Evaluation Unit

Synthesis Report

on the independent evaluations conducted in 2009 in the thematic priority area

Microfinance

Summary

gtz

On behalf of
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This report was prepared by independent external experts and reflects solely their opinions and assessments.

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Synthesis Report on Microfinance

This report is a synthesis of the independent evaluations of thirteen selected GTZ microfinance (MF) projects carried out in 2009. The evaluated projects, some of which remain ongoing, were implemented between 1992 and 2010. Three interim evaluations, five final evaluations and five ex-post evaluations were carried out. Five of the projects were located in Africa, four in Asia, three in the post-Soviet countries and one in Latin America. The synthesis focuses on the following aspects covered by the evaluations:

⇒ the project objectives and activity areas

⇒ assessment according to the DAC criteria

⇒ assessment of cross-cutting development-policy issues

⇒ the concept of sustainable development

⇒ assessment of professional implementation, and contract and cooperation management.

The projects' overall goals (indirect and highly aggregated results) focused on developing and improving financial services, and access to them. Measures were designed to help safeguard income, reduce economic and social vulnerability and increase long-term productivity among the respective target groups. It was envisaged that projects would boost the volume of savings and credit in rural areas and structurally weak regions, thus promoting the local economies and generating positive effects on income and jobs. In most projects, the anticipated indirect result was therefore based on the assumption that the further development of financial services would improve local and regional economic conditions, especially for micro, small and medium-sized enterprises (MSMEs), leading to an increase in income and jobs. Depending on the levels of intervention of the measures, the direct results generally aimed to build more enabling frameworks for the MF sector, and improve the availability of financial services. More specifically, this meant: At the *micro level,* project outputs focused on enabling microfinance institutions (MFIs) to broaden their range of financial products and tailor their existing products to client needs, as well as to develop their overall institutional capacities. Three projects were specifically designed to establish such MFIs. At the *meso level*, some measures focused on promoting MF associations, and especially on the formation and professionalisation of appropriate services for members. Others focused on supporting training institutions. At the *macro level,* projects delivered training and advisory services to support partner institutions (central banks, ministries and supervisory authorities) in performing their tasks with greater professionalism and efficiency, and in making frameworks more conducive. Advisory services were often provided on regulation and supervision.

Measures at the micro level either played a flanking role or were designed to comprehensively support selected MF institutions. The substantial expertise that has accrued in the MF sector over the last ten to fifteen years, as manifested for instance in policy papers of the Consultative Group to Assist the Poor (CGAP) or the German Federal Ministry for Economic Cooperation and Development (BMZ), is evidently generating results. The microcredit movement of the 80s and 90s is gradually being superseded by a holistic approach designed to support an integrated financial system. On the basis of this random sample, though, it is not possible to say with any certainty whether the indirect results are actually being achieved as a consequence. This is because so far there has been a lack of robust measurement methods at the international level (an issue that is currently being debated). One point of criticism to note is that an insufficient number of partner institutions possess an appropriate business plan. This is having an adverse effect on the sustainable development of these institutions. Some projects (five out of thirteen) include measures at the macro level. This is precisely the level at which the MF sector in many other countries displays weaknesses.

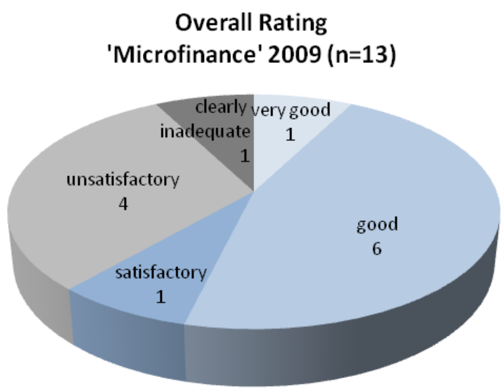
Of the five DAC criteria relevance, effectiveness, impact, efficiency and sustainability, relevance was awarded the best marks, achieving an average rating of 'good'. The relevance of ten projects was rated as 'very good' or 'good'. This is largely due to the fact that almost all the projects are very closely aligned with key policy documents and the Millennium Development Goals. Overall, framework conditions were also sufficiently taken into account. This criterion fared less well in cases where evaluators saw partner ownership as being inadequate. Factors identified as being addressed too infrequently in the context of relevance are the extent to which the approach is demand-driven, and the existence of feasibility studies. The choices made by evaluators with regard to what they saw as the key criteria for assessment varied widely. As a result it is hardly possible to draw any general conclusions concerning patterns of success or failure. It appears that the 'relevance' rating of projects in the evaluation phase was never any better than it was estimated to be in the preparatory phase.

