural Financial Intermediation Programme (Ethiopia)
SACA	Savings and Credit Association
SACCO	Savings and Credit Cooperatives
SBEF	Superintendency of Banks and Financial Entities (in Bolivia)
SACA	Savings and Credit Association
SFPI	Specialised Financial and Promotional Institution
SHDI	Self-Help Development International
SIM	Social Impact Measurement (Tool)
SMART	Specific, Measurable, Adequate, Relevant, Time-bound
SME	Small and Medium Enterprise
SNV	Stichting Nederlandse Vrijwilligers
SPM	Social Performance Management
TA	Technical Assistance
TAMFI	Tanzania Association of Micro Finance Institutions
ToR	Terms of Reference

1 Introduction

1.1 Objectives and evaluation questions

In September 2008 PARTOS awarded the contract for the 'Joint Evaluation of the Contribution of four Dutch Co-financing Agencies (CFAs) to the microfinance sector in the South' to ECORYS Nederland BV (lead consultant), Carnegie Consult, EOS Consult and 'de Evaluatiegroep'. The main focus of the evaluation, according to the Terms of Reference (ToR), is: *'to assess the extent to which the CFAs have contributed to building sustainable MFIs during the period 2003- 2007 that deliver relevant services to the poor'*. We derived from that the following objective:

> **to gain an insight on the extent to which the Co-Financing Agencies (CFAs) have contributed to building sustainable and socially performing MFIs during the period 2003- 2007, for the sake of accountability and to draw lessons for the future**

The ToR (attached as Annex 1)[2] mention three evaluation questions:
- To what extent did the CFAs succeed in supporting the Microfinance Institutes (MFIs) to go from start-up, emerging to mature MFIs that are commercially viable?
- To what extent have CFAs and the supported MFIs been able to maintain the poverty focus? To what extent is there a correlation between question 1 (status of maturity) and 2 (poverty focus)?
- To what extent have the CFA-supported activities been able to change the enabling environment for poverty-oriented microfinance? Were they efficient, effective and relevant within the context (countries, markets)?

The evaluation, which started in September 2008, was guided by the Coordination Group, consisting of representatives of each of the CFAs and PARTOS. An External Reference Group played an independent quality control role.

1.2 Methodology

1.2.1 Three stages

The evaluation was divided in three stages:
- a desk study on the base of the files and policy documents of the participating CFAs: Cordaid, Hivos, ICCO (including Terrafina) and Oxfam Novib, a portfolio study and a literature study;
- country studies, with as main aim to verify the findings of the desk study and fill in gaps in the analysis;
- a synthesis stage.

The Inception Report (originally not foreseen in the ToR) was approved on 1 December 2008.

1.2.2 Assessment of the performance of the CFAs - a three-tier approach

The assessment of the performance of the CFAs was done through a three-tier approach:
- The first tier, the policy and portfolio study, consisted of an overall analysis of the portfolio of the four CFAs, including the activities which Hivos, ICCO and Oxfam Novib[3] perform in

2) Annexes can be found in a different volume 'Synthesis Report - Annexes'.

3) Operations of Oxfam Novib through Triple Jump started only in 2007, and were therefore hardly encountered in portfolio and sample.

co-operation with their financial partners, respectively Triodos Bank, Oikocredit and Triple Jump. The stated policies and strategies of the four CFAs were furthermore analysed and compared with the actual activities and performance, as far as this could be detected in the data on the portfolio.

- The second tier, the file study, consisted of a file study in detail of a number (total 50, see Annex 3 for a listing) of selected cases. Five countries were selected which represent a more or less balanced number of CFA partners: Bolivia, Ethiopia, Indonesia, the Philippines and Tanzania. Files were studied and interviews were held with the responsible case-managers in the CFAs and in the financial intermediaries.
- The third tier, the country study, consisted of visits to a large share of the sampled partner organisations studied in the second tier. This allowed for filling in gaps in the information which remained after the second tier, triangulation of the data but also deepening, since information could be gathered on the profile of the clients, the different financial products offered etc.

Obviously, the scope of every subsequent tier becomes smaller. Whereas the first tier studied the entire population of partners as well as instruments applied and budgetary allocations made by all CFAs over the evaluation period, tier two and three studied a sample. The second and third tier went deeper, showing explanations for phenomena observed in an earlier tier.

We have defined the total field of co-operation between a CFA and its partner as a 'case', to differentiate it from a single project or intervention.

Case versus Intervention

As a case we understand the field 'CFA MFI partner'. The MFI is therefore the point of entry, which is or has been supported by one (or more) of the four CFAs. Cases will in several instances contain different projects, since several interventions ('= projects') may have been realised in the broader CFA MFI relationship (e.g. grants followed by lending operations etc). These individual projects may at times be also small, specific operations (e.g. a training course or a seminar). Cases may or may not include intermediaries.

For the file-study the files of fifty selected partners were scrutinized. The selection was done by the evaluators, but in consultation with and agreed with the Coordination Group and the External Reference Group. Five countries had been selected out of which the cases were drawn: Bolivia, Ethiopia, Indonesia, the Philippines and Tanzania. This selection ensured:

- a fair representation of activities of the CFAs;
- a good collection of different modalities (loans, grants etc) in different settings (rural, urban);
- presence of countries with wide experience and more 'off the beaten track' countries (e.g. Ethiopia);
- the possibility to observe networks;
- presence of MicroNed, which is active in all countries;
- two African and two Asian countries;
- acceptable logistical arrangements.

The selection of partners was evenly spread over the four CFAs (eleven to thirteen cases per CFA). Furthermore, with reference to the explanation in the box above, the fifty partners represent 100 different interventions. In total, the sample of fifty cases represents eight percent of the total number of partners of all CFAs (630), and nine percent of the number of interventions (1,132).

The partners in the sample within the countries represent a large share of the total number of partners in the country: in total 50 out of the 97 partners in the five countries were studied (see also Table 1.1 below).

Ultimately 26 partners were selected for further study during the country studies (the third tier). Reasons for selection were mostly of practical nature: in a number of cases the co-operation had halted for reasons which would make an evaluation visit not possible. In Tanzania all still qualifying partners were visited. Indonesia was not visited, because only three partners ultimately qualified for a visit, spread over three different islands. All partners dealing with the enabling environment were selected, in order to provide an answer to evaluation question 3. The remaining selection was done at random. The following table shows the coverage of the file and country study.

Table 1.1 Coverage of file study and country study of population of MFI partners in the five sampled countries

	Nmbr of partners / cases	Nmbr of partners studied	% studied	Nmbr of partners visited	% visited
Bolivia	22	10	46%	7	32%
Ethiopia	17	9	53%	7	41%
Indonesia	15	9	60%	-	-
Philippines	31	12	39%	6	19%
Tanzania	12	9	75%	6	50%
Total	97	49	51%	26	27%

1.2.3 Limitations of the evaluation

The three evaluation questions are heavily centred on the relation between the CFA and the partner MFIs. The relation between MFIs and ultimate clients or beneficiaries was likewise studied (i.e. the poverty focus), but an actual impact study, i.e. a study of the extent to which the livelihood of the beneficiaries ('clients') had improved in a sustainable manner thanks to the delivered financial services, did not belong to the scope of the evaluation.

The evaluation period, 2003 to 2007, likewise represented a limitation. Some of the studied interventions had already been initiated before this period, likewise some trends observed had already started before 2003. More importantly, the results of methods initiated by the CFAs towards the end of the evaluation period could not be taken aboard. This relates especially to the different Social Performance Measurement initiatives developed.

The field of the evaluation is wide: a total of 1,132 interventions directed at over 600 partner organisations in 72 countries. The sample of 50 cases and 100 interventions in five countries is therefore statistically not representative. We have followed an approach (colloquially referred to as the 'T model'), in which every subsequent tier gave the possibility to verify and explain the observations made in previous tiers, the first tier studying the entire 'population.' The countries selected in the sample represent different stages of development, and is illustrative for the global situation. We are confident therefore that we are able to provide reliable answers to the evaluation questions.

The following sections provide more explanation on the methodology.

1.2.4 Stage 1 - the desk study and literature study

This stage, which was only completed in May 2009, produced two reports:
- Desk Study Report Volume I - The Literature Study (20 April 2009)
- Desk Study Report Volume II - Policy, Portfolio and File Analysis (25 May 2009)

Volume II therefore contains the findings of the first and second tier of the evaluation.

The methodology and the scope for the desk study were elaborated in the inception report. An evaluation framework was developed, which elaborated the three evaluation questions into different sub-questions, judgment criteria and indicators. This framework is attached to this report as Annex 2. Some of the indicators in the framework appeared to be less SMART. That can be caused by unreliable reporting by partner MFIs, or sometimes by the nature of the indicator (e.g. OSS, FSS). This will be indicated where relevant in the text.

Three activities were undertaken in order to find satisfactory answers to the evaluation questions under the first and second tier:
- an analysis of the policy of the four CFAs on the base of policy documents such as annual reports and business plans;
- a portfolio analysis on the base of the updated datasheet created by Triodos Facet;
- a detailed file study on a group of 50 partner-cases in five countries, agreed with the Coordination Group during the inception period.

<u>Data sources for the first tier</u>
Information from the file and documents was augmented with information obtained during interviews mainly with staff of the CFAs and their financial partners (Oikocredit, Triodos, Triple Jump), but also with other players in the field, such as FMO, Rabobank foundation, DGIS etc. A full list of people interviewed is contained in Annex 4.

The policy analysis is first of all based on an overview of relevant and available policy documents. The overview reflects different histories and cultures of the CFAs regarding the delivery of financial services in a perspective of poverty reduction. The CFAs have a four year planning cycle, which coincides with the requests for Co-financing funding from the Ministry of Foreign Affairs. Therefore, this evaluation covers two strategic periods of the CFAs: the whole period 2003-2006 and the first year of the period 2007-2010. Regarding formal policy documents, two important moments i.e. 2003 and 2007 can be observed that set the stage for the CFAs microfinance policies. These were the years the strategies and policies for the coming four years were published in the respective Business Plans.

The overview is based on four sources. The primary source consists of the two consecutive *business plans,* i.e. for the periods 2003-2007 and 2007-2010. All business plans contain a section on economic development and refer to partner policy and gender policy (as a section or in separate papers). Specific microfinance policies are found in the so-called *thematic papers.* Finally, there are a number of *technical papers* describing procedures with regard to microfinance interventions. Information obtained from *interviews* with CFA staff was used to clarify the background of the policies. The documents used for the policy analysis are mentioned in Annex 5.

In the period 2003-2006, policies refer to the support of the economic sector as a whole,

with financial services as an integral element. From 2004 onwards a relatively large number of specific policy documents have been published. In the period till 2004 procedures of partner selection, monitoring and reporting mainly followed the general policies of the CFAs.

The portfolio analysis took as a starting point the data source file of the Triodos-Facet study that was presented in the ToR of this evaluation. On that basis the evaluation team developed a new data source file. A number of important modifications had to be introduced:

- Information concerning the CFAs portfolio for 2007 was added for the four CFAs, based on the information provided by these organisations.
- Projects with a closing date before March 2003 were removed, because of the scope of this evaluation (2003-2007).
- Projects labeled as 'equity / guarantee' have been separated in two categories 'equity' and 'guarantee', based on the specific information provided by the four CFAs. Moreover, an effort was made to separate guarantees provided by CFAs to their financial intermediary partners (such as Oikocredit) from those guarantees which were provided directly to MFIs in the South.
- Based on the more in-depth file study, some discrepancies had been identified between the number of projects listed in the overall portfolio inventory and the number of files found at the CFAs, which had to be resolved.

The overview made by Triodos-Facet has been a useful starting point for this evaluation, because it provided basic insight into the evaluation object. Nevertheless all data had to be checked again and completed.

Data sources for the second tier

Initially we have studied the files, using a structured questionnaire. This questionnaire contained both performance data for the different partners (operational, financial, social) but most importantly questions on identification, selection, monitoring, reporting, feedback and exit strategies at the side of the CFA. Governance and management issues at the side of the partner were equally looked into.

For the sake of reliability therefore these sheets were consulted with the responsible officers in the CFAs. They were sent by e-mail prior to the consultation which happened most often face-to-face, in four instances through a telephone conference. These interviews were especially useful for deepening the knowledge on actual implementation of the strategies and procedures of the CFAs.

Although we have been given access to an impressive amount of information, the general impression of the evaluators involved in this part of the study was that the existing information base in the CFAs needs improvement, especially for the grant funding. The interviews showed that the individual loan or investment officers involved know many facts which are not contained in the files. Unfortunately, because of staff turnover, not all of the officers involved at the time could be interviewed.

Information gaps also occurred in cases where financial intermediaries are involved. Credit proposals are professional and include all financial indicators, however social indicators are not always mentioned or used. This is both the case for HTF as for Oikocredit. In the first case Hivos is responsible for guarding the poverty focus through the intake process ('organisation assessment') and Triodos for further financial monitoring. With the exception of women participation, objectively verifiable indicators are rarely applied the Hivos' organisational assessment.

Therefore especially at the level of the relation between the client (be it a group, an enterprise or an individual) and the supported MFI, information in the files appeared to be insufficient. Another important element which could not be addressed on the basis of the files is the additionality of grant funding of specific activities of commercially more mature partner organisations.

A study of the cases in the country itself was therefore necessary to reveal a reliable picture of the extent to which the poverty focus was maintained and the strengthening of the organisations was done efficiently and effectively.

1.2.5 Stage 2 - the country studies

This stage covered the third and last tier of the study on the performance of the four CFAs.

The ToR for this assignment suggested that the country studies would be mainly instrumental, if at all, in filling in gaps in information remaining after stage 1, possible a triangulation. In hindsight, this was not realistic. After stage 1 important questions were however still open, relating inter alia to the poverty focus, additionality of the services in terms of possible alternatives, governance and management etc.

A total of 26 partner organisations were visited in Bolivia, Ethiopia, the Philippines and Tanzania (see Annex 3). Also 'horizontal organisations' and other, not supported MFIs were visited. A distinction was made between Bolivia and the Philippines on the one hand and Tanzania and Ethiopia on the other hand: in the first two countries the issue of the migration to higher segments of financial and/or operational maturity stood central, in the latter group the issue of the poverty focus.

At the level of the partner organizations included in the study, interviews have been held with:

- representatives of the board of the MFIs;
- representatives of management (general manager of MFI and managers of branches);
- loan officers or other staff members directly reaching out to clients;
- board and management of Rural Financial Institutes (RFIs) supported by wholesale lenders;
- focus group discussions with clients, either at collection sites of the MFIs (close to the clients' residence) or at the branch offices after collection time;
- a few ex-clients were visited and asked about their reasons of drop-out.

Some MFIs were investigated in more detail than others. Several days were devoted to some MFIs, including supporting network organisations, which allowed for a good impression of not only their mission but also the realisation of this mission, profile of the client, problems encountered, governance and quality of management etc. Focus group interviews were held with board and members of the RFIs, which even gave us information on the use of the financial products by the ultimate beneficiaries.

Other MFIs were visited shorter, as well as other 'horizontal organisations' such as regulators (e.g. Central Bank), other donor programmes and even MFIs not supported by the CFAs. This delivered important context information for the country studies.

Specific Terms of Reference were developed for the country studies, guiding both the international evaluator as her/his local counterpart. Interviews have been conducted along

questionnaires, structured across the evaluation questions. These filled in questionnaires were, prior to the production of the country report, consulted with the visited organisations.

This resulted in four country reports, which were sent to the Coordination Group of the evaluation between 14 and 23 September.

Although the status of maturity of the microfinance instrument is indeed different, Bolivia having the most sophisticated offer and Tanzania still the youngest, the findings in the four countries are not contradictory and allow, in combination with the findings of the first stage, for an answer on all evaluation questions.

1.3 Stage 3 - the synthesis stage

The underlying document is the product of stage 3, the synthesis stage. The ToR mention in this respect (quote):

Based on information from phase 1 and 2, one final synthesis report needs to be prepared. Besides answering the evaluation questions, this synthesis report should synthesise all findings (of desk, literature and field studies), conclusions and recommendations into an overall assessment of the microfinance programme (based on the evaluation questions). This synthesis report needs to match the standards set out by the Policy and Operations Evaluation Department (IOB).

The underlying synthesis report will follow the structure of the evaluation framework, with some small modifications in the sequence of the sub-questions. We will continue here therefore with a chapter on the context, derived from the policy analysis, evaluation question 0.

1.4 Acknowledgements

A list of persons met and interviewed is provided in Annex4. The evaluation team would hereby like to thank all these persons for their willingness to share information, experience and opinions with the team.

Special thanks are due to the representatives of the CFAs for their co-operation with this evaluation. Without this support it would not have been able to gather this amount of information over such a large scope.

2 Role and importance of microfinance for the CFAs

2.1 Introduction

The policy analysis is an important element in answering the three evaluation questions. It shows what the CFAs say in their policies and strategies about the issues covered by the evaluation questions, i.e. do CFAs aim at graduation of MFIs, do the policies address poverty and gender, is attention given to the enabling environment? Therefore, in the evaluation framework we have added an additional 'question set 0', with a number of issues which have to be addressed before we can turn to the evaluation questions, i.e:

- Mission of the CFAs;
- Importance of microfinance as a sector for the CFAs;
- Importance of poverty and gender in the MFI mission of the CFA;
- Policy for country and partner selection.

In order to see how the policies are translated into practice, a portfolio analysis at CFA level was done, as an integral element of the policy analysis.

In order to present the policies of the CFAs in a wider context, it is necessary to provide a global picture of the nature and development of microfinance over the last years, including the challenges which these pose for international donors. In the following, we will therefore first give a global description of major issues in the global microfinance industry. We have leaned here heavily on the findings of the literature study.

2.2 Relevant issues in the global microfinance industry

There are several definitions of the concept microfinance, all of them underlining the size of the service (micro, meaning e.g. a small loan or a small deposit), accessibility (e.g. the absence of collateral) and the client group (poor, poorest, vulnerable and excluded). For the purpose of this evaluation we will adopt the CGAP definition of microfinance as suggested in the ToR, i.e.: *Microfinance is the supply of loans, savings, and other basic financial services to the poor.* Definition of the 'poor' remains for the time being a separate issue.

Over 30 years have passed since Muhammad Yunus started in 1976 extending small loans to women involved in bamboo chair making in Bangladesh. Since then the instrument of Microfinance has witnessed tremendous growth, starting off from Micro*credit*, developing into 'multi-service' financial institutes. By the end of 2005 it was estimated that some 3,100 institutions serve 113 million people worldwide.

MFIs have different origins. They range from informal grass root organisations like self help groups (SACCOS, ROSCAs), village banks, NGOs who provide financial services along with social services, formalised and accredited microfinance institutions to large commercial banks who have discovered the sector (implicitly proving that money can be earned while servicing the poor). The picture is a hybrid one: organisations like SACCOs provide financial services to members or clients, at the same time functioning as borrowing clients from more formalised MFIs or regular banks. Furthermore, some MFIs who managed to become financially self-sufficient in their country of origin, have set up international operations, often through a franchising model, such as BRAC (originally from Bangladesh), FINCA and others. Several MFIs have explicitly gone for profit, e.g. Compartamos Banco from Mexico, which actually took

its shares to the stock market in 2007. The argument was through attracting more equity on the stock market they would be able to serve more poor. Some champions of microfinance, among them Muhamad Yunus, heavily criticise this approach.

The scene of microfinance is therefore characterised by a multitude of very different parties. The presence among the latter of commercially viable institutions, as described above, makes the need for donor funding of the industry an issue which not necessarily should be taken for granted.

MFIs need to cover their costs by charging adequate rate of interest. The transaction costs are not necessarily lower than those for larger transactions. Donor funding is therefore seen by many advocates of the industry critical to support the initial start up costs and capacity development of MFIs. Nascent MFIs usually find it difficult to attract funds and hence donor support is seen as justified to build the credit worthiness of these institutions. There is however no unanimous agreement on this.

Additionality of funding microfinance, selection of proper modalities (simply put: grants or loans), avoidance of market distortion ('avoiding crowding out of private capital by donor funds') are therefore important issues. Given the presence of commercially viable MFIs, any justification for donor support assumes that there is still a need for *more* microfinance services, i.e. that the self-sustainable and viable MFIs do not reach all those in need of financial services (outreach may be restricted for example regionally, but also economically, by a lack of outreach to the poorer or poorest).

The picture of microfinance differs from continent to continent and from country to country. Generalising it may be stated that the industry is relatively more developed in South and Southeast Asia and some countries of Latin America, and less developed in Africa. This difference implies that any of the mentioned justifications for donor funding may be valid in some countries but less so or not in other countries.

Donor funding of microfinance is most often perceived by donors as an instrument to improve the livelihood of the poor. This makes efficiency of operations at the side of MFIs mandatory, since lack of efficiency will either culminate in higher prices or in a lack of sustainability of the instrument (or both). Indeed, a recent policy debates revolve around affordable financial services to poor and transparent pricing policies. There is however no agreement in the literature whether, even assuming efficiency of MFI operations, the unavoidable costs of microfinance services do not restrict outreach to the poorest. The CGAP Pink Book[4] explicitly states that: 'Microcredit may not be the most appropriate solution for … the destitute' and '… microcredit may not be the appropriate solution for every situation'.

Gender is an important dimension of microfinance. Since the moment Muhamad Yunus selected women as the recipients of his small loans, women have been in many MFIs preferred clients. Reasons are often purely economical: women borrowers have a lower default rate and are more responsible clients. It appears however that in some countries cultural barriers against the participation of women in financial services still prevail.

The above creates serious challenges for CFAs embarking on support to microfinance, such as:

- additionality of the instrument. i.e. the added value or critical importance in the light of the presence of other, private, sources of funds for the sector;
- compatibility of the instrument with pro-poor objectives of the CFAs; and
- the need to develop financing and banking skills within the CFAs.

4) CGAP, Good Practice Guidelines for Funders of Microfinance, Oct. 2006

2.3 Changing scopes

The four CFAs Cordaid, Hivos, ICCO and Oxfam Novib follow the three main strategies as suggested by the Co-Financing Scheme: direct poverty reduction, civil society building and policy influence. The four CFAs see themselves as important representatives of Dutch civil society with a widespread network of partner organisations in the South.

The CFAs started the support to the development of financial services at different moments. Hivos started in the 1970s, ICCO in the 1980s, and Oxfam Novib and Cordaid in the mid-1990s. In 2003, the beginning of the evaluation period, the support of the four CFAs to microfinance belonged as a *sub-theme* to the wider instruments that were part of the economic policies to improve access of poor people to resources leading to sustainable income opportunities. In 2007, the access to financial services had become a *theme* or a *programme* in itself for all four CFAs. This is an indication of increasing attention to microfinance by the CFAs.

All CFAs support organisations that render services of saving and lending to their clients, either as a specialised activity or as part of sectoral or multi-sectoral programmes. Hence, CFAs do not provide financial services directly to their ultimate target group, which is in line with accepted good practice, as a/o worded by the Consultative Group to Assist the Poor (CGAP).

Organisations supported for microfinance activities are considered partners of the CFAs. General partnership policies have been elaborated by the CFAs between 2002 and 2005. The policies of Cordaid, Hivos, ICCO and Oxfam Novib encompass the CFAs' vision and mission and elaborate on the mutual rights and obligations in partnership relations. Partnership stands for communality of interests and objectives. CFAs consider their partners and themselves to be independent with their own responsibilities and accountabilities in the context in which they operate.

Towards the end of the evaluation period the support became increasingly directed at partners that are specialising in financial services, i.e. microfinance *institutions.* The support includes assisting NGOs in the formalisation of the microfinance activity, there where this used to be part of a wider package of services. Also networks of NGOs are supported. The table below shows the objectives for the period 2003-2006 and 2007-2010.

Table 2.1 Overview of CFA objectives related to microfinance

CFA	Objectives 2003-2006	Objectives 2007-2010
Cordaid	As sub-theme of the Access to market policy theme, it aims to improve income and overall livelihood of poor people, particularly women, and to reduce their vulnerability. Emphasis is on transformation of NGOs with credit and savings activities to MFIs that are operationally and financially sustainable.	Access to financial services is part of the entrepreneurship sector. The focus of support to microfinance is on start-up and emerging microfinance institutions. The support to livelihood security of MFI clients is enlarged with development of financial services for medium and small enterprises.

CFA	Objectives 2003-2006	Objectives 2007-2010
Hivos	The aim of the sustainable economic development policy is to improve the position of poor and marginalised groups (small-scale producers and entrepreneurs, women and men) in a sustainable way. Access to finance is supposed to improve access to resources leading to sustainable income opportunities.	Financial services are part of the access to opportunities programme and aim to improve income and livelihoods of poor and marginalised people - men and women - living in agricultural settings and poor urban areas.
ICCO	Fair economic development is a new theme under ICCO's policy to make a relevant contribution to combating structural poverty. Focus is on partner organisations that offer services of savings and credit to difficult to reach target groups.	Financial services are a component of the Sustainable Fair Economic Development (SFED) programme, aiming at sustainable improvement of the position of underprivileged, i.e. small producers, self-employed and employees in rural areas.
Oxfam Novib	In 2004 the microfinance theme was developed as a thematic programme under Aim no.1 'the right to a sustainable livelihood.' Focus is on promising MFIs that are in an early stage of development, contribute to building inclusive financial systems, providing access for all people and offering all products.	Specific objectives are developed for the different regions: for core countries as well as for regional and global programmes. Focus is (a) on micro-producers and female labour to help them strengthen their position in the production chain; and (b) on co-responsibility of governments, business and consumers for a transparent chain of products.