The average effectiveness of all thirteen projects is rated as 'satisfactory'. One project was considered 'very good'. Overall, the achievement of objectives was seen as good to very good where the partners themselves had a relatively clear idea of what they wished to achieve through the project. Other important factors included an enabling project environment, including elements such as the existence of a microfinance law *before* the project was launched, which exerted a strong regulatory effect on the development of the sector. Also conducive was the existence of an already highly sophisticated microfinance sector. Settings of this kind enabled projects to engage with the sector systematically, and operate on several levels in order to generate results. By contrast, factors constraining the achievement of objectives included in one case a strategy that was poorly adapted to local circumstances, in conjunction with an assessment of the existing structures that was too positive. This meant that the MF sector in general, and the local partner institution(s) in particular, were either not yet able to absorb the long-term thinking underlying the strategy, or that there was a basic lack of interest on the partner side in making the commitment needed to ensure the success of the project. Furthermore, in some cases implementation could not take place as planned, partly due to management weaknesses. Evaluators also criticised some projects for misunderstanding and poorly executing their role. These projects were seen to be acting more as 'agitators' than as 'facilitators', which then resulted in strong dependencies (for instance in the promotion of associations).

The impact criterion was awarded an average rating of 'satisfactory'. This is the most difficult criterion to evaluate, however, because generally speaking the analyses (inevitably) remain highly speculative. For those projects subjected to an interim evaluation (which were therefore still ongoing), all evaluators exercised extreme caution when inferring possible indirect results, given the short period for which the projects have been operating. In one case, the annual survey of selected data on lending and household behaviour in the project did allow more systematic assumptions to be drawn concerning impact. Here it emerged that improvements in the socioeconomic situation of the target group had taken place, particularly with respect to housing. In the case of those projects subjected to a final evaluation, a similarly systematic impact evaluation in one successful project established that lending to recipient groups was primarily helping the beneficiaries overcome liquidity crises. (These results largely match those of current studies that attach key importance to microfinance for financial management by poor sections of the population.) For those projects evaluated ex post, the overall rating of '3.4' was below average. Several evaluators took the view that the desired stimulation of job and income creation had failed to materialise (see the comments above concerning the methodological challenges involved in making inferences of this kind).

The efficiency of projects received an average rating of 'satisfactory', with more than half the projects being rated as good to very good. This was due largely to lean project structures, the avoidance of duplicate structures and close alignment with the efforts of the partner institutions. The weak points with respect to efficiency are still poor donor harmonisation, and the low importance attached to sustainable structures and financial viability on the partner side in many projects. The key factor for success was trained personnel. Several evaluators took the view that projects were tending to rely a great deal on their own experts, which meant that too little emphasis was being placed on local capacity development.

The average sustainability of all projects was rated as 'satisfactory'. The sustainability of four projects were rated as 'good'. This was due to the strong momentum present in the respective countries, which had a positive effect on the projects. This was manifested for instance by the existence of key institutions, or by the relevant actors taking vigorous action to drive their project forward. The situations of the projects rated as 'medium' varied widely. It was noted that the promotion of associations was poorly underpinned. This was because at the time of the evaluation many associations were not in themselves financially viable, given their status as inter-institutional organisations of private MFIs (a challenge faced by associations worldwide). In those projects receiving a poor sustainability rating, factors included inappropriate design and poor attention to target-group needs.