The evolution of the CFA objectives points at expansion of financial services and/or a broader focus on target groups (e.g. not only small producers, but also self-employed people and labourers).

It appears therefore that microfinance is supposed to improve access of poor people to financial services, i.e. a poverty focus is clearly present in the mission of the CFAs.

The gradual development of support mechanisms and collaborative frameworks results in a scattered policy picture. General policies are developed in business plans, whereas details are found in either regional plans, logical frameworks or in thematic brochures or papers. An analysis of the business plans for the period 2003-2006 did not reveal a very coherent picture of the CFA strategies for the support to the Microfinance sector. This is confirmed by studies of CGAP in 2003 and 2004 that pointed at the lack of vision and strategic coherence among Dutch development agencies, including the four CFAs studied here. In the new business plans for the period 2007-2010, more explicit attention is given to the support to the Microfinance sector.

It is mentioned in the later business plans that the funding possibilities for microfinance support are expanding, including from the side of social investors and the private sector. With reference to paragraph 2.2, this confirms the need for a critical assessment of the value added of the CFAs' activities.

2.4 Development of the operations of CFAs

The available portfolio database contains 1,132 interventions in total, involving some 650 cases of co-operation with partner organisations in 72 countries (see Table 2.2).

Table 2.2 Total number of interventions and volume of disbursements per CFA over the evaluation period

	Cordaid	Hivos	ICCO	Oxfam Novib	Total
Number of interventions	224	319	294	295	1,132
Total disbursements 2003-2007 (EUR)	37,391,354	48,339,485	27,473,363	71,607,011	184,811,213
Number of partner organisations (approx)	143	154	180	172	649
Average disbursement per intervention	166,926	151,534	93,447	242,736	163,261
Average disbursement total per partner	261,478	313,893	152,630	416,320	284,763

The total volume of disbursements amounts to some EUR 185 million. Total disbursement as well as average disbursement is highest for Oxfam Novib and lowest for ICCO. The amounts disbursed do not correlate with the number of partners, which is actually highest for ICCO. The differences in average disbursements and especially in the total disbursements per partner reflect the policies of the respective CFAs, which fact is most visible for ICCO. ICCO endeavours to reach out to regions which are relatively less endowed with microfinance activities and where as a consequence the absorption capacity of the industry is limited.

The period 2003-2007, especially the first half of the period, has seen a rapid expansion of the support to the microfinance sector by the four CFAs:

Table 2.3 The total disbursements (incl.guarantees) per year (amounts in EUR), by CFA

Year	Cordaid	Hivos	ICCO	Oxfam Novib	Total
2003	6,188,642	10,381,297	2,877,094	8,770,322	28,217,355
2004	7,314,534	8,485,285	2,748,294	9,439,351	27,987,464
2005	7,090,192	13,083,768	4,514,673	18,035,464	42,724,097
2006	7,366,874	9,204,292	7,222,916	19,118,957	42,913,039
2007	9,431,112	7,184,842	10,110,385	16,242,917	42,969,256
Total disbursements	37,391,354	48,339,485	27,473,363	71,607,011	184,811,213

2.5 Organisation of the microfinance activities

With the rapid growth in the microfinance sector worldwide a large variety of instruments and products for donor funding were developed. While in the past the CFAs provided mainly grants, increasingly they came to consider new instruments such as loans, guarantees, etc. As lending operations required new expertise, the CFAs were compelled to rethink their organisational set-up. All four CFAs in addition wanted to support the professionalisation of microfinance institutions in the South, as part of their overall policies. As a consequence, the CFAs themselves had to strengthen their own professional expertise in the finance sector. This went hand in hand with the expansion of the operations, an expansion which had reportedly already started before 2003.

A significant difference in approach can be observed between Cordaid and Oxfam Novib on the one hand, and Hivos and ICCO on the other hand. The first two CFAs managed all modalities, i.e. grants, seed capital, loans, guarantees etc. in house, whereas Hivos and ICCO have delegated management of loans, guarantees and equity participations to specialised financial institutes, respectively the Triodos Bank and Oikocredit.

Hivos and the Triodos Fund Foundation founded as early as 1994 the non-profit Hivos-Triodos Fund (HTF). Triodos Bank lends funds to HTF which loan is for 90 percent[5] guaranteed by Hivos. Also exchange risks are fully covered by Hivos. Equity operations of HTF are funded by Hivos directly through a subordinated loan to HTF.

ICCO provides guarantees to Oikocredit, which enables Oikocredit to provide loan finance to MFIs which it otherwise would not have funded. Depending on the risk profile, this guarantee generally covers 30 to 70 percent (in individual cases to 100 percent) of the loan provided by Oikocredit. Different from the arrangement of Hivos and HTF therefore, the ICCO guarantee is not used for insuring the entire Oikocredit portfolio, but instead for individual loans.

Oxfam Novib created in 2000 an independent Financial Services Unit (FSU) for managing new loans from the so-called Novib fund and the ASN NOVIB fund. Grant funding is the responsibility of the regional bureaus which had to consult the FSU for amounts over EUR 25,000. From 2007 onwards the management of the Oxfam Novib fund was delegated to the microfinance fund manager Triple Jump. This organisation was created in 2006 by transferring the Oxfam Novib FSU team to the new company. The shareholders of Triple Jump are ASN Bank, Oxfam Novib and NOTS Foundation. Triple Jump is now managing a number of funds.

Since 2007 therefore, Cordaid is the only CFA handling all modalities in house. Also here, *within* the organisation, there was a certain segregation between the different modalities. Till 2006, loans, guarantees and seed capital were handled by the Finance Business Unit, grants were the responsibility of the programme officers in the regional teams. In 2006, the Finance Business Unit was dismantled. The investment officers responsible for identifying partners joined the three regional teams of the Entrepreneurship sector.

In Africa, since 2005 ICCO channelled the support to microfinance activities through a special consortium between ICCO, Oikocredit and Rabobank Foundation, called Terrafina Microfinance. Through the Terrafina arrangement a comprehensive offer is made to partners in Africa including different financial and non-financial services, utilising the specific expertise and networks of each of the constituting parties. For ICCO this means a broader base for its microfinance programme in Africa.

5) In 2007 and 2008 the percentage of the Hivos guarantee was decreased to approximately 60 percent.

The desire for more coordination resulted in the creation of the Dutch microfinance platform in 2003. Hivos and Oxfam Novib had a leading role in the establishment of this platform. This was followed by more consultation among the four CFAs as a result of which Microned was established. From 2005 onwards increasingly complementarities were sought according to the policy documents.

The nature of the instrument requires strong administrative systems. The financial intermediaries have professional systems in place, tracking financial flows, disbursements repayments and outstanding obligations effectively and efficiently. The same cannot be said for the CFAs themselves. Although the evaluators have been given access to an impressive amount of information, the general impression is that the existing information base in the CFAs needs improvement. The interviews showed that the individual loan or investment officers involved know many facts which are not contained in the files. Unfortunately, staff turnover therefore involves the risk of information destruction.

It took the evaluation considerable time and efforts to gather the correct data from the CFAs on their microfinance commitments and disbursements. Often date available in the overall sheet provided initially to the evaluators was not compatible with figures in grant agreements and other data. Different CFAs provide different values of important indicators on one and the same MFI. Ambiguity prevailed on the nature of some instruments mentioned in the portfolio overview: guarantees, equity etc. The portfolio analysis had to be repeated at several instances because the CFAs felt compelled to correct their data. The overview made by Triodos-Facet has been a useful starting point for this evaluation, because it provided basic insight into the evaluation object. Nevertheless all data had to be checked again and completed.

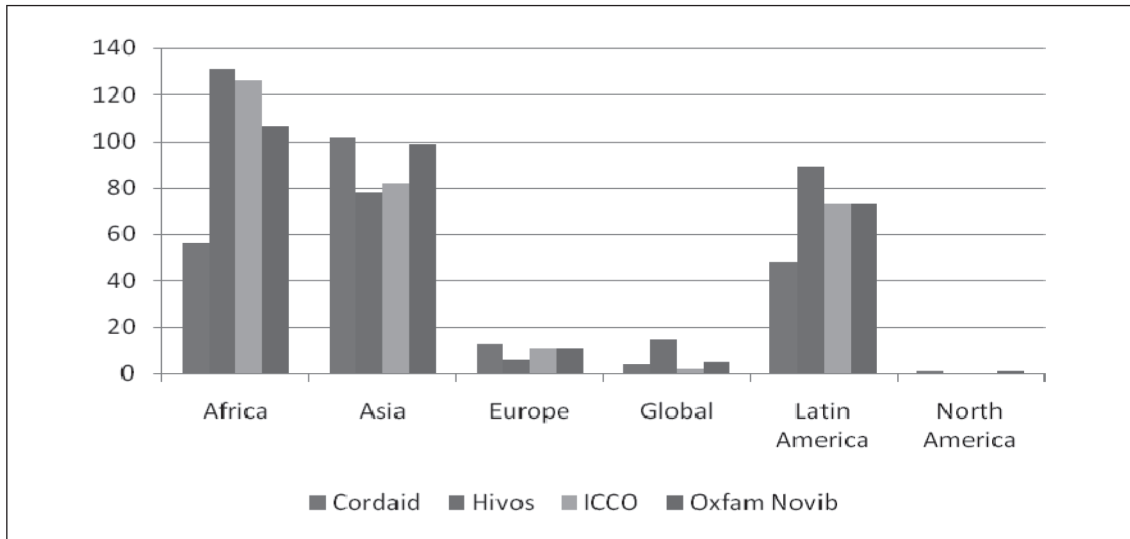
2.6 CFAs' policies and strategies in selecting countries, regions and partners

2.6.1 Country selection

The choice of countries and regions is the result of a combination of historical relationships with partner organisations and thematic preferences. For the period 2003-2006 the microfinance activities of Cordaid, ICCO and Hivos developed within the context of focus countries. Oxfam Novib is an exception, as it doubled the number of countries with microfinance activities.

For the period 2007-2010 the selection of countries for microfinance activities depends on the capacity of the CFAs (ICCO, Oxfam Novib) and the added value of the CFAs for the MFIs in the respective countries (Cordaid, ICCO, Oxfam Novib). ICCO explicitly wants to focus on 'green fields'.

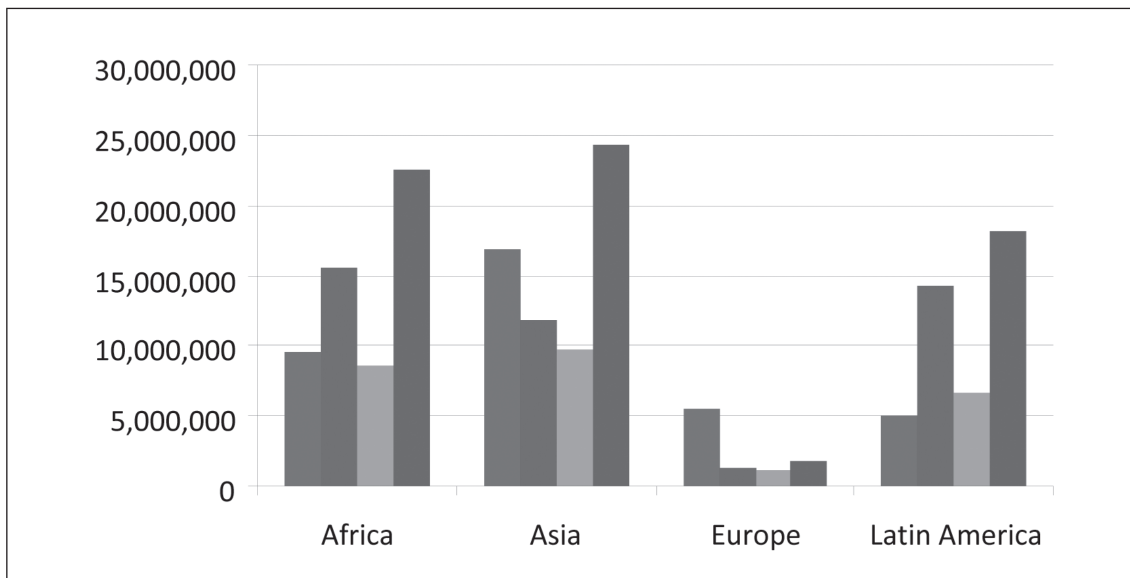
Figure 2.1 Number of interventions per CFA per continent in the period 2003-2007



Most microfinance interventions take place in Africa (37 percent). Hivos, ICCO and Oxfam Novib have their largest portfolio in terms of number of interventions in Africa. For Cordaid, Asia is the most important continent. Hivos pays relatively more attention to Latin America, compared to the other CFAs.

The number of interventions however does not coincide with amounts disbursed. Instead, Africa receives less funds than Asia, as is illustrated in the graph below.

Figure 2.2 Total disbursements per continent and per CFA, 2003-2007



Grants and seed capital are mainly used in Africa and Asia. For Africa, the high percentage of grants (64 percent of the total) is not surprising, but for Asia (also 64 percent), one would have expected a higher percentage of lending operations. In Latin America, the loan and guarantee instruments indeed dominate, but also in this continent grants count for one third of the total number of interventions.

Table 2.4 Deployment of microfinance instruments per continent in the period 2003-2007

Instrument	Africa	Asia	Europe	Latin America	Other*	Total
Loan (incl. financial intermediaries)	120	100	20	152	4	396
Guarantees to MFIs	1	7	1	2		11
Subordinated loan	1	3		3		7
Equity	8	4		20	2	34
Seed capital	62	12		2		76
Grant	212	225	16	97	26	576
Combination	11	6	4	5		26
Not specified	2	2		2		6
Total	417	359	41	283	32	1132

***Other = Global and North America and not specified.**

The CFAs support microfinance activities in a total number of 72 countries. There is a concentration however: 43 percent of the combined number of interventions takes place in nine countries. India, Peru and the Philippines are the largest receiving countries, both in terms of interventions and in terms of disbursements. Also Bolivia is a major recipient country. The following table shows the countries with over 20 interventions during the evaluation period, including the nine top-recipients in bold.

Table 2.5 Countries with more than 20 interventions in the period 2003-2007 and number of interventions

Continent	Country	Cordaid	Hivos	ICCO	Oxfam Novib	Total
Africa	Ethiopia	2		21	12	35
	Kenya	5	8	3	10	26
	Mali	3		20	4	27
	Mozambique		10		13	23
	Rwanda			32	1	33
	South Africa	1	21		2	24
	Tanzania	4	17		7	28
	Uganda	8	26	4	9	47
Asia	Bangladesh	9		5	11	25
	India	32	28	5	39	104
	Indonesia	11	10	1	6	28
	Philippines	29		27	4	60
Latin America	Bolivia	7	11	15	8	41
	Ecuador		20	21	2	43
	Nicaragua	4	22	2	8	36
	Peru	18	17	19	30	84
Total	nine countries	100 (45%)	124 (39%)	146 (50%)	113 (38%)	483 (43%)
Total	Other countries (63)	124 (55%)	195 (61%)	148 (50%)	182 (62%)	649 (57%)
Total	All countries	224 (100%)	319 (100%)	294 (100%)	295 (100%)	1132 (100%)

This concentration largely overlaps with the concentration in terms of funds. It is caused by the climate of the microfinance sector in these countries, in the case of India by the mere size of the population but also by the overall country policies of the CFAs. Despite of the latter reasons, absorption capacity as explanatory factor for a country concentration may negatively effect the additionality of the instrument: other funders, including private and commercial, will also be active on the same absorptive markets.

2.6.2 Selection of regions: urban, rural, peri-urban

Only ICCO has chosen to focus its microfinance activities explicitly on rural and remote areas, the main argument being that access to financial services is most problematic in rural areas. This focus is even more explicit for the period 2007-2010, during which ICCO wants to respond to the large unmet demands in African countries (through Terrafina). Oxfam Novib, Cordaid and Hivos do also emphasise the rural sectors (primarily through the choice for small producers), but they do not exclude urban MFIs.

The portfolio analysis provides the following insight into the rural or urban focus of CFAs in reality.

Table 2.6 Urban and rural focus per intervention per CFA

Focus area of partner organisation	Cordaid	Hivos	ICCO	Oxfam Novib	Total
Combination	103	129	131	188	551
Rural	72	75	132	68	347
Semi-urban	12	14		13	39
Urban	14	24	17	14	69
Not specified	23	77	14	12	126
Total	224	319	294	295	1132

At first sight a rural focus appears. ICCO has relatively most interventions in rural areas with 45 percent of the total, compared to 23 percent for Oxfam Novib. The large category ‘combination’ and the category ‘not specified’ however blur the picture.

2.7 Partner policy

The main criterion for the selection of partners is concurrence with the CFA goals. Conditions for support are related to relevance (clear vision, creative strategies), organisational quality (professional in their field of action), regional focus and social positioning (context). Partners must be accountable to their stakeholders and have a transparent structure. This is very much in line with CGAP guidelines for donor support to MFIs.

Identification of new partner organisations is generally done through the networks of staff, field visits and consultation of existing partner networks and alliances. Partner organisations also can take the initiative to approach CFAs for support.

The changes in the partner portfolio for the period 2007-2010 are mainly related to a refinement of the focus of the CFAs, in particular for ICCO, Hivos and Oxfam Novib. In the case of ICCO and Oxfam Novib this was partly the result of a new geographic focus. Oxfam Novib funds originating from repaid loans (‘revolving funds’) had a wider geographical

outreach. Whereas new funds had to be invested in the 'focus countries', the revolving funds could also be invested in the countries in the region in partners that have a regional importance or are innovative. Cordaid and Hivos have maintained their geographic focus and had therefore less reason to revise their selection procedures.

Cordaid wants to maintain its partner 'network' of church- and non-church related organisations, because the broad composition and continuity are considered to be a strong point for the future. It recognises however the weakness of 'old' relationships with regard to innovation.

Hivos states that the partner portfolio needs to be broadened to reach civil society more effectively, i.e. with membership organisations and social movements with a focus on outreach in more remote parts of the country. In its support of starting and promising activities Hivos intends to emphasise the role of partners outside the capital cities.

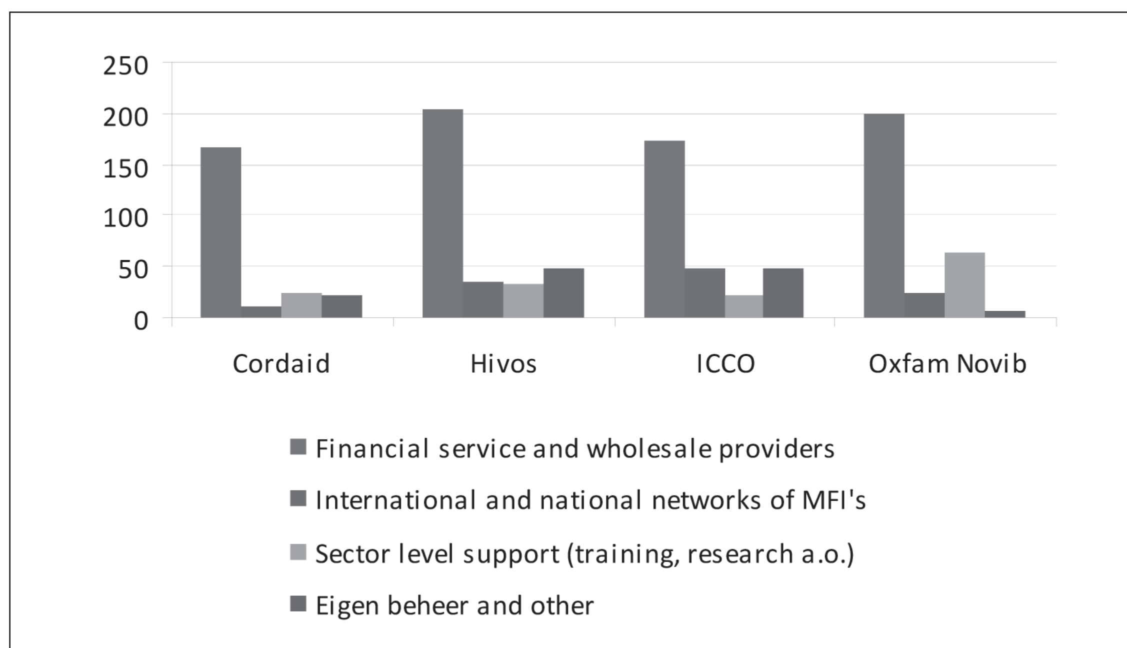
New partners for HTF can be identified by both Hivos and Triodos bank. For all partners an organisational assessment is done. Hivos checks in particular the extent to which the target group will be reached; the ownership structure; and gender and environmental aspects. Hivos has a so called 10+ strategy, which implies that after ten years support has to phase out or be replaced by commercial lending. However, these policies are not followed under the HTF funding arrangements: especially when equity participation is used as instrument involvement with a partner may be (or need be, considering the difficulties in disposing of equity) longer. Here the policies of the CFA and its financial intermediary do not coincide.

For the period 2007-2010 ICCO has become more selective with regard to partners to be supported. This is related to ICCO's new policies of regional structures and the programmatic approach. The regionalisation is intended to give partners and other stakeholders in the South more influence on ICCO policies. The programmatic approach implies a further diversification of partner organisations, so as to ensure more complementarity and cooperation among partners in their respective countries and regions.

Oxfam Novib's wish to broaden the partner portfolio to help create a strong and efficient microfinance sector led to a diversification of partner organisations including more and less mature MFIs. Between 2003 and 2006 the Regional Bureaus identified and proposed new partners, and the FSU took the lead in selection of partners.

The following table shows that there is no significant difference between the portfolios of the CFAs in terms of type of organisations supported.

Figure 2.3 Overview of number of interventions per type of partner organisation per CFA



Within some countries there is a tendency to concentrate support on a restricted number of partners. A MicroNed country study for Tanzania in 2007 concluded that: "Currently, the major donors and investors, including MicroNed members, [except from ICCO] all support the same top-5 microfinance institutions. Additionality should be a point of attention for MicroNed members". In Bolivia funding of one MFI by three CFAs is not an exception. CGAP warns (2002), that too many funds are channelled to a limited number of organisations, and that for many 'new' organisations or new regions funds are lacking, despite of a large supply.

2.8 Poverty focus in the policies and strategies

The CFAs while selecting and monitoring the performance of their partners, are guided both by social objectives and by the aim to improve or maintain financial and operational sustainability. Generally, access to finance is expected by the CFAs to help marginalised people to get access to markets, and to improved agricultural production or enterprises. The vulnerable and marginalised people are mainly sought among the small producers and small entrepreneurs.

To a large extent between the CFAs the target groups overlap, as can be seen from the following table.

Table 2.7 Poverty as reflected in the target groups of the CFAs

CF	Target group in the objectives
Cordaid	to improve income and livelihood of poor people (particularly women) which should be accompanied with a reduction of their vulnerability. In 2007 the objective became to improve income and food security of vulnerable people.
Hivos	Sustainable Economic Development programme (2003-2006): to improve the economic position of poor and marginalised groups (small-scale producers and entrepreneurs, men and women) in a sustainable way

ICCO	groups that are difficult to reach. To invest not only in increased production by MFI clients, incl. product development, market orientation and development of SMEs. In 2007-2010: to improve the socio-economic position of small producers, self-employed workers and employees in rural areas.
Oxfam Novib	partners that contribute to an inclusive financial sector. Inclusive refers to all people (urban and rural, better off and poorer strata, men and women). Secondly it refers to all products, which means not only standard loan products but also products adjusted to specific needs, savings products and micro-insurance. In 2007 the objective becomes to help micro-producers and female labour to organise themselves to strengthen their position in the production chain.

When selecting organisations eligible for support, CFAs use mainly indicators like average loan size, gender or the general description of the target group by the MFI. Sometimes the location (a peripheral and poor rural area for example) is an indication of the extent to which poor are likely to be reached. The involvement of organisations supporting SACCOs or ROSCAs is seen as a creative solution to reach the poor at acceptable costs.

The intake and monitoring by the financial intermediaries such as HTF is to a large extent guided by financial indicators. Limiting the financial risk is pivotal in the assessment.

Oxfam Novib started in 2007 with the Social Impact Measurement (SIM) tool, in cooperation with INAFI and ORDINA. Its effects however did not yet appear in the evaluation period.

2.9 Importance of gender

In the description of the poverty context in the policy documents often reference is made to women as a particularly vulnerable group. This is partly reflected in the objectives of the support to the provision of financial services. Hivos and Oxfam Novib incorporate men and women among small producers and entrepreneurs explicitly in the objective of the support to the microfinance sector. Cordaid adds women as a particular vulnerable category of producers and entrepreneurs. ICCO refers to the reduction of gender disparities as an implication of fair economic development.