A synopsis of all criteria shows that the comparatively high relevance of some projects at project launch subsequently appeared to be confirmed only in those cases where country conditions were already relatively conducive. These included more enabling sector frameworks, and an above-average commitment of partner institutions. At the same time, project implementation was efficient in most of these cases. For at least half the projects, however, ratings for the remaining criteria tended to dip. This meant that where relevance had not been carefully examined (at the beginning of the measure), this led to inadequate results in terms of effectiveness, impact and sustainability. Since the criteria are interdependent, though, this is hardly surprising: poor appraisal of a project's relevance before it is launched will have a negative effect on the project design, and therefore on project effectiveness and impact. During implementation this often leads to a deterioration in efficiency, the overall outcome of which is an accumulation of negative effects on project sustainability.

The synthesis of the evaluations shows that the majority of projects found it difficult to integrate the three cross-cutting issues of poverty reduction, gender equality and capacity development. This is most clearly indicated by the fact that the reports generally contain only highly sporadic information on these points. Many evaluators only rarely established any links or drew any conclusions concerning possible results in the three areas, especially with regard to poverty and gender. Here too, as with the criterion 'impact', most of the information is based on suppositions. Possible development trends are described, but no figures, data or facts are mentioned. This is usually due to a lack of available monitoring data in the various projects. Having said that, we can draw the following conclusions:

Poverty reduction: Apart from two exceptions, all projects were assigned the marker MSA (indirect influence on poverty reduction). There were neither poverty analyses nor differentiated target group analyses. Here too we note that no easily manageable methods of measurement were used. On the basis of their results, some evaluators doubted whether MF can reach the truly poor, thus confirming recent research findings.

Gender equality: Only very few projects made their indicators gender-sensitive, and according to the evaluations not a single gender analysis was carried out. It is striking that, notwithstanding the reorientation of this cross-cutting theme, promoting women's interests continues to be seen as the primary contribution to gender equality, despite the fact that women are already involved in MF in above-average numbers, in virtually all the projects investigated.

Capacity development: This is rarely a problem at the level of individuals, as the persons receiving training were in most cases motivated to do so. At the institutional level, managerial capacity is a weak point. At the level of society, results were only generated in those cases where measures were conducted at the macro level (regulation, supervision). Overall, this theme too faces the problem of a lack of measurement methods in the projects themselves.

The three dimensions of the <u>concept of sustainable development</u> are barely mentioned at all in the reports. What little information is available indicates that the aspiration to achieve a holistic approach is relatively concrete. As a result this has been partially realised in a few projects, especially those that link several levels. Significantly less emphasis is placed on linking economic, social and ecological objectives. Success in implementing the value-oriented approach was limited: where results were achieved this tended to involve promoting good corporate governance or the development of a market economy. The most challenging issue was the process-oriented approach, especially where projects aimed to make stakeholder interests transparent. On the other hand, most projects helped strengthen interaction between the state and the private sector. The synthesis indicates that operationalising the concept of sustainable development remains a challenge. In other words, projects have barely any tools at their disposal that would enable them to satisfy the requirements.

The quality of <u>professional implementation</u> and <u>contract and cooperation management</u> was assessed according to six aspects:

⇒ *Donor coordination* was a major problem. Furthermore, 'joined-up development co-operation' is evidently not yet taking place to the necessary degree, either because coordination is not yet sufficient, or because there is barely any cooperation at all. In some cases such cooperation did not appear appropriate to the responsible project officers. This was because in their view the major differences between the areas of intervention left no scope for synergy. Where GTZ performed a coordinating role this was seen as helpful. Generally speaking, though, implementation of the Paris Declaration still has a long way to go. In reality, the division of labour between GTZ and KfW is seen as appropriate, and was implemented with great success in one project. This also had a demonstrably positive effect on the overall outcome.