The strategies of the CFAs to *reach more women* include several measures. The first strategy is gender mainstreaming in appraisal and monitoring, i.e. setting the condition that the MFIs should be able to reach women. CFAs have developed different gender scans for this purpose. Oxfam Novib for example uses the traffic light system; Cordaid conducts a gender scan. The second strategy is the setting of targets for the number of women to be reached as a percentage of the target population (Oxfam Novib 70 percent; Hivos 60 percent; ICCO 50 percent; Cordaid 70 percent). The third strategy refers to the number of women's organisations supported by the CFAs in general and for the economy sector in particular (Hivos).

The CFAs do not have many specific strategies that address the *causes of gender disparities* in access to microfinance or the *empowerment* of women. Only two examples were found in the policy documents. One measure pertains to the development of *entrepreneurship* for women (mentioned in the gender policy of Hivos), the other measure is about the intention to help increase women's *participation* in management of MFIs and in leadership of producers' organisations (mentioned for Cordaid and Oxfam Novib in Africa for 2007-2010).

2.10 Conclusions

The very nature of the microfinance industry, with a multitude of very different types of organisations, ranking from grass-root cooperatives to commercial banks, poses serious challenges for CFAs embarking on support to microfinance, such as:

- additionality of the instrument;
- compatibility of the instrument with pro-poor objectives of the CFAs; and
- the need to develop financing and banking skills within the CFAs.

Microfinance is an important sector for the CFAs, and has been growing in importance as demonstrated by funding and professionalisation of activities. The period 2003-2007 is characterized by a rapid expansion of the support to the microfinance sector, the total volume of support disbursed was almost EUR 185 million. The expansion went hand in hand with the professionalisation of the microfinance activities in the CFAs, which is demonstrated either by internal specialisation or though outsourcing of activities to specialized external institutions. In addition, the CFAs sought collaboration through the Dutch Microfinance Platform and Microned. In this latter aspect, the CFAs endeavoured to address the last of the three major challenges mentioned above.

The financial intermediaries have professional systems in house, but the grant operations and other operations managed by the CFAs themselves are not supported by proper administrative systems. Often date in the overall sheet provided to the evaluators was not compatible with figures in grant agreements and other data. Ambiguity prevailed on the nature of some instruments mentioned in the portfolio overview: guarantees, equity etc. The portfolio analysis had to be repeated at several instances because the CFAs felt compelled to correct their data.

Policies for selecting partners are in place. For some (Cordaid, Oxfam Novib) this is to an extent still dictated by existing partnerships and overall regional policies. ICCO has a specific policy to focus on 'green field' countries and regions, and the 10+ policy of Hivos forces it to renew its portfolio from time to time. It appears from the portfolio analysis that the CFAs are active in a large number of countries (72) be it that 43 percent of the combined number of interventions take place in nine countries. One of the explanatory factors for this concentration is a higher absorption capacity in certain countries, a factor which may restrict the additionality of the instrument.

Although policies are in place, they can be found ina large no concise policy documents on microfinance have been produced.

Poverty plays a clear role in the microfinance policies of all CFAs, and is also translated in the selection and monitoring practices. No uniform poverty indicators were observed during the evaluation period, apart from 'average loan size' and location (rural), but they are under development. In the strategies of the financial intermediaries, financial performance appears to receive more importance than social performance. The strategies of the CFAs aim mainly at reaching more women. They do not address the cause of gender disparities in access to MFIs or to empowerment of women.

The overview of CFA microfinance policies suggests that these are largely coherent with the literature and best practices on microfinance. None of the CFAs is itself involved in the delivery of services to the final target group, which is in line with good practice described in the literature and guidelines.

3 Did the CFAs succeed in supporting their partners to improve operational and financial performance?

3.1 Introduction

Evaluation question 1:

> **To what extent did the CFAs succeed in supporting the Microfinance Institutes (MFIs) to go from start-up, emerging to mature MFIs that are commercial? Were they efficient, effective and relevant within the context (countries, markets)?**

has been dissected in a number of sub-questions (see Annex 2):

- Is actually support given to improve operational and financial performance?
  - Availability and type of this support
  - Appreciation by the partners
- Is the modality well adjusted to the status of the partner organisation (MFI)?
  - Is grant funding of the CFA appropriately allocated?
  - Are lending operations of the CFA appropriately allocated?
  - Do the CFAs avail of a mechanism to trigger the change of type of funding?
  - Are the cases in which higher segment MFIs obtain (grant) support from the CFAs well documented and is the funding justified?
  - Is an exit strategy in place within the CFAs for segment C MFIs?
  - Does eventual support to segment C MFIs improve financial services?
- Are partners with development potential selected, i.e. do the selected partners have the capacity, motivation and organisation to set up a microfinance programme?
- Do the partners actually improve their performance?
  - Breadth of outreach of supported MFIs
  - Did the performance of supported MFIs improve operationally?
  - Did the performance of supported MFIs improve financially?
  - Is the risk of the operations calculated and limited?
  - Do the supported MFIs work efficiently?
  - Have innovative products been used to improve efficiency and outreach?
  - Is a credit rating carried out for the supported MFIs?

The first two main bullet points above relate to the policies and strategies of the CFAs, and the extent to which they actually implement these policies. The third main bullet point relates to the effectiveness of the selection and monitoring practices used by the CFAs, including the necessary flexibility to end the co-operation.

The fourth major bullet point, actual improvement of performance, is only partly under the influence of the CFAs, since they do not intervene in the governance and management of the partners.[6] There are several external factors influencing this, like the socio-economic environment, market and enabling environment. In combination with the internal potential of the organisation this will decide on the actual performance. Below this will be elaborated on.

6) An exception here is when an equity participation is taken, in which case representatives of the financial intermediaries taek a seat on the board.

This evaluation question, as can be seen from the ToR (Annex 1), leans heavily on the segment A, B and C structure. This structure on its term is directly related to the concepts of operational and financial self-sufficiency:

- Segment A: *starting and emerging* MFIs; those that are in the process of achieving operational self sufficiency (OSS).
- Segment B: *expanding* MFIs that have covered their costs but work at improvement of their financial return (FSS).
- Segment C: *mature, commercially operating* MFIs (including banks) that can pay the full market cost of capital, mobilise deposits and meet the credit worthiness standards of institutional and other commercial lenders.

Definitions OSS and FSS
OSS = Operating Income / Operating Expenses (x 100%)
FSS = Adjusted Operating Income / Adjusted Operating Expenses (x 100%)
An OSS of more than 100% implies therefore that an organisation is able to cover organisational expenses from its operational revenues, given the presence of possible concessional finance.
An FSS of over 100% indicates that an organisation is able to cover operational costs, financed fully on market terms. Adjusting here means the appreciation of costs and income respectively covered by or caused by grants or concessional funding, in order to reflect their potential market value, in other words, showing these values as if they had been arrived at without donor or concessional funding

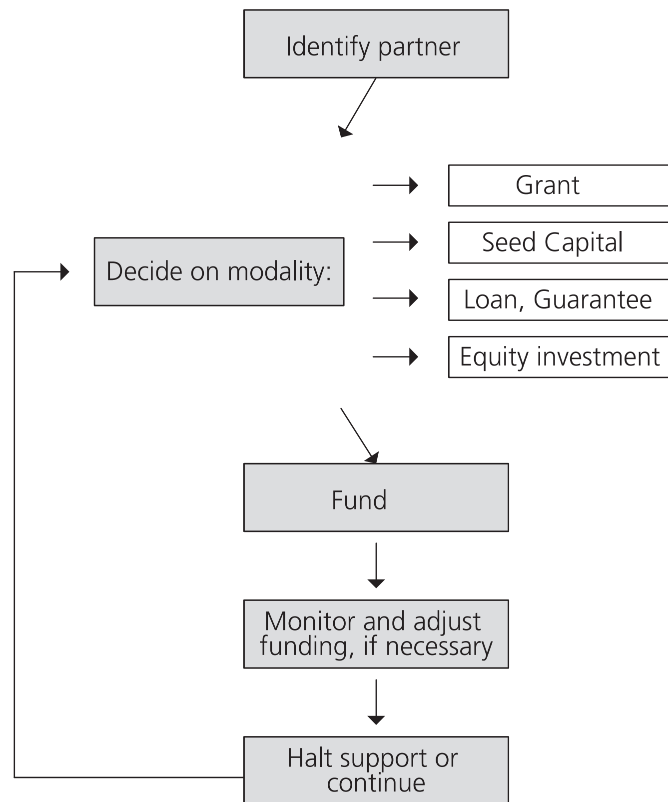
This structure has proven to be useful as a framework for comparison between organisations and to measure improvement of performance of individual organisations, *over a longer period of time and when OSS and FSS could be analysed in combination with other indicators.* Throughout the evaluation we have come across different phenomena which negatively influence the SMART value of these two indicators: (1) fluctuations around the 100% line, which makes MFIs suddenly fall back to lower segments; (2) differences in applied accounting practices, which limits the potential of this indicator for cross-company comparison; and (3) errors in calculation, especially in FSS. The A-B-C classification, and the corresponding segmentation, should be used with care therefore. For that reason we have also studied the development of other indicators, related to efficiency and operational and financial performance.

3.2 Is support provided to assist MFIs to improve financial and operational performance?

3.2.1 Introduction

The way the CFAs provide support to their MFI[7] partners can be very simply presented:

Figure 3.1 CFA-MFI Support Chain



CFAs do not directly intervene in the internal policies and management of their partners. The functioning of the partner is influenced by conditions put in the funding agreement (objectives, targets). Grants have been used for the provision of specific TA, which is often delivered by local consultants or offices of international consultancies in the beneficiaries' countries (like e.g. Facet Triodos Tanzania, or FISAP-SNV). In the case of Terrafina, TA is provided at a sector-wide level, or at least addressed to several MFIs with comparable needs, normally Terrafina partners. This TA entails support to the development of business plans, new products etc.

The main instruments which can be applied by the CFAs to achieve the objectives are selection and intake including the choice of appropriate financing modalities, monitoring and timely exit and handover procedures. Direct intervention by the CFAs in governance and management of the supported MFIs does not occur. Obviously, in cases where the CFAs through their financial intermediaries take partly ownership of their partner through an equity investment, there is the possibility to advise through participation in board meetings. This instrument has been however still rarely used. A case encountered in the sample was the HTF investment in the ACB bank in Tanzania. Recently, on instigation of a/o the HTF representative in the Board management was changed, after many years of disappointing performance of the bank.

7) It is well understood that also non-formal MFIs, supporting (umbrella) organisations and networks have been supported. For briefness sake we will refer to all partners as MFIs, in the widest sense of the word, unless otherwise indicated.

3.2.2 Intake, Monitoring and Exit

All CFAs, as appears from the initial assessment ('intake') forms, pay ample attention to the potential of new partners to sustain themselves and develop: quality of governance, quality of staff, track record, MIS etc. are all assessed.

Unavoidably, risks were often identified and in some cases these turned out to be critical. Monitoring of the performance, whether or not focusing on the identified risks, along clearly defined objectives and targets, has been therefore of essential importance. CFAs should, if necessary, (re)act timely. This includes the willingness to halt the co-operation if the targets are not achieved and when there are no indications that the operational or financial performance is improving.

The evaluation team observed such exits, but also examples of the opposite.

Within the sample in five cases, two in Tanzania and three in Indonesia (Hivos and Cordaid being the co-operating CFAs), the co-operation was halted because of non-fulfilment of targets included in the agreement. In Tanzania the poor management and board of KAMFI was reason for Hivos to terminate the relation, whereas Hivos made it sure that no harm was done to the target group. The lack of performance of Finca Tanzania was largely attributed to the departure of the CEO, as well as a crashing MIS. In virtually all cases where a relation had been terminated, this could be attributed to governance issues, rather than to external circumstances.[8] These issues had also been identified in the selection process. In Ethiopia, on the other hand, CFA support to AVFS and Eshet was continued despite existing doubts on the feasibility of expansion of these MFIs and the poor quality of management.

Some partners have been selected on the basis of their depth of outreach, such as the rural NGO KADERES in Tanzania, where the general perception was that it would never reach segment B. The organisation was however supported in providing support to SACCOs in order to make these sustainable.

3.2.3 Support instruments applied

CFAs, in co-operation with the financial intermediaries, apply a wide range of instruments: loans, equity, subordinated loans, guarantees, seed capital and grants.

During the period 2003-2006 the products offered by Cordaid's Financial Business Unit in close cooperation with the regional departments were short and medium term loans with either fixed or variable interest rates (also in local currency); bank guarantees also to stimulate lending by local commercial parties; advisory services, at times combined with funding for technical assistance and capacity building through the regional departments of Cordaid. For loans, interest rates are comparable to market rates, and grace and repayment periods are negotiable. As a rule, when a guarantee is provided, it is expected that there is a perspective that commercial banks assume part of the risks in the longer run. From 2007 onwards seed capital is added to the package of loans and possible grants for advisory services to enable starting and emerging MFIs to grow and become organisationally sustainable. The 'seed package' consists of grants for institutional strengthening and operational costs and a long term, minimum interest, convertible subordinated loan - the seed capital loan - for building an equity base.
Hivos and HTF support MFIs in different ways: HTF in the form of loans and (quasi-) equity at market-conform rates, and Hivos in the form of grants for specific activities. Growing MFIs which are not yet eligible for financing via HTF may receive support from Hivos in the form

8) These organisations could unfortunately not be visited during the field study; in some cases the organisations were no longer in existence.

of seed capital (composed of a conditional grant that is in principle partially convertible in shares). Hivos also helps MFIs in the area of training, whereas networking and lobbying are supported at sector level. Hivos' seed capital programme aims to fulfil a pioneering role and some of the other CFAs' seed capital programmes have benefited from this through sharing information and learning from experiences.

With regard to donations ICCO distinguishes subsidies, grants, seed capital grants and equity investment. The subsidies are used for specific activities for institutions where capital reinforcement is not possible (e.g. lobbying or networking organisations). Grants are typically used for capacity building (technical assistance, training, exchange visits and the like).
The seed capital grant is an equity instrument, donated to enable expansion of the loan portfolio and investment in capital assets, and to cover initial operating losses. With the new equity investment ICCO aims at stimulating third-party funds to join in the investment. The procedure is specially focused on supporting young, new MFIs in rural areas and/or working in innovative production chains.

Oxfam Novib provides donations for capacity building and technical assistance for initial operations in countries and regions with relatively little microfinance services. Loans are available in both hard and local currencies. Interest rates are near those of the market, but may be also subsidised. The Oxfam Novib Fund lends to financial institutions that are beginning or are in the primary stages of expansion (primarily NGOs, microfinance institutions, and†savings and credit†cooperatives) and provide credit to SMEs. The Oxfam Novib Fund offers also subordinated loans and guarantees for microfinance portfolio expansion. Oxfam Novib, as a matter of principle, is hesitant towards equity investments.

Table 3.1 shows the several instruments deployed by the four CFAs. More than half of the number of interventions consist of a grant capital. The total percentage of loans and guarantees within the overall portfolio is 36 percent (407 interventions).

Table 3.1 The use of the various microfinance instruments per CFA in the period 2003 - 2007

Instrument	Cordaid	Hivos	ICCO	Oxfam Novib	Total
Investments					
Loan*	114	81	74	127	396
Guarantees to MFIs	1	3		7	11
Subordinated loan	6		1		7
Equity		24	5	5	34
Grant instruments					
Seed capital		27	43	6	76
Other grants	86	181	168	141	576
Other					
Combination	17		1	8	26
Not specified		3	2	1	6
Total	224	319	294	295	1,132

*** including loans provided by Oikocredit and HTF, guaranteed respectively by ICCO and Hivos. The number of loans provided by Triple Jump is limited, as it was established only in 2007.**

Care should be taken however in comparing total amounts of loans and guarantees with grants. In the first case, the funds can be recycled, so that the total net amount involved will be less. We will speak in the following therefore rather about disbursements than about funds involved.

Cordaid, with 66 percent of the total disbursed through loans, uses this instrument most prominently. ICCO employs 32 percent of its disbursements guaranteeing Oikocredit loans, Hivos and Oxfam Novib respectively for 46 and 51 percent. On average the ICCO guarantees covered 47 percent of the amount lent on by Oikocredit, average size of the loan being EUR 277,000. In the case of HTF, Hivos provided a 90 percent guarantee to Triodos Bank for the *entire* funding of HTF. In 2007 the percentage of the HIVOS guarantee was decreased to approximately 60 percent.

Other instruments than loan, grants or seed capital played a minor role in terms of number of interventions and disbursements over the investment period. The total amounts disbursed on or reserved for guarantees, equity and sub-ordinated loans amounts to merely six percent of the total (corrected for the categories non-specified and combination).In this group, the equity investment instrument prevails, representing however not more than four percent of amounts disbursed and three percent of the number of interventions. Also Oxfam Novib, which as a matter of principle prefers not to take 'ownership' in their partners, had five equity investments over the period, representing three percent of the total disbursed. Only for Hivos (through HTF) the equity instrument represents 12.5 percent of disbursed funds and 7.5 percent of the number of interventions.

Table 3.2 Total disbursements and outstanding guarantees per instrument (amounts in EUR) per CFA in 2003 - 2007

Instrument	Cordaid	Hivos	ICCO	Oxfam Novib	Total
Investments					
Loan*	24,524,239	22,567,471	8,877,589	36,269,668	92,238,968
Guarantees to MFIs	300,000	1,012,500		433,000	1,745,500
Subordinated loan	930,908		137,000		1,067,908
Equity		5,919,523	326,234	2,242,737	8,488,494
Grant instruments					
Seed capital		5,186,002	3,462,038	2,039,428	10,687,467
Other grants	8,948,995	13,650,990	14,509,205	29,241,777	66,350,967
Other					
Combination	2,687,212		11,297	1,380,401	4,078,910
Not specified		3,000	150,000		153,000
Total	37,391,354	48,339,486	27,473,363	71,607,011	184,811,213

*** See footnote under Table 3.1**

Loans have, as can be expected, the largest average disbursement volume. The small average loan size in the case of ICCO may be an indication of its policy to support relatively new operations, where the absorption capacity may be limited.

Table 3.3 Average size of disbursements / outstanding guarantees per instrument and per CFA in 2003 - 2007

Instrument	Cordaid	Hivos	ICCO	Oxfam Novib	Overall average
Investments					
Loan	215,125	278,611	119,967*	285,588	232,927*
Guarantees to MFIs	300,000	337,500		61,857	158,682
Subordinated loan	155,151		137,000		152,558
Equity		246,647	65,247	448,547	249,662
Donations/other					
Seed capital		192,074	80,513	339,905	140,625
Other grants	104,058	75,420	86,364	207,388	141,759
Combination	158,071		11,297	172,550	156,881
Not specified		1,000	75,000	0	25,500
Total	166,926	151,534	93,447	242,736	163,261

*** including guaranteed loans by Oikocredit**

The average grant and seed capital figures per CFA do show important differences with Oxfam Novib providing high average amounts of over EUR 300,000 and ICCO again significantly smaller, i.e. less than EUR 90,000. In the case of Oxfam Novib, although the number of equity investments is small (five), the average amount disbursed per equity investment is highest for all instruments.

An important difference in the loan provision between CFAs and commercial funders is the fact that the CFA credits in the large majority of cases are provided in local currency. Although the borrowers most often pay a margin to cover (part of) the currency risk, this is considered to be by most partners as a large concessional element. Commercial funds are in many cases not willing to provide loans in local currency unless there are hedging possibilities.

In addition to increasing professionalization supporting expansion, there was an additional motive for CFAs in outsourcing their lending activities to specialised financial institutions, i.e. an exit-strategy. The idea was to facilitate an exit for organisations who had become sufficiently mature to absorb loans on commercial terms, through a transfer to other funds managed by the financial institutions. The outsourcing of Oxfam Novib to Triple Jump enabled a considerable expansion of the microfinance programme through the linkage with other sources managed by Triple Jump, such as the Calvert Social Investment Fund or (notably) the ASN Novib fund. MFIs who receive support from Hivos and HTF are expected to gradually evolve and become eligible for other financial products offered by the Triodos Bank, such as loans from the Triodos Fair Share Fund.

3.2.4 Appreciation of the CFAs' support by the partners

Almost without exception the partners appreciated the communication and co-operation with the CFAs, as well as the relevance of the funding. The CFAs were reported to be open and good listeners, flexible and endowed with a 'peer-to-peer' mentality. Also the high extent of integrity was appreciated.

The four countries' visited represent different stages of development in the microfinance sector: Tanzania at the lowest and Bolivia at the highest end. It turned out that in Tanzania the studied CFA support, with possibly one exception, had been of pivotal importance for the development of the partner organisation. Often the Dutch CFAs were the first or only funder. In Bolivia on the other hand the funding of the Dutch CFAs was generally seen as just one source of funds next to several others. Nevertheless, also here Dutch CFAs are seen as 'pioneers of the industry'. The willingness of Dutch CFAs to fund experiments, e.g. new regions was seen as value added, also by the relatively large and relatively well funded MFIs in Bolivia and in the Philippines. *'The Dutch CFAs push us to test frontiers'.*

Also in countries where the industry is not yet that well developed, like Tanzania, financially and operationally self-sustainable organisations which have received loan or equity funding perceive the use differently from the grant recipients. The Akiba Commercial Bank (ACB) perceived HTF as a fully commercial funder, PRIDE mentioned the high costs of the lending by Oxfam Novib. This phenomenon, treating the funding as a commercially driven operation, is wide spread in Bolivia.

Evaluators asked also whether the organisations felt the reporting requirements of the CFAs to be an administrative burden. This was nowhere the case. Instead, several institutions mentioned that this reporting requirements had been useful for guiding the actions of the own organisation, which made CFA monitoring actually a type of TA. No cases were encountered of hindrance through bad co-ordination between different CFA funders, which implies that CFAs follow here CGAP guidelines.

3.2.5 Conclusions

The main instruments which can be applied by the CFAs to achieve the objectives are selection and intake including the choice of appropriate instruments, monitoring and timely exit and handover procedures. CFAs apply intake and monitoring practices which outline the potential of the MFI to grow and become sustainable. Some partners have been selected on the basis of their depth of outreach without the ultimate target to reach full FSS, which in the opinion of the evaluators is a logical and appropriate solution in attaining depth of outreach.

The CFAs have a wide range of instruments: seed capital, grants (among others for TA, management tools such as MIS and other forms of capacity building), loans (including subordinated loans), guarantees and equity participation. All instruments applicable in all stages of development of an MFI appear to be present in the range of instruments of the MFIs. The share of advanced instruments such as guarantees, subordinated loans and equity in the total portfolio, both in terms of interventions and of amounts disbursed, was however modest, regular loans and grants together accounting for 86 percent of the total disbursed, seed capital for six percent and equity investments for five percent.

Without exception, the partners interviewed were positive about the role of the Dutch CFAs. There is a difference in perception of the support however. In Tanzania and Ethiopia the role of the Dutch CFAs has been pivotal in some cases, whereas in Bolivia they are seen as normal funders and perceive the support as a mere financial injection. The earlier raised remark on limited additionality of operations in well-served markets is therefore confirmed.

3.3 Is the type of support well adjusted to the status of the MFIs?

3.3.1 Introduction

The available literature on microfinance pays ample attention to the issue of the adjustment of the type of MFI support to the maturity of the recipient MFIs. Especially CGAP has published several guidelines. These are dictated by rules of additionality and avoidance of market distortion, where it is generally accepted that public (or donor) money should not crowd out private money.

The provision of funds to MFIs is in general a process of stages, where a minimum of five types of MFIs can be identified:
- private or member-based organisations (such as cooperatives), wishing to maintain their own typical ownership structure;
- green-field start-ups aiming at full bank license from the start;
- up-scaling MFIs, such as not-for-profit organisations, deciding midway to reform and go for a bank license;
- down-scaling entities, such as (divisions of) postal banks and local banks; and
- fully licensed MFIs, wishing to expand a/o seeking further innovation.

Each type of MFI requires different types of financial instruments to grow, in each of their lifecycle stages:
- Segment A: It may take several years before the basic MFI operations become profitable and thus grant funding is required to cover initial operating deficits, capacity building and initial investments. Seed capital is mostly grant-based. Well performing MFIs may qualify for concessional debt financing.
- Segment B: These institutions become eligible for debt financing, although their credit worthiness may not yet be considered adequate for commercial finance. There is therefore substantial demand for loan funds based on prospects rather than collateral and a past good track record. For the expanding MFIs, grants may still be an instrument for improving the quality of their service delivery, management and governance.
- Segment C: These institutions can pay the full market cost of capital, mobilise deposits and meet the credit worthiness standards of institutional and other commercial lenders.

In the evaluation framework, this is translated in the following judgement criteria:
- Basically, no grant funding should be provided to segment B or C MFIs, unless specific reasons for subsidising (risky operations) provide an argument.
- Basically, no concessional lending should be provided to segment C MFIs, unless specific reasons (risky operations /innovations /pilots) provide an argument.

The following 'derived' criterion could be added:
- Basically, no lending at commercial terms should be provided to segment A MFIs, since these organisations may not be capable of servicing the loan and the costs of the finance may actually deteriorate their position.