⇒ Concerning the *multi-level approach*, it is too early to draw any conclusions concerning an improvement in the desired results overall. This is due first of all to the fact that monitoring systems are only rarely in place. Secondly, appropriate methods are not sufficiently used to carry out reliable measurements. Results at the meso level were weak in almost all projects. In the course of the projects, the supported associations and training institutions only rarely succeeded in developing an institutionally and financially sustainable profile of their own that could safeguard their long-term existence in their respective settings. By contrast, at the macro level good results were achieved in most cases. This can notably be explained by the basic structures and human resources in place, as well as the high level of interest among partners.

⇒ *Use of funds/steering:* The key success factor for an appropriate steering structure was suitably qualified personnel. More managerial expertise is required, however.

⇒ *Relationship between field structures and Head Office/ division of labour:* The GTZ sector division at Head Office was rarely involved in project implementation in an advisory capacity. In several projects, the fact that innovative insights were not communicated to field staff proved to be a drawback. The question therefore arises of whether the demand model currently in force (in which Head Office responds to requests for expertise issued by the field structures) is sufficient to meet the complex knowledge requirements.

⇒ *Project structure/ components versus FSD programmes:* The number of examples is too small to allow any final conclusions to be drawn. However, the synthesis did show that in complex programmes comprising many different components, these components tend to operate separately and barely cooperate with each other.

The recommendations drawn up on the basis of the synthesis concern the three core areas of project appraisal, implementation and evaluation:

Appraisal: This crucial phase should be redesigned. The project and its context should be appraised much more comprehensively, so that the factors relevant to the development of the project design can then be assessed and defined more precisely. Partner countries and partner institutions must have a clearly recognisable interest in the supported changes, and actually be dependent on the cooperation and support. Project designs must be developed that are optimally suited to the project context. These must be based on an analysis and assessment of both the economic situation and the cultural, ethnological and social setting. Should the appraisal establish that the needed conditions are not in place, then planning must be discontinued. In future, if required planners should rely more heavily on the macro level; they should rely on the meso level only in cases where there is already significant momentum in the desired direction. Stronger emphasis should be placed on appraising the relevance of projects in light of the actual conditions on the ground.

Implementation: In future, a poverty analysis should be made an integral component of the aforementioned comprehensive preliminary appraisal. The gender approach, which in the evaluated projects remains focused on promoting women's interests, should be reconceptualised. This is because in day-to-day project activities, the challenge of achieving 'gender equality' is evidently much greater than hitherto assumed. A more sophisticated approach is required, and an analysis of the context should be integrated into the aforementioned appraisal. Baseline studies and the systematic establishment of professional results-based monitoring systems must be made obligatory. The approaches selected must be consistent across various projects. Relevant sector strategies and papers, and the recommendations made by project progress reviews, must be applied. The synthesis also recommends the assignment of appropriate experts as the key mode of delivery, the provision of reliable methods for measuring results, and professional donor coordination.

Evaluation: Information on the recommendations for evaluation emerging from the Evaluation Unit's synthesis is available on request.

Annex 1: Rating of all OECD/DAC Criteria and Overall Rating of the 13 projects in the Microfinance sector

Country	Relevance	Effectiveness	Impact	Efficiency	Sustainability		Overall Rating
1. Mozambique	2	4	4	4	3		4
2. Tadjikistan	1	2	2	3	3		2
3. Ukraine	2	2	3	2	3		2
4. China	1	1	2	1	2		1
5. Indonesia	1	2	2	2	2		2
6. DRC	2	3	3	4	4		4
7. Mongolia	3	4	4	4	4		4
8. Namibia	2	2	3	1	3		2
9. Africa (re-gional)	3	4	4	4	3		4
10. Bolivia	2	2	2	2	2		2
11. Mauritania	4	5	6	5	4		5
12. Moldova	2	3	3	2	3		3
13. Thailand	1	3	2	1	2		2
Average	**2,0**	**2,8**	**3,1**	**2,7**	**2,9**		**2,8**

KNOWING WHAT WORKS

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