It should be remarked here, that allocation of MFIs to one of the segments is done, automatically, on the base of whether or not OSS or FSS is higher respectively lower than 100 percent (or 1). We refer here to the remarks made on this in section 3.1, which puts the following analysis in a certain perspective.

3.3.2 General match of partner organizations and modalities

As part of the portfolio study, an analysis was made on the type of instruments applied to different types of organizations, i.e. those belonging to segment A, B or C. In the table below MFIs that received different types of support are classified according to the ABC classification.

Table 3.4 ABC classification and type of instrument (counted per intervention)

2003:

Instrument / segment	**A**	**B**	**C**
Loan + guarantee	35 (56%)	55 (86%)	53 (62%)
Equity + subordinated loan	2 (3%)		16 (19%)
Grant + seed capital	25 (40%)	8 (13%)	16 (19%)
Combination	1 (2%)	1 (1%)	1 (1%)
Total Interventions	63 (100%)	64 (100%)	86 (100%)
Total MFIs involved (n=152)	52	53	47

2005:

Instrument / segment	**A**	**B**	**C**
Loan + guarantee	38 (46%)	49 (88%)	81 (68%)
Equity + subordinated loan	2 (2%)	2 (4%)	16 (13%)
Grant + seed capital	42 (51%)	5 (9%)	20 (17%)
Combination			2 (2%)
Total Interventions	82 (100%)	56 (100%)	119 (100%)
Total MFIs involved (n=195)	75	48	72

2007:

Instrument / segment	**A**	**B**	**C**
Loan + guarantee	7 (32%)	16 (64%)	41 (57%)
Equity + subordinated loan			18 (25%)
Grant + seed capital	15 (68%)	9 (36%)	11 (15%)
Combination			2 (3%)
Total Interventions	22 (100%)	25 (100%)	72 (100%)
Total MFIs involved (n=79)	21	22	36

It appears that the percentage of segment A organisations receiving grants or seed capital (i.e. funding in accordance with CGAP guidelines) increased. However, the same type of funding for segment B organisations also increased, and for segment C organisations it only marginally decreased, from 19 to 15 percent. Although lending instruments appear to be the prevailing type of intervention for segment B and C organisations, in relative terms their importance decreased.

The following paragraphs will discuss the above on the base of the sample of cases studied, with data per CFA.

3.3.3 Is grant funding appropriately allocated?

In the file study a cross-check was made, to verify whether the instruments used to support the MFIs, are adjusted to the status of maturity. The following table shows the number of segment B or higher organisations (still) receiving grants.

Table 3.5 Number of partner organisations with OSS > 1, receiving grants, within the sample of 50 org. in five countries

	2003	2005	2007
Cordaid	1	1	1
Hivos	0	n/a	1
ICCO	1	1	2
Oxfam Novib	2	3	4

Although in absolute numbers this potential mismatch of support and needs of the MFIs is small, it is still a significant share of the relatively small number of MFIs with an OSS larger than one, as witnessed by the following table.

Table 3.6 Number of partner organisations with OSS > 1, receiving grants as % of the organisations with OSS>1

	2003	2005	2007
Cordaid	100%	16%	14%
Hivos	0%	0%	16%
ICCO	33%	25%	40%
Oxfam Novib	28%	30%	45%

At first sight there appear to be differences between the CFAs (i.e. Oxfam Novib and ICCO providing relatively more grants to organizations in principle capable of absorbing loan funding), but the small number of cases involved makes this difference insignificant. For an elaboration on reasons and arguments, we refer to section 3.3.5 below.

3.3.4 Are lending operations appropriately allocated?

This question can be split in two questions:
- Have loans been provided to organisations (segment A) which had no capacity to absorb the lending?
- Have CFAs still been active in segment C organisations with potential access to commercial finance?

A limited number of not yet operational self-sustainable organisations had received loans, in 2007 only two cases remained:

SEDA in Tanzania obtained a loan from Oxfam Novib in 1999 and in 2002, although the organization had not yet obtained OSS, i.e. a possible conflict with the third 'derived' criterion given above. Since SEDA did not obtain OSS, repayment of the loan only diminished the capital base for on-lending. It has to be noted however that the loan was provided on the specific request of SEDA itself. Also the loans provided to CASA in Bolivia (which OSS was at

the time only 50 percent) is not a case of proper funding: with hindsight seed-capital would have been more appropriate. However, these are isolated cases, and in general the CFAs have not endangered the position of (still) weak MFIs by providing loans.

Table 3.7` Number of partner organisations with OSS < 1, receiving loans, in the sample of 50 org. in 5 countries

	2003	2005	2007
Cordaid	3	2	1
Hivos	1	0	0
ICCO	0	0	1
Oxfam Novib	1	0	0

We also looked at the number of organisations with an FSS higher than 1 still supported.

Table 3.8 Number of MFIs with FSS>1 in the sample of 50 organisations in five countries

	2003	2005	2007
Cordaid	0	1	1
Hivos	1	3	1
ICCO	0	n/a	1
Oxfam Novib	3	6	2

It appears that the number of segment C organisations is small and declining, but does still represent over ten percent of the sample (excluding non financial service providers).

3.3.5 Are the cases in which higher segment MFIs obtain support from the CFAs well documented and is the funding justified?

Most often the grants are used for specific actions (e.g. new branches in remote regions, in one case a study). CFAs relate to these actions as lateral support strategies.[9] Indeed, some MFIs have pointed out that the CFAs through their funding are pushing them to test new frontiers - poorer areas, hard-to-reach areas, develop products to deepen services or build capacity for expansion.

Ethiopia represents a specific case. Ethiopian law places severe constraints on foreign lending to MFIs and other financial institutions. Oxfam Novib and Cordaid have tried to circumvent this, e.g. by financing grant funding from repayments from other Ethiopian MFIs, but the situation has remained cumbersome. ICCO-Terrafina has chosen to tackle this problem through the provision of guarantees to local banks, but this was realized after the evaluation period.

Grants had been provided in the framework of Terrafina to a number of organizations which had already achieved OSS, such as Busaa Gonofaa and Eshet (and a number of MFIs not visited). These grants were however provided through a wider facility, accessible to several MFIs and addressed at specific activities, strengthening organizational capacity. Since these activities were directed in parallel to several MFIs, at least market distortion was avoided. Also otherwise it is difficult to perceive how such a facility could have been financed otherwise than through grants.

9) 'flankerend beleid'

DECSI is the largest MFI in Ethiopia, has a virtual monopoly in the region and is influential in the national network. Oxfam-Novib combined institutional support with loans, but DECSI did not accept the conditions of the loan. The loan was part of a proposal that they had submitted to Oxfam-Novib in 2004, which comprised also the improvement of the MIS, staff training and the establishment of two new sub-branches in a remote district. Only the last activity was funded after the elapse of three years. As will be elaborated on below, the evaluators doubt whether the ultimate decision to fund the branches through grants was appropriate, from the point of view of a good allocation of funds.

In the Philippines, CARD has been supported by Cordaid through loans and grants for innovations. During the evaluation period, one loan and five grants have been sanctioned to the CARD Inc. Discussions with CARD and Cordaid reveal that these grants are of a strategic nature, with the idea to be scaled up and replicated. In the case of CARD grant funding could be justified as being funding of special non-revenue generating activities and pilots. CARD feels that though they generate profits, they still require grants for testing out risky ideas; scale up is done using CARD's own or commercial resources. The grant support according to CARD is very strategic in nature since lessons from CARD can be replicated to other partners of Cordaid as well. We will elaborate on this further on in the report.

NATCCO, as a network of cooperatives a segment C organisation, has received grant support for training and capacity development of some of its partners. The grant support from the CFAs has enabled the organisation to provide incentives to some of the member cooperatives to venture into microfinance. The justification, in terms of additionality of these grants, is not clear: apparently other members embarked on microfinance without the support of NATCCO. In terms of location the funded NATCCO members do not appear to be more poverty oriented than the self-funded organisations.

FONDECO in Bolivia, which has both OSS and FSS safely above the 100 percent, was funded by Oxfam Novib with a grant of EUR 80,000 in 2003 for carrying out an impact study and covering the running costs of some new offices. This was reported to be justified by the management of FONDECO, since the offices are in 'difficult' rural areas and the offices might have taken a long time to become sustainable. It is one of the cases though where the evaluators feel that a loan would have been a more appropriate form of funding.

In Tanzania, the only case where grants had been provided to a higher segment organization had taken place before 2003. It was the funding of Hivos of two new branches for ACB in Dar es Salaam. The evaluation team could not detect any justification for this decision.

A good motive for grant funding may be an OSS being only slightly higher than 100 percent. This is clearly the case for the grant funding to ASHI in the Philippines. ASHI has been in existence for a relatively long time but has been struggling to attain and maintain OSS during the evaluation period.

3.3.6 Does eventual support to segment C MFIs improve financial services and innovations?

As a justification for supporting segment C MFIs with grants normally mention is made of the need for support in developing new products or reaching out to new client groups, e.g. in new regions. This part of the evaluation relates to the effectiveness of this support, i.e. has the service package of the MFI actually improved. In answering this question, we can only rely on the reports from staff and management of the MFIs studied. The desk study could not throw any light on this issue.

In the Philippines, CARD as mature organisation received grant support from Cordaid. The TA was of critical importance for the growth of CARD whereas now CARD provides capacity building support to several institutions for replication of the ASA model within Philippines and also in other countries.

CARD fine tuned the mutual insurance programme (MBA) since Cordaid was interested in the replication of the programme. Cordaid supported the BOT programme through grants for TA and monitoring. Under BOT four MFIs in Philippines were assisted, which lacked a critical mass of members to make the programme viable. The BOT programme has now been expanded to seven more institutions.

Similarly the grant for the Business Development Services (BDS) was instrumental in the scaling up of the sari sari community shops to mini super markets. With Cordaid support, the BDS Foundation pilots agri microfinance that integrates financing for production and marketing. The loans to farmers are at present being provided by the BDS foundation and once the loan product is stabilised, the CARD NGO and CARD bank will take over the product after paying a product development fee to the BDS foundation. CARD also articulates that being a leader in the industry they will set an example for others to replicate and follow.

Grant support to FONDECO in Bolivia enabled the set-up of branches in difficult to reach areas. The social performance of these specific branches could not be verified in the evaluation, appreciation of board and management is high though.

In Ethiopia, the capacity building support to several MFIs, including Eshet (since 2004 a segment C organisation) was much appreciated, although the impact for Eshet was disappointing.

The two DECSI sub-branches funded by Oxfam Novib are strategically important as they strengthen the outreach in the area bordering with Eritrea.

3.3.7 Do the CFAs avail of a mechanism to trigger the change of type of funding, when a supported MFI moves up, and is an exit strategy in place?

From the policy analysis it appears that CFAs have generally monitoring systems in place, using financial and to a lesser extent social indicators.

There are several examples of cases where partners, having initially obtained grant funds, are further supported with credits. FIE in Bolivia and Ganesha in Indonesia are examples of this.

The policy study showed that indeed there are exit strategies in place.

For Cordaid the existing relation with trusted partners has been an argument for (continued) support. Other CFAs have formulated strategies here which imply that a search for new partners is necessary. This is especially the case for ICCO, which most explicitly wants to withdraw from countries and regions where there is a proven supply of microfinance services and move into ‘greenfield’ areas. As a first point of departure we have therefore looked at the length of the relation, where we have considered any relation which originated before 2000 as ‘old’. The main deciding factor for the classification was however whether or not the fact that the partner was known to the CFA played an important role in the selection.

Table 3.9 Number of partners supported in the period 2003-2007 in the sample of 50

	Old Partner	**New Partner**
Cordaid	9	8
Hivos	4	11
ICCO	4	12
Oxfam Novib	8	7
Total	21	29

Often the 'old relations' related to NGOs supported prior to 2000 but under another form, e.g. as an agricultural producers' cooperative or rural development organisation. In some cases organisations supported could boast a long co-operation also with other Dutch development organisations, like the ACB in Tanzania.

Although the sample is small, it seems to reflect the partner selection policies of the CFAs, with Hivos and ICCO showing twice or three times larger numbers of new partners, compared to Cordaid and Oxfam Novib. Hivos, with its 10+ strategy has indeed a 'younger' portfolio. Also ICCO has a similar strategy. Within the sample, in at least one third of the cases the past duration of the relations played a role in the selection.

At the risk of appearing trivial, it is important to stress here the difference in mandate and objectives between the CFA and their financial intermediaries, i.e. Oikocredit and the Triodos Bank. The CFAs have obviously no commercial objective, they have no financial obligations towards depositors and/or investors and are purely guided by social objectives. The financial intermediaries, either as objective or important side-condition, are compelled to make a reasonable return on their investments, as an obligation towards their normal clients (depositors) or investors. The latter fact limits naturally the possibility to take risks, for example in lending to or investing in new partners in instable countries, remote rural areas. Segment C MFIs appear to be therefore a natural client of Oikocredit and Triodos. The guarantees provided by the CFAs to these financial organisations however mitigate these risks and in principle enable the intermediaries to finance more risky ventures. If instead the CFA funds are used by the intermediaries for funding partners which belong to their regular client group, this represents a non-additional deployment of the CFA funding. MFIs who have reached financial maturity should therefore in principle no longer be funded, once the maturity of the CFA guaranteed loan has expired, from CFA funds. Policies of the CFAs foresee the option to continue funding from non-CFA, commercial funds managed by the intermediaries (see also paragraph 3.2.3). Ecofuturo in Bolivia has obtained also a loan from other funds managed by Triple Jump, as did PRIDE Tanzania, and here commercial funds and CFA funds are funding side-by-side. Reportedly, Oikocredit in Bolivia is considering commercial funding for some of the CFA partners. Other than these, no cases were observed in the file study where CFA funding was explicitly halted because the mature status of the supported MFI made such funding unnecessary.

The exits observed were triggered either by disappointing performance (e.g. Finca Tanzania, KAMFI) or because of a general phasing out strategy (DFE Dodoma, which left as a result of Hivos'10+ strategy).

3.3.8 Conclusions

Grosso modo the CFAs have adhered to the principles that grant funding should be provided only to segment A organisations, loans to segment B organisations whereas segment C organisations should be funded from commercial sources.

Providing loans to segment A organisations occurs rarely and is declining. It was observed that in a number of cases grants and even seed-capital is still provided to segment B or C organisations. Arguments for funding through grants operationally and financially viable organisations are often found in the s.c. ‘lateral strategy’, i.e. next to loans given in order to strengthen the lending capacity and breadth of outreach, new activities which did not (immediately) result in a financial return were grant funded.

Although indeed these initiatives may not result in direct financial return, the issue remains whether the organisations now supported with a grant could not have financed these out of concessional or even commercial loans (or equity). E.g. in the case of CARD grants for the BDS was stated to be justified on the basis of insufficient access to commercial finance, but a loan from Cordaid would have been appropriate here.

For an optimal allocation of funds, adjusted to the needs of the beneficiary, it is essential that a mechanism is in place which triggers a change in modality on the side of the CFA, or an exit. There are indeed several examples of cases where partners, having initially obtained grant funds, are further supported with credits. FIE, Ganesha etc are examples of this. There are also cases where this step results in a (temporary) exit: DECSI in Ethiopia considered the loan offered too expensive.

Exit strategies for segment C organisations, although existing on paper have not been consequently applied, and the possibilities of handing over the partners to more commercial funders, including the partners Triodos bank, Triple Jump[10] and Oikocredit, have not been fully utilised, at least within the sample. If we accept the A-B-C category as presented in the ToR strictly, there should be no involvement of the CFAs, not even through their intermediaries, in segment C organisations. This may be a too rigorous explanation of the rule, but the evaluators feel that in the co-operation of the CFAs with financial intermediaries insufficient thought has been given to the possibility to ‘hand over’ partners to the non-CFA guaranteed operations of the latter. It happens, but only in three cases, that parallel funding takes place, i.e. both from the CFA enabled funds and from the commercial funds. It is understood that CFA funds cannot be withdrawn on short notice, since loans are granted for several years and especially equity participation is difficult to dispose off. This is however a point which could have been considered when the latest funding decision was made by the CFA. Several of the operations in Bolivia and the ACB in Tanzania did not need the additional element of the CFA guarantee.

10) Since Oxfam Novib only started its operations through Triple Jump in 2007, data for the evaluation period may not accurately reflect Oxfam Novib’s performance in this respect.

3.4 Do the MFI partners have the capacity to set up and develop a microfinance programme in a professional manner?

3.4.1 Introduction

Above we discussed the selection policies and strategies of the MFIs, the instruments available and applied and the appropriateness of the allocations of these instruments. In this and the following paragraph attention will be given to the performance of the MFIs themselves. The internal potential of the MFIs could not be judged from the portfolio study, in the following therefore we will mainly base ourselves on the results of the country visits.

The evaluation team looked here at the following indicators:

- Quality of management and staff
- Governance structure
- Are microfinance operations organisationally and/or administratively separated?
- Is an MIS in place and adequacy of the system?

The professional capacity of the MFIs (or the lack thereof) is a potential explanation for improvement of OSS and FSS, and the migration to higher segments.

3.4.2 Quality of management and staff

The file study could not give a satisfactory answer to this evaluation sub-question.
The following is therefore based on information and impressions from interviews with representatives of MFIs. Where possible, it was triangulated with information from 'horizontal' organisations, and obviously with the CFAs or the financial intermediaries.

In Bolivia in general almost all of the MFIs visited have a potential for further growth, in terms of managerial, governance and systems potential. The potential to further professionalize and expand their business in quantity and in products is promising. The self regulation of NGOs (IFDs) and in general regulation of MFIs in Bolivia has contributed to a large extent to this development.

Management and staff in Bolivia normally have a university background, at least a bachelor degree. There seems to be no significant lack of skilled staff, in contrast with other countries as will be discussed below. Only CASA suffered till 2004 from poor management and a poor management model. This was caused by the departure of one individual, which shows a shortcoming also seen in other MFIs: over-dependency on some pro-active and highly motivated individuals. Staff turnover has been a problem in ProMujer, but after salaries were brought more in line with pending market wages, this has improved.

Though the Philippines have a well established microfinance industry, there are key weaknesses in the governance and management which creates hurdles in sustainability and scaling up of operations. The CFAs have pushed for better management; however, organisations like ASHI and KPS SEED are yet to achieve good standards at the level of middle-management. KPS Seed's present management team is very young and has grown from the ranks. They require capacity building in several aspects. Continuous training of managerial staff is also an issue in KPS SEED. Lack of internal controls and multiple borrowings by clients have resulted in high arrears in the case of KPS SEED and MICOOP (NATCCO).

CARD is an example of excellent management. It has been bestowed with the Ramon Magsaysay award for Public Service in 2008. The head of the organisation is a thought leader and sets an example for the MFIs in the Philippines. Career opportunities for the staff are ample as the staff have the option to work in the different institutions in the CARD MRI. There is a clear thinking among the management team on the growth of CARD MRI as a whole, in tandem with the growth and self-sufficiency of the individual business units. The organisation has invested systematically in the capacity building of the staff to shoulder higher responsibilities.

Especially in the two African countries the availability of good staff may be a hurdle for development and expansion.

In Ethiopia, for DECSI and Busaa Gonofa the quality of management appears to be adequate for the operations. Senior management has an overview of the institution. Business plans have been prepared and implemented. The general managers have been there from the very beginning. In addition to the initial training provided to the credit agents, DECSI and Busaa Gonofaa provide training also to the frontline staff. The level of education of the credit agents ranges from certificate for high school completion to the level of a Junior College Diploma, for branch and sub-branch managers' from College Diploma to B.A. level.

The situation for AVFS and Eshet was less favourable. AVFS suffers since the beginning from poor and centralised management. Eshet, though expanding fast, seemed to do well until the end of 2007. However, today Eshet has entered into a serious conflict between its board and management and is confronted with high staff turnover. Most of the key posts are vacant and the MFI after intervention from the National Bank Ethiopia (NBE) is currently in the process of filling vacancies by redeploying staff from within the organisation.

In Tanzania, there is a large difference in management style between the formal MFIs and the rural NGOs supporting SACCOs and SACAs.

Different reports on ACB from the period 2003-2007 mentioned weak management. Over the years there have been reports on chances and opportunities in a growing market, interrupted by reports on missing chances, liquidity problems, deteriorating portfolio etc.

In 2005 a management change was enforced by the Board, but without visible results. In 2007 ACCION International obtained a five-year management contract, among others on instigation of the HTF representative on the Board.

Management of PRIDE appears well trained and motivated. Its problems are mainly in the field of governance, as will be elaborated on below.

In SEDA management problems are interwoven with governance and financial problems. It faced from the start large problems in obtaining new funding. As from 2003, the management team was strengthened, in thrive to become a Limited Liability Company.

Managers and staff of the three NGOs ICCDE, FAIDERS and KADERES are clearly well trained, experienced (be it not necessarily in banking but more in issues like community development), creative and motivated. The risk identified, especially in FAIDERS and KADERES, is the dependence on one individual 'pioneer'.

3.4.3 Governance

Like the section above, the underlying information is based on interviews with the MFIs, triangulated with third sources.

Governance problems are common, and appear to go hand in hand with operational growth, especially if this growth necessitated a new legal identity.

Bolivia is probably a positive exception to the above. A number of NGOs (FIE, PRODEM) changed into Limited Liabilities (FFPs) requiring a different governance structure. Even when the ownership of the FFP still lies with the NGO the Board should now entail also knowledge and experience in microfinance, auditing and operations.

BancoSol was originally founded by PRODEM, which is still holding shares in BancoSol but continues some of its own operations. From a governance point of view this double function of PRODEM is questionable and may imply a conflict of interest. A similar problem occurred in CASA Amigo when the founding NGO (Emprender) started its own operations after the restructuring of CASA.

In the Philippines there are key weaknesses in the governance which creates hurdles in sustainability and scaling up of operations. External rating found KPS SEED and also CARD to have low governance standards. CFAs have enabled organisational assessments which have pointed out the deficiencies and some of the MFIs are moving towards better governance though this is still work in progress. CARD has taken the advice seriously and included renowned outside members to the Board.

KPS Seed has a Board of Directors which is socially conscious but not competent in microfinance. Cordaid had advised to improve the governance and as a result two new members were inducted in 2007-08 with banking experience. The strategic direction setting for this MFI especially in strict policies and systems has been lagging behind.

ASHI, showing generally strong values and code of conduct, is dependent on its founding President for everyday operations. This has been one of the reasons for its slow growth. Recognising this weakness, a management committee is being developed, re-organization of head office units such as setting-up of departments has been carried out, and middle management is being strengthened to decentralize responsibilities and authorities.

In Ethiopia shareholders normally do not have adequate orientation in the sector though they may fulfil the requirement of the supervising and licensing authority, the National Bank of Ethiopia (NBE). The Board members of the large MFIs are government appointees, the turnover in such boards is usually high and the members may not necessarily have adequate orientation in the microfinance sector. To compensate for such constraints some of the MFIs have started attracting non-voting members who have some banking and insurance background. Almost all of the NGO initiated MFIs have problems to sell more shares and bring in real owners into the board.

In Tanzania, governance is an issue in virtually all cases. Governance of ACB was assessed as poor by HTF, i.e. the board structure did not reflect the ownership structure. Shareholders are organizations such as HTF, FMO, 'Triodos Doen', IncoFin, SIDI, Inter Consult (Tanzania) and a large number of Tanzanian businessmen. In 2007 new equity (20 percent) was provided by the USA based international non-profit organisation ACCION, making ACB meet the new capitalization requirements of the Bank of Tanzania (BoT).

PRIDE, at present an NGO, eagerly wants to transform itself into an accredited bank, liable for accepting deposits. In order to meet the requirements of the BoT, a/o equity of USD 4.7 million, it needs institutional investors. The idea is that PRIDE-NGO would sell the assets to PRIDE ltd, and would itself become a shareholder (legislation allows such a construction up to 66 percent of share capital), but would remain itself active in provision of non-commercially viable services. This may include a risk of a conflict-of-interest: a large shareholder possibly competing with PRIDE ltd, as was observed in Bolivia with BancoSol.

SEDA has a conflict with its original sponsor, World Vision, based in the USA. It pledged to recapitalize SEDA, but under a number of conditions, the most critical being that it would become 100 percent shareholder. Since this would be against the law of Tanzania, this problem represents a vicious circle which persists to date. SEDA is negotiating new loans and equity, but the awkward ownership position is not conducive for attracting investors.

Governance of rural SACCOs in Tanzania is a major problem:

- Through the (socialist) past of Tanzania, co-operatives in general had and sometimes still have a poor image.
- Education level is low in the rural areas, especially financial literacy is low.
- It is very difficult to attract and maintain professional staff in the rural areas.
- There is a large risk of abuse of SACCOs by individual Board members, especially by local politicians or ward heads. The Board is often insufficiently assertive to prevent these practices.

Hivos and Oxfam Novib fund training for members of SACAs and SACCOs in issues like governance, leadership and management, basic book keeping, entrepreneurship, budgeting, planning, conflict resolution, utilizing the potential of the environment etc. Despite of this intensive approach, some SACCOs fell out, both in the case of ICCDE and KADERES, because of governance problems, mainly caused by abuse by individual board members.

3.4.4 Are microfinance operations organizationally separated from other activities?

CFAs insist normally on the separation of the microfinance function in cases where this activity has been adopted by an NGO which had previously been involved in other activities, e.g. health or agricultural development. Obviously for organizations which have finance as their only field of activities, this is not an issue. It appears that the policy of the CFAs has worked, i.e. very few cases were encountered in the file study and in the field where microfinance was practiced next to other, *organizationally not separated,* activities.

In principle all MFIs in the sample in Bolivia, except from ProMujer are fully dedicated to microfinance. ProMujer from its origin also provided health services for its clients complementary to its microfinance activities. Since such activities are per definition not sustainable it was decided that the microfinance activities of ProMujer are to be separated from the health services.

This question is neither an issue for the licensed MFIs in Ethiopia. All registered MFIs should have separated their microfinance activities from other activities. Microfinance institutions in Ethiopia are basically minimalist in their approach which means they provide only financial services. The large MFIs however try to collaborate with other sectoral agencies so that the MFIs' clients have access some non-financial services like business development services.

In the Philippines this is neither an issue. Although CARD is developing a number of other activities like Business Development Services, it has functionally and organisationally separated the microfinance function in CARD Bank and CARD NGO.

In Tanzania both KADERES and FAIDERS form an exception. Hivos and Oxfam Novib considered the spread of attention of these NGOs over different fields, only one of them microfinance, a risk. Interestingly, the staff of the NGOs did not agree on this, they consider the combination of training on health issues, investments in water and storage facilities, promotion of a saving culture and micro-business management etc with microfinance as essential for increasing the social benefits of finance. Interestingly enough, as will be elaborated on below, an increasing number of advocates in Tanzania, including those within the regulating Bank of Tanzania, feel that microfinance on its own is not sufficient to achieve a positive impact on the standard of living of the clients, and that lateral services like business development, agricultural extension etc are (still) needed. KADERES and FAIDERS appear to have growing support for their approach therefore. The evaluators, with all respect for these arguments, feel however that not separating the financial services, *at least within the books,* from the other services results in lack of transparency.

3.4.5 Management Information Systems

The literature and desk study showed that many MFIs use outdated and inappropriate administrative instruments, especially unsuitable if the MFI is to develop towards operational self-sustainability. This especially relates to MIS. Also in the studied partner files the majority of partners report that MIS is assured with simple and, according to some auditors, inappropriate instruments. In at least one case in the studied sample (Finca Tanzania) this resulted in a failed co-operation with the Dutch CFA.

It is still quite common that branches report with large intervals and send their reports in 'hard copies' to head quarters where they are processed, providing already outdated and not reliable information.

CASA in Bolivia reported that one of the major failures of the franchise model which they operated up to 2003 was the inadequate MIS, in which branches and head office were not interconnected and used different systems. This is (still) the case with several organizations, e.g. in ProMujer reports from the branches are physically brought and entered in the regional office system at the end of each day.

The other studied Bolivian MFIs are using professional MIS, e.g. FINMAS software. Because of the strong growth of most of the MFIs, systems have been upgraded or in some cases replaced by new ones during the evaluation period. The MFIs also strive to continuously improve their systems. FIE FFP for example has provided for a specific audit mechanism whereby the auditor constantly monitors the security, integrity and reliability of the information that is generated by the MIS.

MIS in Ethiopia is only partly computerized. Almost all of the MFIs are eager to identify and acquire appropriate software that may be used for both operation and finance reporting. At present, the data entry is done manually, using Excel or Peach tree accounting software in some of the MFIs both at head office and branch levels. In some of the branch offices it is done both by hand and by computer.

CARD in the Philippines has a sound MIS and has recently computerised the operations at branch level. ASHI has developed an in house computerised MIS which is operational; be it that there are issues relating to the internet connectivity of a few of the branches which delays the summation reports. There is an overload of paper work and there is a necessity of review of information system and internal controls. The other organisations visited have adequate systems and are in the process of improving this, by electronically connecting the branches.
Progress reports on ACB in Tanzania mentioned the non-stability of the MIS in place. This has not improved over the evaluation period. Only the annual report over 2008 mentions (quote): 'the year 2008 marked the *beginning* of concerted development in the bank's information technology'. PRIDE's branches are not on-line, and hard copy reports are monthly sent to the headquarters in Arusha. Manual consolidation is a cumbersome job, and results in a one month delay in overall information. Only SEDA has a system which appears to function well. The MIS system 'E-match' was fully operational in SEDA already in 2005. All branches are on-line, and management information is collected and processed on a weekly base.

In the rural SACCOs, both in Ethiopia and Tanzania, MIS has been a problem throughout the period. Their office space is very simple, the SACCOs are not computerized, in fact often lack electricity. Even when new models were introduced, like in Dodoma for which Hivos had provided in 2006 a small additional grant, information manually has to be fed. In all of these cases the process of entering hand-written information in computer software entails the risk of errors.

The combination of a poor MIS and cumbersome governance problems make SACCOs a risky venture. In contrast with non-regulated MFIs they also handle the voluntary savings of their members. Support of organizations like FAIDERS and KADERES who pro-actively address these issues is therefore important, and in the area of MIS still very necessary. Practical problems (lack of electricity, although PCs may run on solar panels) but also lack of experience with computerized systems among the staff still exist.

3.4.6 Conclusions

Management and especially governance is a critical issue. In several instances problems in governance resulted in a failure or a need to turn around and rescue the organisation. These problems can be generally classified as poor representation of ownership on the Board, overdependence on one individual or a young and inexperienced staff. Especially in the two African countries, the availability of good staff may be a hurdle for development and expansion. SACCOs have their own governance problems, but the supported NGOs make it their priority to address these problems.

In virtually all cases where a relation had been terminated, this could be attributed to governance issues, rather than to external circumstances.

With minor exceptions, partners have separated organisationally their microfinance activities from other activities, if at all they have other activities. The CFAs have insisted on this, and it is in line with good practice.

The majority of partners report that MIS is assured with simple and inappropriate instruments. In at least one case in the studied sample this resulted in a halting of funding by the Dutch CFA.

3.5 Improvement of performance of the partner organizations

3.5.1 Introduction

The previous paragraphs described the instruments applied by the CFAs to support the operational and financial performance of their partners, as well as the internal capacity for development of the MFI partners, and possible hurdles, such as a poorly functioning MIS.

This paragraph describes the actual observed improvement in performance, possibly witnessed by a migration to a higher segment of maturity. For this, we will look at changes in:

- Breadth of outreach of supported MFIs
- Operational performance of supported MFIs
- Financial performance of supported MFIs
- The risk of the operations and efficiency
- The credit rating carried out for the supported MFI(s)

The tables with data on the partners studied in the field are contained in Annexes 6 to 8. Where necessary and possible, we have also added a benchmark: the value for that indicator in the respective years for the relevant *continent.*[11] We have selected a benchmark per continent, since global figures may inaccurately reflect the situation in the country, and a country benchmark would be too much influenced by the data of the partners themselves.

There may be a positive bias in the sample, as far as this is based on the organisations visited. Some of the partners with whom the co-operation had come to a standstill because of disappointing performance could not be visited (sometimes they no longer existed), and details on these could not be provided. This bias is small: the data of the organisations not visited have been taken into account in the calculation of the country and CFA averages as shown in table in the text, and in Bolivia and the Philippines this phenomenon did not influence the sample.

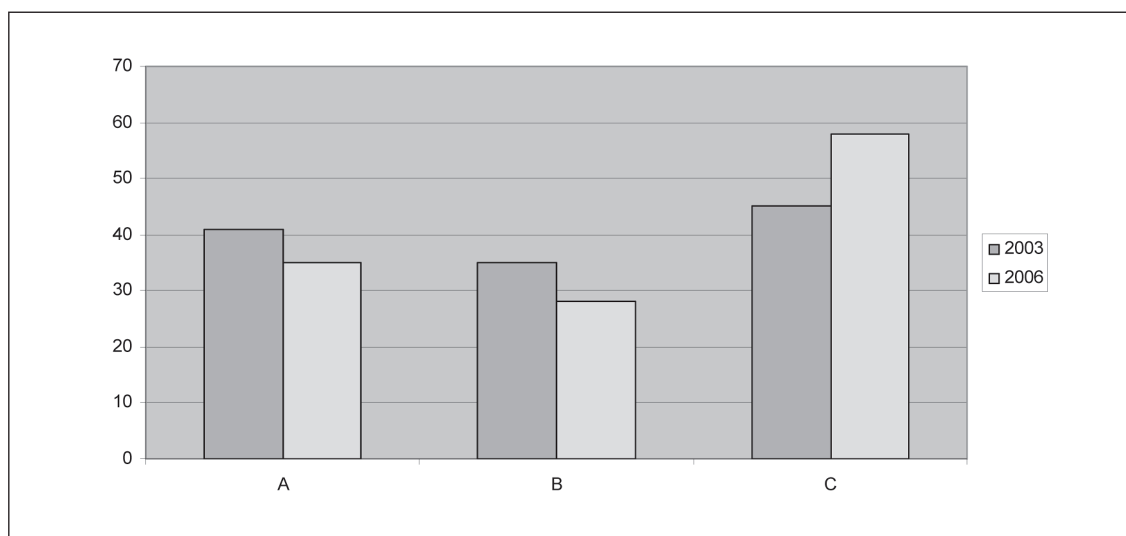
3.5.2 General migration in the portfolio

Generally, there is limited migration from segment A through B to C in the portfolio. The share of segment C organisations among the partners has increased, not surprisingly especially in Latin America. Figure 3.2 illustrates the slight decrease in segment A and B for the total, and the corresponding increase in segment C.

The analysis of the portfolio showed that the large majority (almost three quarter) of MFIs for which relevant data were available remained in the same segment during the period 2003-2006, one fifth moved to a higher segment and eight percent was downgraded. Given the limitations of the A, B and C segmentation (see section 3.1), these data should be interpreted with care. The analysis will therefore not be limited merely to OSS and FSS data, but also other indicators for financial and operational performance will be used below.

11) Source: MixMarket data

Figure 3.2 Number of segment A, B and C organisations in the overall portfolio



3.5.3 Operational performance and breadth of outreach of supported MFIs

Since these two issues are very related, we will cover them here in one paragraph.

Several indicators have been used to illustrate breadth of outreach: number of branches, number of clients and loan portfolio. Generally, the number of branches and clients of the supported MFIs has increased. We refer to Annex 6, where tables 6.1 to 6.5 show the dynamics of number of borrowers, branches, staff size, total deposits (savings) and the gross loan portfolio of the partners visited during the country study.

The tables in the text show the difference in operational performance of the MFIs, grouped according to the CFAs with which they co-operate. The tables are based on the file study, i.e. Indonesia is also included in these tables, as well as a number of organisations which were not visited in the field for practical or logistical reasons.

Table 3.10 Average number of branches per MFI per supporting CFA

	2003 (n=23)	2005 (n=24)	2007 (n=26)
Cordaid	25	35	55
Hivos	29	36	40
ICCO	3	5	12
Oxfam	27	28	31
Average	**23**	**28**	**38**

The size of operations as measured by these indicators in the sample of organisations visited (Annex 6) has increased. Doubling or tripling of the size of the operations are not exceptional and even a five-fold increase has occurred in the case of DECSI and CARD. In CASA the franchise system collapsed in 2004, but also here the restructuring, with the support (a/o a fifty percent loan write-off) of the CFAs, seems to bear fruits. There are some exceptions, like SEDA in Tanzania, which has serious funding problems which forces them to turn clients down.

Table 3.11 Average number of clients per MFI

	2003 (n=25)	2005 (n=26)	2007 (n=26)
Cordaid	21,180	83,082	134,332
Hivos	11,334	27,082	43,114
ICCO	5,489	11,403	19,209
Oxfam	40,341	66,754	81,052
Average	**21,551**	**37,634**	**58,947**

The growth has continued after the evaluation period. PRIDE Tanzania for example now serves 120,000 clients from 41 branches, and Ecofuturo in Bolivia tripled its number of clients in 2008 compared to 2007.

Table 3.12 Average size of gross loan portfolio per MFI (USD)

	2003 (n=23)	2005 (n=25)	2007 (n=25)
Cordaid	7.469.466	11.840.206	23.187.761
Hivos	25.689.029	27.322.595	41.799.802
ICCO	278.453	661.632	1.482.543
Oxfam	5.768.390	14.515.528	26.280.030
Average	**9.182.409**	**13.897.202**	**24.179.479**

There are no large differences in the improvement of the performance of the MFIs supported by different CFAs. Changes in the overall performance of the portfolio of individual CFAs are caused by two factors: improvement in the performance of individual partner MFIs; and changes in the composition of the portfolio, especially when exceptionally performing partners join or leave. For example DECSI, in which case in 2005 the support had halted, we have chosen to leave in the sample for the interim period 2005. If DECSI had been left out of the figures for 2005, results for the Oxfam Novib supported MFIs would have been significantly lower.[12] MFIs with the broadest outreach such as FIE, PRODEM and DECSI significantly boost the average performance in the sample for respectively Cordaid, Hivos and Oxfam. The combined performance of CARD and FIE explain most of the improvement in the figures for Cordaid from 2005 to 2007. On the other hand, taking aboard a smaller organisation will have a lowering effect on the average performance: PEF for example, supported since 2007, had a lowering effect on the average figures for Cordaid in that year.

If we furthermore take account of the fact that several MFIs have been supported by more than one CFA in the sample, it will be clear that comparing performance on the base of these indicators would not be justified. Only ICCO appears to stand out, since it appears to support smaller organisations, with a (yet) restricted outreach. The two cases in which it jointly with Cordaid supports organisations in the Philippines also relate to relatively smaller organisations: NATCCO and Milamdec. ICCO and HTF are in the process of withdrawing from FIE in Bolivia.

It is noted that the growth in the gross loan portfolio is proportionally larger than the growth of the number of borrowers. This indicates an increase in the average loan size. Since this may have implications for the poverty focus, this will be looked at further in par. 4.4.3. Also the outreach to rural versus to urban customers will be discussed below.

12) Nmber of branches 24, number of clients 16,426 and the average size of the loan portfolio of the supported MFIs USD 3.9 million, which would represent in all cases a decline from 2003.

Not all MFIs supported are entitled to collect savings, this is restricted to accredited banks such as ACB in Tanzania and the FFPs in Bolivia. Also SACCOs handle the deposits of their members. Compared to the growth in loan portfolio, the growth in the amount of deposits collected is therefore restricted to a few. CARD NGO may only handle deposits for its members. The fact that NGO-MFIs are not allowed to take deposits is often a serious hurdle for the operational development. As a matter of fact, in virtually all cases compulsory deposits are demanded. So far, only in Bolivia savings are a major source of loan funds.

Information on client retention was scattered. It appeared from the information that client retention was quite low in Ethiopia (e.g. in AVFS between 57 and 63 percent). This may be caused by the fact that the MFIs concerned have not developed any products for more advanced borrowers. Every client who outgrows the group loan product therefore necessarily will drop out. The evaluation here showed also the restricted value of this indicator. PRIDE in Tanzania has reportedly a low retention rate, which is caused however by its modus operandi. In the first month, when the group lenders are being trained and appraised, many clients drop out. If corrected for that first month, retention is high.

Table 6.6 in Annex 6 shows the OSS. It appears that the change in OSS is modest, sometimes backwards, and absolutely not proportional to the growth in the size of the operations. Only two of the organisations migrated from segment A to B (AVFS and ASHI). Obviously, between the organisations there are large differences. In Bolivia with one exception all organisations boasted an OSS of more than 100 percent, in Tanzania only PRIDE and ACB are operational self sufficient. It appears therefore that the operational growth did not go hand in hand with a growth in revenues, which leads us logically to the next paragraph.

3.5.4 Financial performance of supported MFIs

Annex 7 contains tables with indicators for the financial performance of the partners studied in the field visit. Tables in the text are aggregates taken from the file study.

Two indicators were used to illustrate commercial performance: return on equity and return on assets. In addition, where possible, data on FSS were gathered. With the exception of Bolivia, generally financial performance of the reporting organisations is weak, and had hardly improved over the evaluation period.

Table 3.13 Average Return on Equity (RoE) per MFI

	2003 (n=17)	2005 (n=20)	2007 (n=20)
Cordaid	16%	14%	6%
Hivos	19%	8%	15%
ICCO	-1%	-4%	-80%
Oxfam	-2%	4%	2%
	7%	**5%**	**-20%**

Averages may blur the picture, especially since they are not weighted. Hivos' ROA jump from 2003 to 2005 is explained by the legal transformation of Pokmas, its partner in Indonesia from Foundation to Cooperative, including non transfer of a large share of the assets. The dramatic decline in RoE for ICCO, from 2005 to 2007, is explained by a drastic change in this indicator in PALFSI in the Philippines, where the RoE dropped to minus 500 percent. Without taking PALFSI into account, average RoE would have amounted to close to zero.

Table 3.14 Average Return on Assets (RoA) per MFI (n=16-22)

	2003 (n=20)	2005 (n=22)	2007 (n=21)
Cordaid	-7,39%	-4,05%	1,78%
Hivos	2,24%	2,65%	6,00%
ICCO	-4,91%	-2,42%	-9,00%
Oxfam	-1,25%	0,46%	0,85%
Overall average	**-2,94%**	**-1,10%**	**0,22%**

Generally there is a tendency for the RoE to be higher than the RoA in absolute numbers, which points at a relatively high extent of debt funding by many MFIs.[13]

Looking at table 7.3 in the annexes it appears that FSS data confirm this picture. Most organisations remain in the segment they were at the start of the evaluation period. Noticeable is the drop in FSS for DECSI over the last years, effectively bringing it back to a lower segment of maturity.

3.5.5 Efficiency and risk taking

Efficiency and the capacity to handle risk explain to a large extent why improvement in the size of operations did not go hand-in-hand with an improvement of financial performance.

Portfolio at Risk after 30 days (PAR) is used as indicator to illustrate efficiency and security of the lending operations of the MFIs in the total sample, i.e. including the partners not visited. Annex 8 contains data for the organisations visited in the field, where in addition the following indicators were found: Default rate, Operating Expenses / Loan Portfolio, Adjusted Costs per Borrower, Debt : Equity ratio and Number of Clients per Borrower.

Table 3.15 Average PAR >30 days per CFA (n=22)

	2003	2005	2007
Cordaid	2%	6%	6%
Hivos	10%	18%	4%
ICCO	8%	6%	15%
Oxfam	5%	6%	5%
	6%	8%	8%

13) Technically speaking, there should have been an allowance in the nominator of the RoA for return generated on external funds: RoA = (profit + interest paid)/ total assets, RoE = profit/ equity. In that case, outcomes should have been more comparable.

Although the PAR after 30 days is above five percent in some instances (the generally accepted limit for this indicator) the situation improves in later years. The high PAR for Hivos is caused by the very poor performance of the YPP bank in Indonesia, which in 2005 reported a PAR of 68 percent. The PAR figures for ICCO are also here heavily influenced by one case: Palfsi in the Philippines. When not taking Palfsi into account, the PAR in the case of ICCO in 2007 would amount to eight percent.

The data for the organisations visited (Annex 8) do not show significant deviations from the trend. AVFS in Ethiopia shows the importance of PAR as a ‘warning’ indicator: the high PAR in 2003 was reflected in high write-offs (default) in the later years. The PAR for FONDECO is alarmingly high.

Many MFIs, when expanding and improving their operational performance, add other products to the classical microfinance products, e.g. in addition to the group loans also individual loans are provided. Normally PAR is very low in the case of group lending, because of the mutual guarantee scheme. Managing individual loans requires both better skills in client assessment (especially in countries like Ethiopia or Tanzania where legislation on mortgage registration and realisations is weak) and a tight MIS. Add to this the fact that normally loan sizes for the new products are larger, and it is clear why expanding MFIs often see their PAR deteriorating. The increase in PAR in PRIDE is an example of this, its 4.72 percent PAR in 2007 is actually an average of a PAR on group loans of almost zero, and very high PAR on their other products.

Several of the respondents in the field study however revealed that, especially in providing loans to rural clients, a high PAR may not automatically indicate a high default rate, in other words, clients may pay late but they will pay.

Table 8.6 in the annexes confirms the high debt : equity (D:E) ratio, which above (section 3.5.4) was mentioned as a probable cause for the large discrepancy between RoA and RoE. A high D:E ratio means a low solvency and a high dependency on borrowed funds, including possibly high costs of serving the latter (unless the majority of liabilities is of a concessional nature). In Africa, all supported partners here score worse that the African Benchmark, and also the high extent of debt financing in some Bolivian MFis is noticeable, such as Ecofuturo, FIE and PRODEM.

When looking at table 8.3 in the annexes, Operating Expenses / Loan Portfolio, the relative efficiency of the Bolivian partners is evident, also compared to the benchmark for the continent. Only DECSI has lower rates, especially when comparing to the benchmark for Africa. In general, the Ethiopian MFIs appear to be relatively efficient. The fact that adjusted costs per borrower is relatively higher in Bolivia, and the number of borrowers per credit officer lower, points at significantly higher average loan sizes in Bolivia. The CFA partners, with the exception of ProMujer, perform worse than the benchmark here however. Otherwise the Philippines and Tanzania stand out as relatively inefficient when looking at the adjusted costs per borrower. Only CARD and PRIDE score here better than the benchmarks for their continent.

The CFAs and their financial intermediaries fear that inefficiencies at the level of the MFIs are passed on to the clients, thereby making the products less accessible to the poor. We will come back to this issue later.

3.5.6 Credit rating

The extent to which organisations have their operational and financial solidity rated changes from country to country. In Bolivia, all MFIs understand the importance of having a rating issued by one of the rating agencies. MFIs can benefit from a rating in order to improve performance, for benchmarking, show commitment to transparency and attract investors and donors. The other extreme is Tanzania, where none of the partners has a credit rating. Terrafina is in Ethiopia active in promoting the concept of rating: support to the design of a business plan was accompanied with the possibility to have carried out a general rating and a social rating. The offer was accepted by four out of the six partners. In the Philippines, only CARD was rated by PlanetRating in 2008.

The most commonly used rating agency is Planet Rating, followed by Fitch, Microrate and Microfinanza (in Bolivia).

In Ethiopia, the network organisation AEMFI collects data on and compares the performance of individual MFIs with their peers in three categories (large, medium and small MFIs) plus with the average performance of MFIs in Africa. The analysis performance reports are published and made accessible to the public through the MIX Market website. The same is done by MCPI in the Philippines, which drew the attention several times to the high costs of the sector in the country.

Table 8.7 in the annexes show the ratings obtained. The scores appear to grosso modo correlate with the other findings on profitability and efficiency, e.g. the two relatively low scoring Ethiopian partners have not yet obtained FSS, in contrast to the other partners. Casa Amigo scores an acceptable B-, which however is an improvement to the previous year in which it was scored C-.

3.5.7 Innovative products

During the implementation of the evaluation, as requested in the ToR, an effort was made to identify innovative products, i.e. which could improve outreach and the efficiency of the organisation.

Bringing the products of this effort together is not easy: what is considered innovative in Ethiopia is no longer innovative in Bolivia. In the latter country ATMs have become a common sight, whereas in the African context they are considered an innovation (although in the meantime they have become in Tanzania a common sight as well). Interestingly, one of the innovations encountered in Bolivia (financing storage of produce in anticipation of better prices) was in Tanzania already in use in the '90-ies.

When the innovation was effectuated with the support of a CFA, this will be specifically mentioned.

<u>Produce data base</u>
FONDECO in Bolivia developed a data base with several tools to assess risks and to encourage its own clients to take risk-reducing measures. One such tool is a data base at every branch, recording the characteristics of the products grown in that regions such as the yield per ha, the quality, the price that was obtained for the product in previous years etc. This database helps FONDECO determine the risk of funding an activity linked to a certain product. Moreover the results from such a data base could convince funders to lend to FONDECO.

<u>Involving the young</u>
Crédito Amigo is developing a 'seed credit' programme, whereby they will offer micro-credits to youth (16-17 years old) who are undertaking training programmes with certain NGOs. Interestingly, a similar initiative is undertaken by FAIDERS in Tanzania. FAIDERS manages a pilot-SACA in a secondary school, with parents as guarantors and teachers as coaches. This 'school SACA' has already mobilized assets of Tsh 1.7 million and according to the CEO of FAIDERS the earning potential which it creates may even enable certain children to pay their tuition fee. Also SFPI in Ethiopia, with support from Terrafina, is testing financial services for youth that are willing to start their own business and need credit. The test looks for involvement of parents to guarantee the loan.

Agricultural value chain development
Strengthening the value chain as a new venture was observed in several countries

In Bolivia FIE is currently implementing pilot projects trying to support entire value chains, particularly in agribusiness. For example, concrete action has been taken in the field of banana production, in the region of Cochabamba. FIE FFP has extended larger credits than usual (about USD 6,000) to small independent banana producers to buy machinery which improves the quality of the final product.

CARD embarked in 2007 on agri microfinance, which is again piloted with the support of Cordaid.

With support of the NGO 'Lutheran World Relief' some of the SACCOs supported by ICCDE promote sunflower production, where the pilot SACCO owns now its own oil presses and five other SACCOs follow the pilot.

PRIDE Tanzania introduced the Agricultural Support Facility, so far as a pilot. Instead of money, loans are given in agricultural inputs such as seeds and fertilizer. In combination, an insurance against climatic problems is offered (in co-operation with BIA, a syndicate of insurers). PRIDE is also available at Trade Fairs and intends to support clients with Technical Assistance in e.g. packaging and marketing.

Technological innovations
The most impressive technological innovations in Tanzania were observed in an MFI not supported by any of the CFAs, i.e. the National Microfinance Bank (partly owned by the RABO bank). Over the last years NMB has installed ATMs in all of its (125) branches. In addition, it recently introduced mobile banking (for which it obtained funds from a multi-donor support fund).

3.5.8 Conclusions

Findings on actual performance are based on the file study, where the underlying reasons have been identified during the field study.

In terms of size of operations, the large majority of the partners have improved their performance. There is a clear growth in both average number of branches, clients and loan portfolio served by the partners of the CFAs. Regional outreach differs, and is in the case of Tanzania and Ethiopia limited. In Bolivia, only recently there is more interest in the remote rural areas. There is hardly improvement of OSS within the sample, the large majority of partners have remained in the same segment.

Financial performance of the reporting organisations has not significantly improved and, with the exception of Bolivia, is (still) weak, as is the case for efficiency. Often the introduction of new products like individual loans resulted in deterioration of the portfolio. Since the increase in the size of operations was not accompanied by necessary improvements in management and systems, most noticeably MIS, OSS remained stagnant or deteriorated. One MFI in Tanzania has a serious sustainability issue, another one may see its existence threatened on the longer term.

Credit rating is a common practice in Bolivia, absent in Tanzania and growing in importance in the other countries, in the case of Ethiopia with the active support of Terrafina.

Professionalisation of the microfinance industry therefore appears to go hand in hand with a desire for information and transparency. In Bolivia, partners actively thrive for rating, whereas in Ethiopia it was noticed that the partners hardly act on the information they receive back from AEMFI, and often are not aware of the existence of the MIX Market websites.

In several cases the operational growth has been actually the reason for the financial stagnation and deteriorated efficiency. Introduction of new loan products by some MFIs had a detrimental effect on PAR. The poor systems, especially MIS, were not able to support the growth of operations and translate the increase in size of operations in better returns. Governance structure, earlier already reported to be weak, failed in controlling this development. The CFA funds have therefore been used for expansion, but otherwise the CFAs could only to a limited extent exert influence on improved performance and efficiency: direct intervention in governance and management hardly occur. Progress reports of the CFAs mention this development at several instances. CFAs have indeed used the 'conditionality instrument', for example improvement of PAR has been used as a condition by the CFAs to continue funding or disbursement. The effect of this has however been limited. Equity investments is the only instrument which allows for direct influence, as demonstrated in the case of ACB in Tanzania and CASA in Bolivia. The disadvantage of this instrument is the fact that it makes exit cumbersome, since equity may be difficult to dispose off.

4 Have CFAs and the supported MFIs been able to maintain the poverty focus?

4.1 Introduction

Also evaluation question 2:

> **To what extent have CFAs and the supported MFIs been able to maintain the poverty focus? To what extent is there a correlation between question 1 (status of maturity) and 2 (poverty focus)?**

has also been broken down in a number of sub-questions, as shown in the attached evaluation framework (Annex 2):
- Are the supported MFIs committed to serving the poor?
- How do the MFIs define poverty?
- Depth of outreach:
  - Are conditions in place to ensure the possibility of servicing the poor?
  - Are services accessible to the poor?
- Are services addressed at the empowerment of women?
- Is a social performance rating carried out?
- Is there a trade-off between operational and financial growth and maintaining a poverty focus?

In addition, we have added a small section on the actual use of the MFI products by the clients in the two African countries in the sample (in section 4.4.3).

4.2 Are the supported MFIs committed to serving the poor?

It appears from section 2.3 that all CFAs focus on poverty alleviation as a final objective. The evaluation revealed furthermore that all partners of the CFAs have a clear and explicit focus on the poor. Within the overall sample of 50 partners, 17 organisations have an individual focus in their mandate, i.e. assisting poor individuals, whereas 16 explicitly mention support to (micro-) enterprises. It appears therefore that the social charter of the MFI partners largely coincides with the aims of the CFAs, as advised by CGAP in the pink book.

Obviously, the concept 'poor' is a wide and especially relative concept. We will describe this in more depth in the next paragraph.

In the literature, a difference can be observed between the financial systems or institutions approach and the poverty lending approach. (e.g. Bhatt and Tang, 2001; Woller and Woodworth, 2001). The *financial systems approach* views the overall goal of microfinance as the provision of sustainable financial services to low income people, but not necessarily to the poorest among them. If loans are demanded and paid back in time, the market has demonstrated that the services provided are valuable, so there is no need for further impact studies. The *poverty lending approach* sees as the overall goals of microfinance poverty reduction and empowerment. Financial sustainability matters little if the services provided do not have any impact on clients' poverty levels. Since the overall goal is poverty reduction, complementary services are often needed and integrated approaches are commonly applied.

Within the sample this difference could be observed. Whereas most MFIs claim to achieve their objective through improving the revenue situation of the clients, some go one step further and set as objective the achievement of the full potential of their clients (e.g. the rural NGOs like KADERS and FAIDERS in Tanzania). The first group normally refers to businesses as client group, whereas the NGOs focus on communities and groups. This is also reflected in different modus operandi. Unlike the MFIs, for whom banking is the core business, the rural NGOs use microfinance more instrumentally, as a part of their set of instruments to foster community development. The profile of staff and management is therefore different: MFIs use (increasingly) banking skills, whereas the management of the NGOs shows more rural and community development skills.

Table 9.1 in Annex 9 demonstrates the above on the basis of mission statements of a number of partners.

Most of the MFIs however do not restrict themselves exclusively to the poor. Often, expanding the portfolio to more 'up-market' clients is seen as a way to foster operational and financial growth, and remain or become viable. In most cases this is seen as instrumental for remaining in a position to serve the poor. Organisations like rural SACCOs are clearly serving the village or rural town population, but also here larger farmers or shop owners are among the clients (in some cases even the typical client). We will elaborate on this in section 4.3 below.

4.3 The way the MFIs define poverty

Although all organisations mention a focus on the poor, it is not really clear 'how poor'. Some explicitly mention that they focus on the segments ranging from middle class to working poor (BDB in Indonesia) and exclude the poorest. Others (e.g.. SEDA in Tanzania) explicitly mention clients on the USD 2 per day poverty line.

Among the MFIs studied 'in situ' in all cases the profile of the client is that of the 'productive poor' or 'economically active poor.' The target group for the group loans are described as 'productive poor, preferably (or exclusively) women, willing to join a group and owning a business.' This is in line with the target group mentioned in the policies of the CFAs, who also mention 'small producers' or SMEs explicitly in their objectives.

The extent to which clients fit in the category 'marginalised' is more difficult to ascertain. The following judgment criterion was defined in the evaluation framework: **'essential is at least that activities are addressed at groups or individuals who have no access to regular financial institutes.'** It appears that, within the sample, all cases meet this criterion, which is an important finding of the evaluation. It is also confirmed by an analysis made of the competition, i.e. the access of clients to other services. From this it appears that in all countries still large parts of the population are not served with banking services. Indeed, in other places (cities, towns) poor people have a choice of providers, but all of these are MFIs.

Measuring poverty in a systematic way, within the sample, only occurred in the Philippines and in Bolivia.

In the Philippines, as replicators of the Grameen Bank technology in the 90's, both ASHI and CARD had been using the Means Test to measure poverty. As from 2009 both organisations started also using the Progress-out-of-Poverty-Index (PPI).[14]. ASHI also calls on the Asset or Income Indices to provide more information to better assess poverty condition. As to CARD,

14) Schreiner, Mark, June 2002

it has drastically simplified its eligibility criteria: the only requirement for a client to avail of microfinance services is the presence of an existing business. While this indicates a veering away from poverty focus, CARD justifies this move as a means to faster expansion, and ultimately covering more poor clients. This latter fact appears to be confirmed by the low average loan size, as will be discussed below.

In Bolivia, the most common generic methods used for assessing poverty are the Human Development Index and the Housing Index. Some MFIs which tried poverty measurement methods in the past have abandoned them. ProMujer stopped using the PPI method because it found it was not very appropriate to the Bolivian context and it sometimes yielded unrealistic results. For example, the possession of a mobile phone is according to PPI an indicator that potential borrowers may not be qualified as poor. This demonstrates the relative value of poverty indicators in different contexts.

In the above only mention was made of borrowers. In SACCOs in Ethiopia and Tanzania the starting point for generating money is saving and this is seen as a sound way to learn to make some money and to prepare members for taking a loan. These institutions see saving as a condition for group loans.

The group loan is normally seen as a product guaranteed to go deep in the market. Nevertheless, social mechanisms within the groups will throw up barriers towards 'too poor' newcomers. Groups after all mutually guarantee each others' repayments. Since it is obvious that the poorest do not qualify for individual products, this in itself is already a compelling reason not to expect participation of 'the poorest' in microfinance. Two possible exits out of this 'loop' were identified:

- Groups of individuals may also act as one member of rural SACCOs. In Tanzania, groups of poor women may put in e.g. one USD each as savings, which allows the group to become member of the SACCO and ultimately borrow twice the amount of the deposit. This represents a small leverage, but may enable very poor to enjoy a financial service.
- Equally in Tanzania, a NGO is fostering the idea to lend low-value cattle (goats, chicken) and demand repayment in nature. This idea has however not yet been implemented.

It has to be accepted therefore that microfinance services within the organisations supported by the CFAs do not serve the poorest, i.e. the subsistence farmers and the landless. Even SEDA, which mentions clients on the USD 2 per day poverty line in their mission statement, upon closer scrutiny appears to have few or probably none of such clients. This is not surprising, many advocates of the industry admit to this, and it is neither in conflict with the stated objectives of the CFAs.

4.4 Actual depth of outreach

4.4.1 Introduction

From the above it appeared that all partners have a clear focus on 'the poor', although the definition of the poor is clearly restricted to that of the 'economically active' poor. Neither do MFIs restrict themselves purely to poor clients. In this section we will deal with the extent to which the poor are actually likely to be reached, i.e. on the base of the placement of the products and the relevance of the products to the poor.

4.4.2 Are conditions in place to reach the poor?

Rural or urban

A rural location is often used as a proxy for poverty. This is obviously a simplification, although it appeared in the sample that MFIs focusing on rural clients indeed reached out to relatively poorer clients than the organisations which restricted themselves to an urban clientele. The following table shows the focus of the financial service providing organisations in terms of regional location of their clients.

A clear difference in focus on rural or urban areas between the CFAs is not visible It is a/o caused by the fact that many MFIs focus on various client groups, i.e. there is significant overlap within the MFIs, in their client focus. This overlap is mainly at the city limits, i.e. between rural and peri-urban, or between peri-urban and urban. In Tanzania it was observed that locations designated as 'peri-urban' by a rural NGO would probably have been classified as 'rural' by the urban-based formal MFIs.

The totals in the following tables relate to the total number of partners in the sample (50), corrected for those who do not provide financial services (9).

Table 4.1 Number of institutions in the sample servicing the following clients (n=41)

	Oxfam Novib	ICCO	Cordaid	Hivos	Total
Rural poor	7	4	4	4	19
Urban poor	5	6	5	3	19
Peri-urban poor	4	3	1	2	10
Clients not expl. mentioned	1	1	0	0	2

The following table shows the same, this time per country:

Table 4.2 Number of institutions in the sample servicing the following clients (n=41)

	Bolivia	Ethiopia	Indonesia	Philippines	Tanzania
Rural poor	6	5	3	3	2
Urban poor	3	5	4	4	3
Semi-urban poor	3	4	1	1	1
Clients not expl. mentioned	0	1	0	1	0

Differences are insignificant; the division over rural and urban poor between the countries appears to be fully comparable. The lack of rural focus may appear at first sight a contradiction with the findings presented in Table 2.6, however, this latter table contained large unspecified categories (combination, not specified).

Breadth and depth of outreach are related in the sense that, if a broad outreach implies also coverage of the rural areas, the *chance* that rural and previously non-served clients are reached is larger. However, a broad outreach with a restriction to urban and peri-urban clients is possible, as well as a narrow but deep outreach restricted to a single region. All of these cases occur in the sample.

The regional coverage of the supported MFIs differs from country to country. In Bolivia, the MFIs supported cover virtually the entire country. However, between the MFIs there are differences, with e.g. Promujer, Ecofuturo and FIE basically urban oriented, FADES and FONDECO mainly rural oriented. The percentage of clients classified as rural by all studied MFIs was around 25 percent during the whole evaluation period, despite of a doubling of the size of the portfolio. Bolivia is also the only country in the sample where a majority of the population lives in an urban setting (60 percent), which puts these ratios in another perspective.

The breadth of outreach in Ethiopia is regionally limited. DECSI covers the entire region of Tigray. The remaining partners are concentrated in Oromiya Region (where the capital is located). Oromiya has the highest number and density of population. Some of the MFIs started expanding outside Addis Ababa because of the high competition in the urban market, an expansion which was supported by government funds (this fund considers anything outside the capital as rural).

CARD covers with its over 300 branches virtually all of the Philippines. Also NATCCO (an association of co-operatives) and PEF have regionally wide networks, the latter focussing on poorer areas. PEF, using a mix of official poverty data, has produced a poverty ranking of all provinces of the country. From this list, PEF chose to operate in the 29 poorest provinces. KPS SEED is a small MFI operational in the Mindanao region. It has selected there its locations on the basis of the poverty rating produced by PEF. Likewise ASHI has chosen its locations explicitly on the basis of regional poverty ranking.

In Tanzania, only PRIDE has a national coverage. Initially PRIDE focused on (peri-) urban clientele, because in its group lending approach clients have to come to the bank once a week. It is now, for example with wholesale lending to SACCOs, more and more reaching out to rural clients. ACB claims to be a bank for urban clients. It has no branches outside of the three cities, Dar, Moshi and Arusha. SEDA is restricted to the northern half of the country. It found environment and infrastructure in the rural areas to be non-conducive for microfinance development, and by force focused on (peri-) urban areas.

The NGOs supporting SACCOs in Tanzania have a very restricted outreach, both in number of members and regionally: two of them cover a region (resp. the Dodoma and the Kagera region), KADERES only one district. The SACCOs supported have however a distinct rural character. FAIDERS and KADERES support RFIs which are based in very small (less than 1,000 inhabitants) market centers in rural areas (which it describes as ‘peri-urban’) but also some which are based in very small villages.

With the exception of the Philippines therefore, the majority of clients served by the partners in the sample appear to live in urban or peri-urban areas.

Relevance of products

Another proxy for poverty focus may be the type of lending, whereby group or village loans are normally seen as better instruments to reach the poor.

Table 4.3 Number of institutions in the sample delivering the following services (n=41)

	Oxfam Novib	ICCO	Cordaid	Hivos	Total
Number of inst. offering individual loans	6	6	8	7	27
Number of inst. offering group loans	8	7	9	9	33
Number of inst. offering communal (village) lending	1	1	2	3	7

In Bolivia, only CASA and FIE restrict themselves purely to individual products. All of the other partners provided also solidarity and/or village loans. In Ethiopia, only DECSI provides individual products, next to a range of group loans. All others focus exclusively on group products. In the Philippines, the product methodology used by CARD, ASHI, NATCCO and KPS-SEED supports their poverty outreach. Whether solidarity lending (Grameen model) in the case of ASHI, or individual lending (ASA model) for CARD, NATCCO and KPS-SEED, both models do not require collateral other than having support from friends and family, i.e. as loan guarantors. This makes microfinance accessible to the asset-less. In Tanzania, only ACB is not involved in group lending, for all other supported MFIs group loans form the major share of the product package.

Popular products for the MFIs in e.g. Tanzania and to a lesser extent in Ethiopia are the salary loans. They are relatively safe products for the MFIs, since they are guaranteed by the 'salary slip.' SEDA also provides bicycle loans (i.e. provides a bicycle which is paid back in instalments). Individual loans under the individual ASA methodology can be accessible to the poor, if an individual guarantor is found. Generally however, all individual products aim at less poor clients with collateral at their disposal.

In Tanzania it was observed that rural SACCOs or comparable RFIs, if well governed,[15] are actively searched by MFIs like PRIDE but also larger MFI banks, as clients in rural areas. These RFIs are therefore a potential intermediary between the more formalised and traditionally urban-based MFI industry and clients in the rural areas.

Some authors on microfinance have pointed out that an important condition to reach the poor is to associate credit services with other types of services, for example basic business training and health services. In our sample, it was often the microfinance services that came as a complement to earlier undertaken activities rather than the other way around. This is the case for ProMujer in Bolivia, as well as for ICCDE, FAIDERS and KADERES in Tanzania (which sometimes collided with the desire of the funding CFAs to strictly separate the financial services). However, some formal MFIs are also considering accompanying its credit clients with other types of services; CASA is such an example, which is planning to set up business training services. The Business Development Services of CARD has been described elsewhere in this report. PRIDE in Tanzania has similar plans.

15) As indicated above, in general SACCOs enjoy a bad name because of poor governance. Most SACCOs are furthermore urban-based, having e.g. employees of one employer as clients. The adjective 'rural' and the condition 'if well governed', are therefore of importance in this sentence.

Focus on underprivileged groups
A focus on specific underprivileged groups was not found in any of the MFIs studied, with some exceptions.

Rural NGOs in Tanzania pay some attention to the HIV/AIDS issue. Groups consisting of AIDS widows become members of SACCOs, training is given to management and board of SACCOs on how to deal with the issue, in membership and loan application assessment. Also in Ethiopia there is a recent attempt to investigate the impact of HIV/AIDS on microfinance institutions and their clients.

Providing loans and capacity building support to the MFIs and enterprise promoting institutions in conflict stricken Mindanao region is relevant also from the point of view of stability and conflict transformation. However, although the KPS foundation, the mother organisation of KPS SEED, has been active in supporting resettled and displaced persons, KPS SEED does not pay specific attention in Mindanao to these groups, as it feels this to be detrimental for sustainability. CARD is piloting a product for indigenous communities; ASHI considers reaching out to the physically impaired and wives of prisoners.

4.4.3 Are the products affordable to the poor?

Above it was discussed whether products are placed so that they are likely to reach the poor. In this section the affordability will be discussed: average and minimum size of the loans, as well as the price of the loans and the transparency of the products.

Average size of the loans
The following table shows the average loan size of MFIs to their clients, per CFA and per country. Although this indicator is disputed in literature, it is still the most commonly used indicators for depth of outreach.

Table 4.4 Average loan size (EUR) per CFA (n=20)

	2003	2005	2007
Cordaid (n=7)*	349	332	692
Hivos (n=7)	718	421	726
ICCO (n=5)	317	289	91
Oxfam Novib (n=8)	296	374	316
	396	351	439

*** Because of donor overlap the sizes of the file sample of the individual CFAs do not add up to the total ‘n’.**

The increase from year 2003 to 2005 experienced by Cordaid was caused by Bina Swadaya in Indonesia, which started reporting in 2007. The drop in average loan size of the partners supported by ICCO was solely caused by the fact that IDEPRO in Bolivia no longer reports since 2007. Without IDEPRO, the amounts for ICCO in 2003 and 2005 would have been respectively EUR 76 and EUR 79. Overall, the picture appears to be stable therefore.

The following table shows the same per country: The high figure for Indonesia is caused by the YPP data, which report average loans around USD 2,000. After that year it was no longer part of the portfolio.

Table 4.5 Average loan size (EUR) per country (n=20)

	2003	2005	2007
Bolivia	715	756	821
Ethiopia	69	99	121
Indonesia	777	28	1,919
Philippines	86	85	120
Tanzania	105	433	165
	396	351	439

Table 9.2 in Annex 9 shows the average loan sizes for the individual partners. FADES, Ecofuturo, FIE and PRODEM all have indeed an average loan size above the continental benchmark.

More illustrative is the average loan size as a percentage of Gross National Income per capita (GNI p/c). We have provided benchmark data for the countries for comparison's sake.[16]

Striking is the relatively low size in the Philippines, both in the sample and in the benchmark. Obviously, data may be distorted by the evidence of many small short loans which may be renewed easily. Another, positive distortion may be caused by a relatively small number of large loans. In Tanzania, by correcting for only two percent of the number of loans of the ACB bank which had been granted to 'up market clients', the average loan size dropped tenfold.

The average loan size of the partners in Bolivia appears however high, which may reflect both the maturity of the instrument as relatively better macro-economic indicators.

Table 4.6 Average loan size as % of GNI p/c (CFAs, n=20)

	2003	2005	2007
Bolivia - CFAs	92%	93%	83%
Bolivia - Benchmark	133%	132%	92%
Ethiopia - CFAs	63%	62%	55%
Ethiopia - Benchmark	80%	71%	56%
Indonesia - CFAs	86%	n.a.	146%
Indonesia - Benchmark	52%	41%	35%
Philippines - CFAs	9%	8%	9%
Philippines - Benchmark	23%	9%	10%
Tanzania -CFAs	42%	167%	52%
Tanzania - Benchmark	49%	43%	47%

16) Source: MixMarket. A word of warning: in some countries the benchmarks may be largely influenced by the same organisations in the sample, which restricts the possibility for comparison.

Minimum size of the loan

Average loan size, even when corrected for national income data, is not a fully SMART indicator, since it does not take account of the following facts:

- There is no guarantee that better endowed individuals may not take up smaller loans (which would cause 'dead weight').
- It does not do justice to those organisations which 'cross-subsidize', i.e. which expand (instead of move) to more profitable market segments leaving at the same time a capacity for the poorer group in place.

We have checked for that last element in Tanzania, where especially ACB had relatively high loan sizes (in 2007 250 percent of GNI p/c, in 2005 even 440 percent). The figure is obviously distorted by the small number of large loans provided to up-market clients (including corporate loans). ACB's client base consists for 98 percent of microfinance clients, but in terms of portfolio however, less than eight percent is dedicated to micro-enterprises. If we assume that that percentage has remained stable over the years, the average size of loans provided by ACB to the microfinance clients ranged from USD 114 to USD 90 (21 percent of GNI p/c), which is actually smaller than the other MFIs in the Tanzanian sample.

It is therefore also important to look at the minimum size of the loans. Unfortunately, few partners provide information on this. It is also not an indicator reported on to MIX Market. In Bolivia, it was found that in 2004 more than half of the clientele of associated MFIs borrowed less than USD 500, in 2008 this had dropped to some 20 percent. This may indicate a move away from poorer clients, or (rather) the development of clients becoming more able to absorb higher loan amounts. Important however is to note that clients borrowing less than USD 500 (58 percent GNI p/c) represent still a large share of the portfolio.

In the Philippines, to support the start-up of micro enterprises, CARD lowered the minimum loan size from PhP 5,000 per new member to PhP 2,000 (about USD 50). Unfortunately no other data on minimum loan sizes could be found here.

In Ethiopia minimum loan sizes range from USD 7 (DECSI, a general loan, a/o applicable for agricultural purposes) to USD 30. Higher rates apply for housing loans.

In Tanzania, average loan sizes for beginning clients range from USD 30 (SACCO) to USD 150 (ACB, PRIDE, SEDA). Especially the later figures are close to the average sizes, indicating that the large majority of clients are still in the low loan size bracket.

Minimum loan sizes therefore should normally not be a hurdle. Also the interviews with all MFIs revealed that they do not throw up thresholds in terms of minimum loan sizes.

Pricing and transparency

Competition appears to pay off. In Bolivia, the country in the sample with the best developed microfinance industry, average interest rates have dropped from some 29 percent in 1998 to 20 percent in 2008, which, even taken account of the inflation, are globally the lowest rates in the microfinance industry.

In Ethiopia rates range from nine percent declining, two years maturity (which is cheap) to 24 percent flat rate (in which case without additional information it is difficult to calculate the effective rate). Costs are here to an extent limited through the availability of subsidised funding to MFIs from the governmental RUFIP fund.

Unfortunately, the situation looks differently in the Philippines and in Tanzania, and the fear that inefficiencies are passed on to the clients is not unwarranted.

The rate of interest charged on loans to clients by CARD is 30 percent per annum on flat basis which works out to 58 percent per annum on declining balance. With nearly 75 percent of the clients prepaying the loans three to six weeks in advance, the effective rate of interest is even higher. Though the nominal rate of interest of ASHI was 25 percent flat the effective rate of interest can exceed 80 percent per annum. The effective rate of interest charged by KPS-SEED is about 80 percent per annum since the introduction of ASA methodology in

2008. An interview with the borrowers indicates that many of the other MFIs charge similar or higher rate of interest. The MICOOP branches appear to charge from 80 percent to 120 percent effective.

In Tanzania, a similar picture emerges. Since normally flat rates are applied on a monthly base, but maturity may differ per client, it is not easy to present a comparable effective rate. In the case of SEDA, for its group loans, repayment is monthly and maturity is flexible: 3 to 24 months, whereas interest rate is 3 percent flat per month. This implies that the effective rate on an annual base is some 72 percent if taken for half a year. Adding to this the different up-front fees (insurance) and the low interest on the compulsory deposits makes effective annual rates to be close to 100 percent. PRIDE even has higher rates. Comparing: the interest rate charged by the SACAs in the Kagera district is 5 percent per month, but declining, which implies (always) a rate of 30 percent per year. FAIDERS is the only organization in the sample applying transparent declining rates.

A main problem is the lack of transparency caused by the application of flat rates, different up-front fees and varying maturities. To that the opportunity costs of the compulsory savings should be added. This phenomenon, in combination with the low financial literacy of the population, hampers a fair competition. It creates a chance that individuals taking a loan and therefore a financial commitment are not aware of the consequences. It is therefore to be regretted that the flat rate option appears to be applied widest, at least in the Philippines, Ethiopia and Tanzania, creating the false impression that they are cheaper than the few who use the more transparent declining rates.

The financial performance of the institutes involved (as discussed in the previous chapter) does not demonstrate windfall profits for the MFIs. Microfinance has never been characterized as a 'cheap loan' instrument. Small nominal returns combined with high risks and operational costs which are not dissimilar to those of a regular bank result in the at first glance bizarre situation that the poor have to lend at higher costs than the rich.[17] However, this effect is here aggravated by inefficiencies, e.g. a too large number of loan officers per client, costs of defaulting clients which ultimately are paid by the other clients etc. High costs restrict the depth of outreach, i.e. make the services unaffordable for certain groups. Lack of transparency in pricing is possibly worse, since it may cause later financial problems for the client, and result in a deterioration of the client's position.

The problem has been noticed, among others MCPI has at several instances reported on these practices. Apparently, as members of MicroNed, the CFAs are supporting the Microfinance Transparency Website, in order to bring these practices in the open and to discuss these. All CFAs also have signed the Client Protection Principles. Nevertheless, effects of this in Tanzania and the Philippines could not be observed.

Use of the loans

During the country visits there has been at instances the occasion to ask clients about the purpose of the borrowing. The following is illustrative, and cannot be compared to a statistically solid survey.

The focus group discussions in Ethiopia (six) and Tanzania (four) confirmed the following picture. Economic purposes can be roughly divided in categories of rural and urban activities:

- More in town than in villages:
  - Petty trade and grain trade (more women than men);
  - Services (both men and women), like e.g. sewing machines.

17) The same situation also occurs in high-income countries, such as the Netherlands.

- More in villages than in town:
  - Dairy cattle and animal fattening (more men than women);
  - Crop production (more men than women);
  - Raising of small animals (more women than men);
  - Poultry and beekeeping (only women);
  - Investments in agro-processing, such as a grinding machines or oil presses;
  - Handicrafts (only men).

In Tanzania, in addition to the above:
- loans for consumption or household expenditure.

In Ethiopia the use for consumption purposes was not mentioned (loans for consumption are relatively new and limited to individual, urban clients). In Tanzania this was an important category, especially payment of school fees, housing improvement or sometimes medical expenses. The fact that these expenditures could now be financed was seen as an improvement in livelihood. Among the Tanzanian SACCOs groups have in addition realized the construction of schools and even churches.

Members are equally positive about the possibility to save securely. Prior to the support obtained saving was not part of the culture. A positive effect consequently mentioned was the fact that self-esteem had been increased: instead of begging for a loan (or bribing), a loan could be obtained from the 'own' SACCO.

Most often the classical MFI products are less or not useful for agricultural purposes: the loan repayment profile does not coincide with the sowing and harvesting cycle. Bullet loans would be most appropriate here. This seems to confirm the work of Malcolm Harper (2005), who found a mismatch between most MFIs and loan products for rural households. Exceptions in the sample are the SACCOs supported in Ethiopia and Tanzania, which have developed products sufficiently flexible to be used for agriculture. SACCOs have over the last years developed different products, suited to the needs of the members: next to the original business and agricultural loans there are now also business emergency loans and storage loans (allowing producers to temporarily store their produce in anticipation of better prices).

4.4.4 Innovative approaches to reach the poor

We have looked at a number of innovative approaches, to improve outreach.

The network organization MCPI in the Philippines, with support from ICCO, established the Product Innovation Fund in 2007 to expand the depth of outreach of microfinance to include small farmers and the poorest and disadvantaged groups in hard to reach areas. To broaden the reach of this advocacy for innovation, MCPI partnered with the cooperative network, NATCCO, and with Oikocredit.

Lack of product diversification in Ethiopia is caused by two phenomena. First, most MFIs are still in the phase of horizontal expansion, and have no time or special skill and staff to do otherwise. Second, in responding to the continuous demand from start ups there has not been much attention for seeking specific segments in the market. There are two types of on-going innovative development in the MFIs that are supported by ICCO-Terrafina in Ethiopia:

- Attempts to design different loan products for specific target groups (AVFS, Busaa Gonofaa, Wasasa, Harbu and SFPI);
- Relate community-based saving and credit systems to MFI operations.

Several efforts to attune financial services to the needs of specific target groups are being supported through the innovation fund of ICCO-Terrafina. AVFS has developed a leasing product for micro- and small enterprises. Leasing is tested with 47 clients leasing equipment used in construction; food processing; sewing and garment making; transport and water pumps.

Experiences with the integration of community-based saving and credit systems in operations of MFIs can be considered innovative in Ethiopia, because the community-based systems are not formally regulated. Cooperatives on the contrary are regulated and therefore support mechanisms can be put in place, as is being done by ICCO-Terrafina (through SHDI and AEMFI

The approach of ICCO-Terrafina in the Innovation Fund and CIDR in the participative microfinance development project has created a stimulating environment to design and monitor progress of product development, but much is to be done before the products and approaches are technically and financially feasible.

4.5 Role of gender

Microfinance is often seen as a powerful instrument for women empowerment. The classical approach, the Grameen methodology, restricts the clientele group to women.

Table 4.7 Gender focus in the sample, number of organisations explicitly focusing on women

CFA	Oxfam Novib	ICCO	Cordaid	Hivos	Total
	1	4	6	3	14
Country	**Bolivia**	**Ethiopia**	**Indonesia**	**Philippines**	**Tanzania**
	3	1	4	5	1

Fourteen out of the 48 service providers (like CARD and ASHI in the Philippines, Pokmas in Indonesia, in line with the Grameen methodology) in the sample have an explicit focus on women. Cordaid supports most of the service providers with a reported focus on women. The fact that an organisation is not explicitly focusing on women obviously does not imply that no women are supported.

Table 4.8 Non-weighted average % of women clients of supported MFIs per CFA

	2003 (n=19)	2005 (n=26)	2007 (n=23)	Target
Cordaid	81%	78%	83%	70%
ICCO	71%	76%	85%	50%
Hivos	71%	66%	73%	60%
Oxfam Novib	47%	55%	53%	70%
	67%	68%	73%	

With the exception of Oxfam Novib the focus on women seems to be well in line with the targets set by the CFAs. The following table shows the same per country.

Table 4.9 Average % of women clients of supported MFIs per country

	2003 (n=19)	2005 (n=26)	2007 (n=23)
Bolivia	47%	56%	68%
Ethiopia	52%	53%	52%
Indonesia	82%	75%	83%
Philippines	99%	90%	88%
Tanzania	64%	67%	54%
	67%	67%	72%

The relatively high representation of women among Cordaid's partners is among others caused by its relatively high portfolio in the Philippines.

Table 9.3 in Annex 9 shows the participation rate of women among clients and members of the individual MFIs. As witnessed by the regional benchmarks, there are obvious traditional factors in play. Asia scores high, and the two largest providers in the sample focus exclusively on women. However, also in the Philippines, microfinance is no longer exclusive for women. CARD and ASHI have enrolled agriculturists who are not per definition women, through their sister organizations. Increasing competition has likewise driven MFIs to look into the needs of other underserved poverty groups. In the Philippines therefore a trend can be observed where the focus is moving away from a 100% women participation towards a focus more on specific professional groups.

In Bolivia, especially when correcting for the 95 percent women participation in ProMujer, generally the women participation among the supported MFIs is below the regional benchmark. Respondents interviewed felt that the Bolivian microfinance sector is not faced with major issues of imbalance between male and female participation. Women are the majority group in village banking and are also well represented in individual lending, inter alia because they have a better repayment rate and apparently invest loans and profits more wisely. However, especially for individual loans, Bolivian MFIs assess the family unit (husband and wife) as a whole when deciding on providing a loan and make them co-responsible for its repayment, which is not conducive to women empowerment. The net effect of all this is however a relatively low women participation, improving for PRODEM but clearly deteriorating for the large provider FIE.

In Africa, gender is definitely still an issue. The Ethiopian organizations appear to perform poorly in women participation and empowerment. None of the supported MFIs nor AEMFI has an explicit gender policy with regard to their target populations. Three of the four MFIs studied mention women as a particular category among the poor. However, this does not mean that they have strategies to reach more women. Only Busaa Gonofaa was found to be pro-active in recruiting female clients by inviting them openly from the beginning of their operations.

As there is no gender policy in the MFIs, there are no signs of promoting women's opportunities among the staff. In Busaa Gonofaa and Eshet, women are even discouraged to apply for the posts of credit officer in rural areas, for reasons of safety.

In general, also the Tanzanian organizations appear to perform poorly in women empowerment. None of the supported MFIs have an explicit gender policy. This has been a point of concern for both Oxfam Novib and Hivos, which have consistently insisted on attaining higher rates of female participation. Women participation in the RFIs is around 40 percent, but also in the regular MFIs the participation is falling. Surprising is the figure for SEDA (66 percent), since for its group products clientele is almost per definition 100 percent female.

The rural NGOs have introduced measures to insure women participation in board and management of the SACCOs. One of the efforts taken to control risk by KADERES is making membership for partners of members applying for a loan compulsory. Some SACCOs insist on delegation of 50 percent of female members to the Board by village groups joining. On average one third of the board members in the KADERES supported SACCOs are women. Board and management of ACB are predominantly male, the only three female (out of 13) Board members are expatriates. In the case of PRIDE two of the seven board members are female, but women are better presented in management and among the loan officers and branch managers. This is comparable to the situation in SEDA, where four of the seven board members are female. In the staff of FAIDERS, five out of the seventeen staff members are female.

Both Oxfam Novib and Hivos in supporting their partners in Tanzania insist on the importance of gender participation, in the client group, and have introduced indicators on which partners have to report, in line with the policy.

4.6 Social Performance Rating

Social performance ratings are still rare. As a matter of fact, social rating is a relatively new instrument, largely still in the stage of development.

In Bolivia, only four such ratings were found in the sample: one for FADES (2008), two for FIE (2008 and 2009) and one for ProMujer (2008). The results are overall positive, with one obtaining an average score (3 of 5) and the other two ranking high (four of 5 stars).

However, the reliability of these ratings remains extremely problematic. Part of this has to do with the set of indicators that are being selected, which do not necessarily offer a complete or accurate picture. A more important aspect is the lack of data for many of these indicators.

The Philippine branch organisation MCPI has carried out three social audits during 2008 - 2009.The Microfinance Centre of Poland trained local trainers as Quality Audit Tool (QAT) evaluators. The audit reports are detailed and the methodology involves a look at strength and weaknesses of the MFI at each stage of the SPM framework; a time bound action plan emerges at the end of the audit exercise. CARD underwent this QAT assessment of MCPI in August 2008. Several areas of strengthening of social performance have been highlighted during the audit.

In September 2008, Microfinanza performed a social rating to ASHI giving it an A- rating, characterizing ASHI as having a 'good capacity to effectively translate its mission into practice and to promote social values: 'Very high likelihood to achieve social goals.'

PEF has not undergone any social audit or rating but it has adapted the Cordaid recommended social rating scorecard in its partner's screening procedures. A look at the eligibility criteria of MFIs and SMEs however shows an absence of the scorecard in the list of core or minimum requirements. All three criteria are finance-based: portfolio at risk, past due rate and debt-equity ratio which indicates PEF's bias towards the financial management capacity of potential partners.

Measurement and management of social performance is a new area for all Ethiopian MFIs as well as for the umbrella organisation AEMFI. Apart from the outreach indicators, social performance is not measured on a regular basis. Information on social performance of some MFIs is available in evaluation studies and client satisfaction surveys. For DECSI, two impact studies have been done which demonstrated the positive results of this MFI in gender and poverty outreach and improvement of livelihood at household level. Another impact study compares the situation of female clients before and after accessing credit and with the situation of non-clients. The outcome is similar: increased women's contribution to the household income is accompanied with more control over resources (ownership, decision-making) and a higher self-esteem. It is added however, that empowerment is not only a matter of borrowing money. Improvements could be more significant if women could learn more about business development planning and market-based product development.

Above mention was made of the rating carried out, as part of a Terrafina project, by PlanetRating in 2007, of Busaa Gonofa and AVFS. Busaa Gonofaa received the scoring 3, meaning 'in progress': having clear intent to reach social goals and social performance management system being implemented. AVFS received the score 2, meaning 'incipient': having intentions to reach social goals and low capacity to manage social performance.

In Tanzania, none of the organizations employs a structural social performance measurement system, or a social performance rating. None of the formal MFIs report to MIX Market on issues like percentage of clients below the poverty line etc.

It was observed that progress is at present being made in Social Performance Rating and Measurement, but most of the results have only become available after the evaluation period. Many of the partners supported, noticeably in Tanzania, have never been subject of an audit.

4.7 Is there a trade-off between financial and social performance?

The discussion as to whether there is a trade-off between on the one hand financial self-sustainability and on the other hand a focus on poverty stands central in the literature on microfinance. It is also the field where evaluation question 1 and evaluation question 2 meet. The two questions whether CFAs have supported MFIs in reaching commercial maturity; and whether the poverty focus has been maintained, logically lead to the questions:

- has the poverty focus been maintained or sacrificed while migrating to higher segments of self-sufficiency; or
- is it possible to continue serving the poor at the same time reaching commercial self-sufficiency.

Students of the field like Hulme and Mosley (1996) have clearly concluded that 'at a given point in time [MFIs] can either go for growth and put their resources into underpinning the success of established and rapidly growing institutions, or go for poverty impact … and

put their resources into poverty-focused operations with a higher risk of failure and a lower expected return'. On the other side of the realm, David Gibbons (2000) mentions that from his experience 'there was no necessary … trade-off, as even among the poorest loan clients average loan size tends to increase considerably over the years, as clients prove their ability to repay and consequently have access to larger and/or multiple loans.'

Obviously, our sample had its limitations in proving one of the two options:
- There has been limited migration to higher segments of operational and financial self-sufficiency, so time lines could not be observed.
- The sample is too small to be representative for the microfinance community.

On the other hand, the sample contained representatives of all segments, and the effects of actions undertaken by MFIs to reach a higher segment could be observed.

In principle all MFIs responded that the original target group and mission have not changed over years. Those in segment C are still open, with the size of their products, to the poorer clients.

Many authors in the literature state that with an increased number of shareholders expecting a financial return, there is a risk of losing the social mission. The experience in Bolivia does not seem to confirm this. In the Bolivian context, although financial sustainability and efficiency remain paramount, the social focus is not lost.

The MFIs in Ethiopia stick to their original target group by keeping the loan size very small. They are hesitant to differentiate between the small and the big clients, despite the calls for such differentiation from both clients and MFI staff in the branches. Busaa Gonofaa intends to split the groups in 'larger' and 'smaller' loan groups, in order to protect and retain the poor clients.

In Tanzania, all of the formal MFIs have introduced new products, with an aim to improve OSS and FSS. Even SACCOs have adjusted some of their products to 'growing' clients. This may have allowed to keep developing clients on board, and to attract relatively better endowed clients. This has however not gone to the detriment of accessibility to the original target group. In the case of SEDA and PRIDE the average loan size has increased, but the minimum loan size for the group loans stayed at the same level. The group loans represent still the largest group of products of both banks. In the opinion of PRIDE, group loans are a safe product, and even though efforts are made to introduce 'up-market products' (which even deteriorates the portfolio) 'nothing can keep PRIDE away from its mandate for the poor' (quote from the CEO).

As a matter of fact, in some cases the opposite effect was observed: organizations with poor performance who, in a struggle for survival, gave few priorities to the poor. MICOOP (NATCCO) branches supported by ICCO and Cordaid, for instance, experienced an alarming collective PAR averaging 35 percent. MICOOP management admitted that because of this problem, they could only focus on addressing the challenges in financial performance. Managing social performance had to wait. CASA improved its social performance after 2005, because prior to that they were too involved with their organisational and financial problems. As discussed above, introduction of new products aiming at higher market segments often resulted in a deterioration of portfolio and financial performance. The typical pro-poor group loan therefore may have its restrictions when an MFI wants to expand, but it is still the safest product.

A trade-off between financial and social performance could therefore not be observed in the study. This may actually be one of the most important findings. However, a reservation to be made in this respect is the restricted definition of 'poor', putting the bottom-line around or above the USD 2 p/d income limit, in Bolivia even higher. Furthermore, services are also delivered to richer clients.

4.8 Conclusions

The following judgment criterion was defined in the evaluation framework: **'essential is at least that activities are addressed at groups or individuals who have no access to regular financial institutes.'** It appears that, within the sample, all cases meet this criterion, which is an important finding of the evaluation.

All CFAs focus on poverty alleviation as a final objective. The evaluation revealed furthermore that all partners have a clear and explicit focus on the poor. The social charter of the MFI partners largely coincides with the aims of the CFAs, as advised by CGAP in the 'pink book.'

Within the sample the difference between the more instrumental financial systems approach and the poverty lending approach could be observed. The above is also reflected in differences in modus operandi. Unlike the MFIs, for whom banking is the core business, the rural NGOs use microfinance more instrumentally, as a part of their set of instruments to foster community development. There is however no clear distinction between the CFAs in supporting relatively more of one or the other category.

Among the MFIs studied 'in situ' in all cases the profile of the client is that of the 'productive poor' or 'economically active poor.' Most of the MFIs however do not restrict themselves fully to the poor. Often, expanding the portfolio to more 'up-market' clients is seen as a way to foster operational and financial growth, and remain or become viable. It has to be accepted therefore that microfinance services within the organisations supported by the CFAs do not serve the poorest, i.e. the jobless and the landless.

With the exception of the Philippines, the majority of clients served by the partners in the sample appear to live in urban or peri-urban areas. NGOs operating in rural regions are often restricted to that region, and have therefore a deep, but narrow outreach.

A focus on specific underprivileged groups such as HIV/AIDS victims or displaced persons was hardly found in any of the MFIs studied.

Average loan size, an indicator of the accessibility of the products for poorer clients, was relatively high in Bolivia. In the other countries it is close to the regional benchmark, or, as in the Philippines, below. It further more appeared that there are no thresholds for poorer clients in the form of high minimum loan sizes. In Bolivia, the products of the microfinance sector are affordable, reportedly the cheapest in the world, which may be a result of competition. In Ethiopia the products are also affordable, for other reasons, but in the Philippines and in Tanzania they are expensive. Furthermore, through the application of flat rates, up-front fees etc. the pricing is not transparent, which hampers a fair competition and may even have a negative effect on clients' position. Most often the classical MFI products are less or not useful for agricultural purposes.

Women participation is high in the Philippines, for several reasons MFIs there are increasingly moving away from an exclusive focus on women. In the other countries this participation is less, in the case of the African countries, despite efforts from the supporting CFAs, disappointing.

Formal social performance rating is restricted to the Philippines and Bolivia. In Ethiopia Terrafina has supported this in four MFIs.

A trade-off between financial and social performance could not be observed in the study. MFIs have introduced new products, with an aim to improve OSS and FSS. This may have allowed to keep developing clients on board, and to attract relatively better endowed clients. This has however not gone to the detriment of accessibility to the original target group. The group loans represent still the largest group of products of both banks. Obviously, this observation should be seen in the light of an earlier observation, i.e. that the definition of a poor client is restricted to that of the 'productive poor', and that poorest and destitute are not served by the instrument.

5 To what extent have the CFAs been able to change the enabling environment?

5.1 Introduction

The full evaluation question, as worded in the ToR, is:

> **to what extent have the CFA-supported activities been able to change the enabling environment for poverty-oriented microfinance? Were they efficient, effective and relevant within the context (countries, markets)?**

The CFAs do not themselves interfere in national legislation, correctly so, as worded by CGAP (October 2006). They co-operate with several networking organisations.

5.2 Are the CFAs indeed focusing on the enabling environment?

The CFAs support networking and/or lobbying organisations and this support is increasing. In the CFA policies the support to small producers and enterprises is currently accompanied with attempts to improve the enabling environment. Also the ambition to influence market conditions is included in the objectives of the CFAs.

The four CFAs have equal ambitions with regard to influencing policies about the microfinance sector in the South. Referring to figure 2.3 in chapter 2, ICCO has relatively the largest number of interventions aiming at networking organisations in the entire portfolio, Cordaid the smallest.

5.3 To what extent are the supported partners relevant to influence the enabling environment?

Generally, the selected partners are indeed network, lobbying or umbrella organisations with the legal mandate and the recognition of the industry to influence the environment to the benefit of the microfinance community. They undertake a variety of activities such as lobbying, capacity building, monitoring and assessment, networking, research on innovative methodologies etc.

Finrural, co-operating with ICCO, is an association of Bolivian IFDs which was established in 1993. It currently groups the 13 largest NGO-MFIs (IFDs), all (still) non-regulated. Throughout the years that it represented IFDs, it developed solid expertise and an extensive network allowing it to be particularly effective in its actions. Recently, Finrural played a key role in discussing the new regulation for IFDs. In general it can be stated that the regulation policy of the government and the self regulation of NGOs (within Finrural) has been of utmost importance for the present quality of (governance) standards and performance of the microfinance sector in Bolivia. Also otherwise, examples of successful (joint) lobbying are many.

MCPI being the Philippine network of MFIs has been supported by Cordaid and ICCO for policy influencing in favour of a proper enabling environment. During the evaluation period,

there has been often a delay in project implementation by MCPI; the management quality appears to be weak to influence partners. MCPI does represent the sector in every policy consultation by Government. However, it is not clear how far any changes in policy can be attributed to MCPI.

Also other organisations influence policy making in the Philippines through lobbying, such as the umbrella organisation for co-operatives, NATCCO, equally supported by ICCO and Cordaid. NATCCO has considerable policy influence, occupying two seats in the national assembly. NATCCO has however not been supported in its capacity of policy maker.

The interests of the MFIs in Ethiopia are represented by the Association of Ethiopian Microfinance Institutions (AEMFI). AEMFI was formed as a non-governmental association of MFIs, registered and licensed by the government in 1999. The original goals were to serve as a platform for knowledge and information sharing, and lobby for political support for the development of an enabling environment for the business of microfinance. Since its formation, AEMFIs goals and activities have broadened to include training, research, performance monitoring and benchmarking and provision of technical assistance.

AEMFI, co-operating with Oxfam Novib and Terrafina, is reportedly the strongest of the country networks in Africa. AEMFI is highly recognised by MFIs in Ethiopia and the region as well as by the government as the spokesman for the microfinance sector. AEMFI is a visible platform between the MFIs and the government. Over the years AEMFI has provided a forum for discussing issues affecting the sector by organizing different thematic workshops and conferences. As a result the National Bank of Ethiopia (NBE) has tried to improve some of its guidelines issued earlier by relaxing constraining elements in these guidelines. AEMFI also played a significant role in creating a forum for the MFIs during the review of the new microfinance proclamation. In addition to different discussions held to review the draft proclamation, the MFIs also participated in the public hearing programme at the parliament before the approval and release of the new proclamation 626/2009.

In Tanzania no networking organisations were supported. As a matter of fact, the country has at the moment no lobbying or umbrella organisation. The earlier collapsed TAMFI is being re-established, with support from other members of the donor community.

5.4 To what extent do the CFAs promote an inclusive financial system?

ICCO’s assistance to Finrural is used for several purposes: for executing impact studies, for establishing a credit registration system for non regulated MFIs, developing a rural strategy for the productive sector, developing a network of ‘telecentros’, introducing a liquidity and compensation fund (servigiros) and organising a seminar on ‘gender’ and the participation of Finrural in a large Latin American network (Foro LAC) for promoting microfinance in the region. These are basically all of the most important activities that Finrural undertook over the past decade. Finrural pointed out that the relationship with the Dutch CFA has allowed them to investigate and address important issues (e.g. social performance measurement) well ahead of its time.

AEMFI believes that the support provided by ICCO-Terrafina and Oxfam-Novib has made a difference. For example, the support is used to promote the sector to the general public by broadcasting documentary films involving stakeholders like the National Bank of Ethiopia and

the clients. AEMFI has also a weekly radio programme in collaboration with Ethiopian Radio. It is believed that such programmes have an influence on improving the enabling environment in which the microfinance sector operates. In one case Terrafina put the network in a difficult situation, e.g. when it required AEMFI to participate in the SPM training only directed at partners of ICCO-Terrafina, while it is bad practice for a network organisation to discriminate among its members.

5.5 Do platforms in the North add to effectiveness and impact?

All CFAs refer for 2007-2010 to their participation in the Dutch platform and network for microfinance and their support to networks of MFIs in the South as a contribution to the expansion of the microfinance sector. Studies on microfinance experiences, legal frameworks, or collaboration between MFIs and other stakeholders in the finance sector are currently being taken up in the context of Microned.

5.6 Are good practices followed by the CFAs?

CFAs support these partners through grants, which is the most appropriate form of support to this kind of organisations. The support consists of strategic financing of stakeholder platforms to promote a dialogue between civil society organisations, the corporate sector and local governments about issues related to national and international production chains. These practices appear to be appropriate.

5.7 Conclusions

The institutional support of the Dutch CFAs has contributed to strengthening the enabling environment indirectly, i.e. they support the functioning of the lobbying organisations as a platform (resource centre, monitoring and research, publications, staff development). The support is significant however.

Relevant organisations have been selected, which indeed managed to contribute to an enabling environment and an inclusive financial system in their counties. The support of the CFAs, through grants, is appreciated and made a difference.

6 Conclusions and Recommendations

6.1 Strategies and Policies of the CFAs

6.1.1 Conclusions

Over the period of the evaluation microfinance has grown in importance, as witnessed by the increased size of the operations. However, the grant operations and other operations managed by the CFAs themselves are not supported by proper administrative systems, including monitoring.

The importance of microfinance for the CFAs has increased substantially over the years. Over the period 2003 to 2007 an amount of some EUR 185 million has been disbursed, an amount which grew from some EUR 28 million in 2003 to EUR 43 million in 2007. Total disbursement as well as average disbursement is highest for Oxfam Novib (EUR 72 million over the period 2003-2007) and lowest for ICCO (EUR 27 million over the period 2003-2007). ICCO, however, has the highest number of partners (180 compared to 172 for Oxfam Novib)

The CFAs are active in a large number of countries (72) but 43 percent of the combined number of interventions take place in only nine countries (India at the top with 104 interventions followed by Peru with 84 interventions and the Philippines with 60 interventions), which points at a certain concentration of activities.

It took the evaluation considerable time and efforts to gather the correct financial data from the CFAs on their microfinance commitments and disbursements. Often data available in the overall information sheet provided initially to the evaluators was not compatible with figures in grant agreements and other data. Ambiguity prevailed on the nature of some instruments mentioned in the portfolio overview: guarantees, equity etc. The portfolio analysis had to be repeated several times because the CFAs felt compelled to correct their data.

The policies and strategies of the four CFAs have developed over time and are grosso modo coherent with good practices (as defined by e.g. CGAP) on microfinance. The very nature of microfinance (complexity of financial services, availability of alternative funders) poses serious challenges for CFAs. The fact that policies and strategies are laid down in a large number of scattered documents per CFA complicates the reconstruction of the intervention logic and limits the insights into specific policy orientations of CFAs

Policies and strategies of CFAs regarding microfinance have been laid down in a large number of documents. The main underlying intervention theory for all CFAs is that access to finance is assumed to help poor people gain access to markets; improve agricultural production and set up enterprises; and more broadly improve their income and livelihoods. In addition, CFAs do not set up microfinance institutions themselves, but do so through the selection of adequate partners.

Therefore, the starting point for the policy analysis is the partner policy. CFAs' main criterion for the selection of partners is concurrence of the partners' objectives with those of the CFA. Differences were observed between the partner policies of the CFAs that can be partly retraced to general CFA and partner policies and partly to specific new microfinance policies. Cordaid and Oxfam Novib see an added value in continuing support to existing partners, although Oxfam Novib started also many new microfinance activities. Hivos forces itself to renew its portfolio continuously through its 10+ policy. ICCO has the most explicit new

specific microfinance policy and focuses increasingly on ‘greenfield areas’, i.e. countries where few other donors or investors are not yet active in supporting microfinance.

Poverty plays a clear role in the microfinance policies of all CFAs, but there is no clear definition of the target group. Furthermore, no uniformly applied poverty indicators were observed during the evaluation period, apart from ‘average loan size’ and ‘rural location’. The gender strategies of the CFAs aim mainly at reaching more women, but do not address the cause of gender disparities in access to finance. Gender and Social Performance Measurement still receive relatively limited attention.

The very nature of microfinance poses serious challenges for CFAs embarking on support to microfinance, such as additionality of the instrument, i.e. its critical value added and necessity given the availability of alternative and private funding for the sector, compatibility of the instrument with pro-poor objectives of the CFAs and the need for financing and banking skills. When new challenges have arisen these have been addressed most of the times by the CFAs, but so far no concise policy documents on microfinance have been produced. It was investigated in the course of the evaluation whether this created a burden. The analysis of the portfolio gave some initial indications. The concentration of interventions in nine countries (see above) may, in theory, restrict the additionality of the activities. This may be reinforced by the large extent of ‘partner overlap’, i.e. the number of cases where two or more CFAs support one partner. In the sample of 50 partners, twelve partners were supported by more than one CFA, one of these by three.

All CFAs invested considerably in professionalisation of their microfinance operations through either internal specialisation or outsourcing. Outsourcing of financial services has created a problem in balancing social and financial objectives.

Professionalisation was among others achieved by either internal specialisation (set-up of separate units), which was the case for Cordaid and Oxfam Novib till 2006, or outsourcing of activities to specialized external institutions (HIVOS to Triodos, ICCO to Oikocredit, and Oxfam Novib to Triple Jumpo since 2007). Increasingly, the CFAs also sought collaboration which resulted in the Dutch Microfinance Platform and Microned.

Outsourcing of financial services to the specialised external institutions the so-called financial intermediaries has created a problem.The latter normally invest their own funds, obtained from depositors or investors in socially relevant, but financially safe investments. In theory, this may create a friction with the social development oriented approach of the CFAs. In practice, the evaluation team found that the poverty focus gets insufficient attention in the intake and monitoring procedures of the intermediaries. Furthermore, there is a risk that the CFA funding is used to fund MFIs which also would have been funded from regular sources of the intermediaries. The latter may present a case of ’crowding out private funds by donor funds’, a practice against which CGAP explicitly warns.

CFAs have a wide array of financing tools at their disposal. The large majority of funds disbursed consist however of grants and regular loans, while more sophisticated instruments such as subordinated loams and guarantees to local banks represent a minor part of the portfolio. The most often applied instruments provide little leverage to directly influence the performance of the supported MFIs.

The CFAs avail of a wide range of instruments: seed capital, grants, loans (including subordinated loans), guarantees and equity participation. With 66 percent of the total support disbursed through loans, Cordaid uses this instrument most prominently. ICCO deploys the smallest part, i.e. 32 percent, of its funds through loans, but this has , through

the accepted approach of guaranteeing Oikocredit loans, enabled effectively a larger amount of lending by Oikocredit.

CFAs differ among themselves in the share of funds spent through specific tools, although all of them disburse at least 80 percent of the funds through regular loans and grants. The share of more sophisticated instruments such as guarantees, subordinated loans and equity in the total portfolio was modest. Regular loans and grants together account for 86 percent of the total disbursed, seed capital for six percent and equity investments for five percent. There are differences in the application of the latter, more advanced, instruments: Cordaid does not use seed capital or equity, whereas for Hivos (through HTF) these instruments represent slightly more than 20 percent of the sums disbursed.

Appreciation by beneficiaries is high, but perceptions about value added of the CFA support differ per country.

The partners interviewed were positive about the role of the Dutch CFAs, which is not a surprise given the volume of financial support and the partnership relations. There is a difference in perception of the support however. In Tanzania and Ethiopia the role of the Dutch CFAs has been in most cases pivotal, whereas in Bolivia the CFAs are perceived most often by the MFIs as one out of many funders. The added value, or critical importance, of the support by the CFAs was clearly more visible in Ethiopia and Tanzania.

Even in the cases where the CFAs were perceived as merely one out of many sources of funds, the fact that the CFA credits are normally provided in local currency is considered to be a concessional element, in comparison with alternative commercial funding.

6.1.2 Recommendations

Recommendation 1:
CFAs should further develop their microfinance policies and strategies and make their policies more accessible, while exploiting their comparative advantages.

In order to further improve the CFA policies and strategies in the increasingly important area of microfinance CFAs should consider making more explicit choices in the light of the increased 'competition' on the microfinance market in order to address issues of additionality and poverty focus. This should lead to a clearer microfinance profile of each of the CFAs.

Recommendation 2:
Administrative systems within CFA should be improved, while also more attention should be given to measuring social performance of MFIs especially in the case of outsourcing.

As no clear and unambiguous data on microfinance commitments and disbursements are available, improvement of CFA administrative systems is a clear requirement. Administrative systems of financial intermediaries do not pose problems, but especially in the case of outsourcing, social and gender performance measurement requires more attention.

Recommendation 3:
The CFA funds should be more explicitly used by the intermediaries to focus on MFIs, which would otherwise have been too risky for the intermediaries.

'Greenfields' are an option, although they constitute a larger chance of failure. CFAs by nature are equipped to and have the mandate to take risks, which is an important additional element compared to social and private investors, including their own financial intermediaries. Providing high risk instruments (quasi equity, subordinated loans) could therefore be more often applied in the case of segment B organisations, as private funds are in most cases not willing to offer such funding

6.2 Did the CFAs succeed in supporting their partners to improve operational and financial performance?

6.2.1 Conclusions

The so called A-B-C segmentation, a segmentation which is based on indicators of financial and operational self-sufficiency. has proven to be a rather useful evaluation tool. Furthermore, it is a potential good tool for CFAs for decision making on application of funds and modalities.

In this evaluation in line with the requirements of the TOR a distinction has been made between A, B and C segments. MFIs which are neither operationally (OSS) nor financially sustainable (FSS) belong to segment A, operational sustainable but not financially sustainable MFIs belong to segment B whereas financial and operationally sustainable MFIs belong to segment C. The ABC segmentation is an accepted tool to determine which role CFAs should play (and with which instruments) and to decide whether there is still a role for CFAs.

The borders between the segments are not sharp and unambiguous. Since OSS and FSS indicators fluctuate, MFIs may at cases fluctuate between segments. Especially the calculation of FSS is a theoretically complicated issue, which makes the borderline between segment B and C diffuse. Nevertheless, 'grosso modo' the segmentation has been a useful evaluation tool, and can be equally considered a good, be it not ideal, tool for decision making by CFAs..

Although the applied financing tools are in principle adjusted to the status and corresponding needs of the beneficiary MFIs, exceptions to this rule apply. Exit strategies from segment C organisations have been rarely applied.

There are some general principles concerning the type of support an MFI should receive according to its needs and status. These main principles are related to additionality and avoidance of market distortion. Therefore, it is generally accepted that public (or donor) money should not crowd out private money. The CFAs have to a large extent adhered to these principles, i.e. grant funding should be provided only to segment A organisations, loans to segment B organisations whereas segment C organisations should be funded mainly from commercial sources. However, in a number of cases grants and even seed-capital are still provided to segment B or C organisations. Justifications given for this, if any, are in the opinion of the evaluators not always valid. They largely relate to the nature of the activity to be funded, whereas insufficient attention has been given to the potential of the organisations to fund these activities e.g. from a loan or own funds.

CFAs, mainly through their financial intermediaries, are still active in segment C organisations. A clear downward trend in this could not be observed over the period from 2003 to 2007. Exit strategies for segment C organisations, although existing on paper, have not been consequently applied, and the possibilities of handing over the partners to more commercial funders, including the partners Triodos bank and Oikocredit, have not been fully utilised.

The CFAs have selected and supported partners with potential for development, but risk management within the MFIs remains critical. An impressive improvement in the size of operations (breadth of outreach) was not accompanied by improved efficiency, resulting in rather stagnant development of financial performance, and hardly any change to higher segments (B, C) of maturity.

The size of operations of the large majority of the partners has, sometimes significantly, increased in terms of number of branches, clients and loans. Doubling or tripling of the size of the operations is not exceptional. Often the introduction of new products like individual loans resulted in deterioration of the portfolio. The increase in the size of operations was not accompanied by necessary improvements in management and systems, most noticeably MIS. The majority of partners report that MIS is assured with simple and inappropriate instruments. Credit rating is only a common practice in Bolivia, it is absent in Tanzania and just growing in importance in the other countries (in the case of Ethiopia with the active support of Terrafina). The lack of improvement in management and systems made that the increase in size of operations is not reflected in a structural improvement of OSS. Equally, financial performance of the reporting organisations, as well as efficiency, has not significantly improved. With the exception of Bolivia, this is (still) weak.

There are no significant differences in the improvement of the performance of the MFIs supported by different CFAs, the more so since several MFIs have been supported by more than one CFA.

Poor management and especially governance within the MFIs are to a large extent responsible for lack of improved performance of MFIs.

CFAs have rather limited possibilities to directly influence governance of MFIs, while governance is seen by many responsible parties within the CFAs and the intermediaries as the main reason for limited improvement of performance. Governance is in many MFIs an issue: overdependence on certain individuals, not representative boards and/or lack of microfinance knowledge in the board are often quoted reasons for disappointing financial performance of the MFIs.

With some exceptions, partners have separated organisationally their microfinance activities from other activities, if at all they have other activities. The CFAs have insisted on this, which is in line with good practice. Nevertheless, there are still cases, especially in the rural operations, where microfinance is just one out of several activities. In these cases performance measurement of the microfinance element is impossible, since the indicators are diluted with the results of the other activities. Governors of these institutions oppose the wish of the CFAs to rationalise this situation.

CFAs have also used the ‘conditionality instrument’, e.g. by insisting on an improvement of PAR as a condition for continued funding, an instrument which has often not or only partly worked. Another option is equity investment, which allows for direct CFA influence through a presentation in the board of MFIs. This instrument is however still rarely used, and has the embedded disadvantage that exit at a later stage will be cumbersome. In light of partnership principles, direct influence of CFAs on their partner MFIs is problematic, while dialogue remains the most important instrument.

There are clear limits to the growth of MFIs especially because regional outreach is still limited in most countries.

Outreach to rural areas is part of the policy of all CFAs (although for some the outreach is not restricted to this). Despite the general growth in terms of clients and branches, regional outreach is in the case of Tanzania and Ethiopia limited. In Bolivia, only recently there is more interest in the remote rural areas. This has its consequences for growth and additionality, since normally the urban areas are already served with microfinance services and competition occurs between MFIs, whereas in the rural areas still large un(der)served groups exist.

Provision of saving services by MFIs is generally restricted.

The growth in the amount of deposits collected is restricted to a few cases. The fact that NGO-MFIs are legally not allowed to take deposits is often a serious hurdle for the operational development. In the absence of deposits, lending operations are fully related to the possibility to obtain external funding, which in the long term is not a sustainable option. Only in Bolivia savings are a major source of loan funds.

This is one of the reasons why support to evaluation to higher segments, B and C, is important, since more mature organizations are more likely to become accredited for deposit handling.

6.2.2 Recommendations

Recommendation 4:
In principle, segment C organisations may be considered sufficiently mature to access and absorb funding under commercial terms and therefore CFAs should actively start considering exit strategies once an MFI approaches or enters segment C.

It was concluded that CFAs are still quite active in segment C organisations, but in line with theory it is recommended that the role of CFAs for segment C organisations should be limited and restricted to instruments which may leverage commercial sources. In case supply of this type of funding is limited, risk instruments such as (quasi) equity (including subordinated debt) may be justified, in order to facilitate access to commercial funding. One of the motives for CFAs in outsourcing their lending activities to specialised financial institutions was to facilitate an exit from MFIs which had become sufficiently mature. The idea is that funding on market terms for these MFIs could be taken over by the financial intermediaries. Basically, such constructive exits from segment C organisations should be more vigorously pursued.

Recommendation 5:
The reasons for providing grants to MFIs, especially segment B and C MFIs, should be further clarified by CFAs, while the choice between grants and loans needs to be better argued for.

It was concluded that CFAs regularly provide grants to segment B and C organisations on grounds that are not always clear. The fact that supported projects do not immediately result in returns is not a sufficient reason to apply grants. It is equally important to check whether the MFI could not finance this as well out off a loan or own funds.

Recommendation 6:
The critical importance of governance within the MFIs necessitates improved selection and monitoring of partners on performance in governance and organisational aspects. A good dialogue on governance issues between the CFA and its partners is a very important instrument in this regard.

As the success and performance of MFIs very much depend on the quality and structure of governance of the MFI, a qualified and experienced management team and an independent

and experienced supervisory body are major preconditions for success. If dialogue or conditionality do not yield the expected governance results, a timely exit should be considered.

Recommendation 7:
Separating financial operations from other activities, at least in the books, is necessary. This will promote transparency.

6.3 Have CFAs and the supported MFIs been able to maintain the poverty focus?

6.3.1 Conclusions

The supported MFIs have maintained a focus on the poor, and the desire for operational and financial strengthening has not diverted the attention from the poor.

The following judgment criterion was defined in the evaluation framework: 'essential is at least that activities are addressed at groups or individuals who have no access to regular financial institutes.' It appears that, within the sample, all cases meet this criterion, which is an important finding of the evaluation. All partners have a clear and explicit focus on the poor. The social charter of the MFI partners largely coincides with the aims of the CFAs, as advised by CGAP in the 'pink book.'

A trade-off between financial and social performance could not be observed. MFIs introduce products aiming at 'higher segment' clients, but this does not go to the detriment of products relevant for the poor, such as group loans and generally small loans. Even the opposite was observed: worse performing organisations gave less priority to the poor. However, this observation should be seen in combination with the restricted definition of 'poverty', as will be discussed below.

Looking at loan sizes, the difference between the countries becomes most apparent. In Bolivia, loans of over USD 10,000 are not exceptional, in one case even an (spraying) airplane was financed for an agricultural cooperative. However, parallel to this, a large number of small loans is still provided as well. In the other countries the average loan size of the supported partners is close to the regional benchmark, or, as in the Philippines, smaller. Furthermore, it appeared that there are no thresholds for poorer clients in the form of high minimum loan sizes.

Within the sample the difference between the so-called 'financial systems approach' and the 'poverty lending approach' could be observed. For most formal MFIs banking is the core business, but many rural NGOs use microfinance more instrumentally, as a part of their set of instruments to foster community development. There is however no clear distinction between the CFAs in supporting relatively more of one or the other category.

The concept 'poverty' however relates to the 'productive poor'. Most MFIs supported do not restrict themselves fully to the poor. The majority of clients of the supported MFI is urban or peri-urban based, meaning that the rural poor get less attention, while women in Africa also get less attention.

Among all MFIs studied 'in situ' the profile of the client is that of the 'productive poor' or 'economically active poor.' Most of the MFIs furthermore do not restrict themselves fully to the poor. A focus on specific underprivileged groups such as HIV/AIDS victims or displaced

persons was neither found in any of the MFIs studied. It has to be accepted therefore that microfinance services within the organisations supported by the CFAs do not serve the poorest, e.g. the jobless and the landless. The literature on microfinance, especially but not only advocates of the 'financial systems approach', points out that lending creates important commitments for the clients and that therefore this instrument is possibly not the most proper approach to assist the destitute and the poorest. This observation here appears to be a confirmation of this view.

It has been argued in the literature instead that saving may be a relevant instrument for the poorest. As stated above, many organisations studied were not accredited for deposit taking, and even where they are, this service was delivered in combination with loans.

With the exception of the Philippines, the majority of clients served by the partners in the sample appear to live in urban or peri-urban areas. NGOs operating in rural regions are often restricted to one region, and have therefore a deep, but narrow outreach. Most often the classical MFI products are less or not useful for agricultural purposes, since the loan repayment profile does not coincide with the seeding and harvesting cycle. Exceptions are the rural SACCOs, which have developed flexible products like bullet loans.

Women participation is high in the Philippines, but Philippian MFIs are increasingly moving away from an exclusive focus on women for a variety of reasons. Especially in Africa women participation among the clients of the supported MFIs is low, despite efforts from the supporting CFAs to increase this participation.

In all countries still large parts of the population are not served with banking services. In some locations (cities, towns) however poor people have a choice of providers, all of these alternative providers being MFIs.

The affordability of microfinance services to clients varies significantly from one country to another. Transparency of prices of the services is often problematic.

In Bolivia, the products of the microfinance sector are affordable for the poor, reportedly the cheapest in the world, which may be a result of competition and economies-of-scale. In Ethiopia, government policy keeps the prices of the loans restricted. In the Philippines and in Tanzania microfinance services are however expensive. High prices of products occur simultaneously with poor marks for efficiency. The so obtained income is therefore most likely used by the MFIs to cover unnecessarily high operational costs.

Furthermore, through the application of flat rates, up-front fees, compulsory savings etc. the pricing is not transparent, which hampers a fair competition and may be even detrimental for the position of clients. Especially in the Philippines and Tanzania prices are high and not transparent.

Best practices to reach out to the rural poor have been found: SACCOs and other Rural Financial Institutes are promising examples

The SACCOs or other Rural Financial Institutes supported by the CFAs have demonstrated to be able to reach out to the remote rural areas and to be able to develop products which, unlike the more formal MFIs, are also suitable for agricultural production.

6.3.2 Recommendations

Recommendation 8:
Providing support to wholesale organizations who effectively address the governance and management problems of SACCOs can be a very effective strategy for CFAs.

Rural SACCOs who can demonstrate competent management and organization are potential clients for the larger MFIs and even down-scaling banks. Benefits of an expanding microfinance sector can this way be transferred to the rural areas. Among the CFAs the efficiency problems of the SACCOs have not gone unnoticed and there are ideas to promote collaboration between different providers in a given region. These are relevant strategies to be pursued by the CFAs.

Recommendation 9:
A larger share of women mainly in middle-management (loan officers) and more attention for gender in the development of specific products should be encouraged by the CFAs.

The evaluation team concluded that the needs of women for diversified financial services, business development, employment, management and leadership are, especially in Africa, insufficiently addressed. Therefore, the underlying reasons for pertaining problems with women participation, not only as client but also in governance and management of MFIs, deserve more attention.

Recommendation 10:
Non transparent pricing practices should be discouraged, and a transparency policy regarding pricing should be mainstreamed in the support effort.

There is clearly room to work on financial literacy of the target group, but also on the ways the partners 'sell' their products. The use of flat rates should ideally be abandoned. Upfront fees should not be hidden from the clients in promotions and advertising. It was noticed in this respect that the CFAs have subscribed already in 2009 to the Microfinance Transparency Initiative.

6.4 To what extent have the CFAs been able to change the enabling environment?

6.4.1 Conclusions

The CFAs have selected relevant organisations as partners, who have the trust and the mandate of their members to represent the microfinance sector.

The institutional support of the Dutch CFAs has contributed to strengthening the enabling environment indirectly, i.e. they support the functioning of the lobbying organisations as a platform (resource centre, monitoring and research, publications, staff development). The selected partners are network, lobbying or umbrella organisations with the legal mandate and the recognition of the industry to influence the environment to the benefit of the microfinance community. Successful efforts have been undertaken to improve legislation, strengthen regulation (e.g. self-regulation of officially non-regulated NGOs in Bolivia), promote microfinance etc.

Support by the CFAs has had clear value added for their partners.

The support of the CFAs, through grants, is appreciated and has made a difference. It has been used to finance studies, set up systems such as registration and regulating systems, promotion through national media etc. Only in Tanzania this support is absent because a suitable partner is lacking.

6.4.2 Recommendation

Recommendation 11:
Continuation of support to lobbying and network organisations, active in the enabling environment, seems warranted

On the base of the conclusions above, it is clear that CFA support to lobby and network organisations should be continued. This recommendation is largely compatible with the wider recommendation of further concentration by CFAs on specific regions, type of services, and in this case organisations. Activities undertaken by such organisations to promote financial literacy among the target group deserve attention

6.5 Final conclusion

The purpose of this evaluation was to provide insight into the extent to which the CFAs have contributed to building sustainable and socially performing MFIs for the sake of accountability. Without any doubt the evaluators can state that the CFAs indeed contributed to building these sustainable and socially performing MFIs. Of course, the more difficult question to answer is the extent to which this was the case. There are positive elements and elements that require more attention.

On the positive side, it can be concluded that the four CFAs have indeed provided support through a variety of instruments and aid modalities to assist a large number of MFIs to become more sustainable. This support has enabled many MFIs to increase the size of the operations significantly. The supported MFIs indeed serve the productive poor and aim for increased women participation. The CFA also support relevant network and lobbying organisations in microfinance that have had clear added value in improving the enabling environment.

No trade-off between financial and social performance could be observed.

On the critical side, little development in terms of efficiency, risk management and commercial viability of MFIs could be reported. Governance problems are the root cause of this problem, and CFAs still search for the right instruments to deal with governance issues. Additionality is another issue of concern that has to be addressed in the near future by the CFAs. Regarding social performance, important observations are that (i) the concept ‘poor’ is by all MFIs restricted to the economically active poor, in a majority of cases urban or semi-urban based, and (ii) the MFIs, in a thrive for more turnover, do not restrict themselves to the poor. In Africa, women participation both within the MFIs and among clients is disappointing.

The main challenge for the CFAs is to further develop their own microfinance profile. There is ample room for more specialisation and for better utilisation of the options specifically open to the CFAs (i.e. the degrees of freedom of non-profit organisations).