UNCDF FIPA

Portfolio Review Synthesis Report

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Acronyms and Abbreviations

ALB	Average Loan Balance
ASB	Average Savings Balance
ASL	Authorized Spending Limit (Annual budgets)
BIFSA	Building Inclusive Financial Sectors in Africa
BMGF	Bill and Melinda Gates Foundation
BoD	Board of Directors
CGAP	Consultative Group to Assist the Poor
CMP	UNCDF Corporate Management Plan
CPAP	Country Programme Action Plan
CPP	Client Protection Principles
CSP	Country Sector Programme
CTA	Chief Technical Advisor
DAC	Development Assistance Committee
DB	Doing Business
DEX	Direct Execution Modality
DIM	Direct Implementation Modality
ESA	East and Southern Africa
ECG	Evaluation Cooperation Group
FAI	Fond d'Appui Institutionelle
FIF	Fund for Inclusive Finance
FIOL	Financial Inclusion Online
FIPA	Financial Inclusion Practice Area
FPM	Fond de Promotion de Microfinance, DRC
FSP	Financial Service Provider
GLP	Gross Loan Portfolio
GTI	Global Thematic Initiative
HQ	Head Quarter
JP	Joint Programme
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle Income Country
LPAC	Local Programme Advisory Committee
IC	Investment Committee
IF	Inclusive Finance
IFAD	International Fund for Agricultural Development
KM	Knowledge Management
MAP	Making Access Possible (sector diagnostic tool formerly known as FIRE)
MCF	Master Card Foundation
MDB	Multi-lateral Development Bank
MDG	Millennium Development Goal
MDI	Micro Deposit-taking Institution
MIX	Microfinance Information eXchange
ML	MicroLead
MM4P	Mobile Money for the Poor
MNO	Mobile Network Operator
MSME	Micro, Small and Medium-sized Enterprises
MTE	Mid-Term Evaluation
NEX	National Execution Modality
NGO	Non-Governmental Organization
NIM	National Implementation Modality
OECD	Organization for Economic Co-operation and Development
OER	Operating Expense Ratio
OSS	Operational Self Sufficiency Ratio

PAC	Programme Advisory Committee
PaR	Portfolio at Risk
PBA	Performance Based Agreement
PFIP	Pacific Inclusive Finance Programme
PM	Programme Manager
PMU	Project Management Unit
POPP	Programmes and Operations Policies and Procedures
PR	Portfolio Review
RO	Regional Office
RoA	Return on Assets
RTA	Regional Technical Advisor
RTM	Regional Technical Manager
SC	Steering Committee
SME	Small and Medium-sized Enterprise
SO	Strategic Objective
SPIRE	Special Projects Implementation Review Exercise
SSO	Sector Support Organization
TA	Technical Assistance
TOR	Terms of Reference
TSP	Technical Service Provider
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNSGSA	UN Secretary-General's Special Advocate for Inclusive Finance for Development
USD	United States Dollar
VSLA	Village Savings and Loans Association
WA	West Africa
WB	World Bank
YS	YouthStart
YSO	Youth Serving Organization

Executive Summary

In October 2011, the UN Capital Development Fund (UNCDF) Evaluation Unit commissioned an independent review of the global portfolio of the UNCDF Financial Inclusion Practice Area (FIPA). The overall objective of the portfolio review (PR) was to assess whether UNCDF's inclusive finance activities were effectively geared towards achieving the over-arching objective of contributing to the attainment of the Millennium Development Goals (MDGs). The PR aimed to provide UNCDF with a comprehensive assessment of the results of its approach to developing inclusive sectors in the Least Developed Countries (LDCs), both in terms of the performance and effectiveness of the portfolio of Financial Service Providers (FSPs) funded as well as its impact on the broader policy and institutional environment (meso- and macro-levels) supported through its financial sector development programmes at country-level and through its global thematic initiatives. This report presents the synthesized findings and recommendations of the PR review.

The portfolio review assessed and rated the UNCDF/FIPA portfolio at three levels:

- The underlying performance of 93 retail FSPs in 19 countries (88% of the total portfolio supported by UNCDF) as of June 2011 against established targets and standard microfinance performance indicators;
- The performance of 14 of UNCDF's country sector programmes and two global thematic initiatives based on the standard DAC/UN evaluation criteria of relevance, effectiveness, efficiency, impact and sustainability; and
- The quality of UNCDF's project cycle management, related primarily to the DAC criterion of efficiency.

Against the six Main Evaluation Questions assessed, the UNCDF portfolio of programmes was scored to a total of 3.1 of 5 possible on performance or 62%, which translated into an overall score of **"good".**

Main Questions addressed in the Portfolio Review	Aggregate score
1. Are UNCDF's investments in microfinance strategically **relevant**, given its mandate, instruments and comparative advantage (including cross cutting issues)?	Good (3.7 of 5)
2. Are UNCDF's investments in microfinance **effective** in terms of achieving their intended results?	Good (3.0 of 5)
3. Are UNCDF's investments in microfinance **efficient** in terms of resources and time allocated?	Good (3.1 of 5)
4. What is the likely **impact** of UNCDF's investments in microfinance?	Acceptable (2.8 of 5)
5. Are UNCDF's investments in microfinance leading to **sustainable provision of financial services** for the intended clients?	Acceptable (2.9 of 5)
Overall score of DAC criteria:	**Good (3.1 of 5)**
6. How well did UNCDF **manage the portfolio to ensure project quality** at entry, satisfactory implementation and monitoring of the programmes?	Good (3.0 of 5)

Strategic Relevance

Overall, programme objectives had been well aligned with UNCDF's broader mandate, FIPA's Inclusive Finance (IF) strategy and the results chain, which itself could be further refined. Country Sector Programmes (CSPs) had been deeply integrated into national and country-level UN policy frameworks. Both in terms of human development level, fragility, and business development, the UNCDF country portfolio was well aligned with the strategic 'risk willingness objective' to make investments in difficult (e.g. conflict-affected) environments. In the context of financial sector needs, the portfolio reflected a risk-balanced investment strategy. The prevalence of large and well-endowed FSP partners and the preferred use of grant funding carried risks of crowding-out and market distortion, while also diluting UNCDF's value addition, and lessons were being learned about greenfielding as UNCDF's newest type of investment.

Some market gaps had been overlooked, but with a few exceptions, the CSPs and Global Thematic Initiatives (GTIs) had invested with relevant instruments in relevant markets. CSPs were well coordinated with direct counterparts, but less so with the wider community of stakeholders, and the GTIs had consulted sparingly with national stakeholders at entry, resulting in less visibility and buy-in. The relevance (and effectiveness) of the standard model for retail (and meso level) investment management (Financial Inclusion Funds overseen by Investment Committees, FIF/IC) was being contested in more mature markets where UNCDF had remained, and should be updated as it also affected UNCDF's ability to mobilize additional resources for inclusive finance.

UNCDF could increase relevance by clarifying its value addition vis-à-vis country and FSP selection criteria and by developing more specific 'focal areas' for its interventions at all three levels in the sector development approach. National sector anchorage and visibility could be enhanced, and the synergetic potential of UNCDF's two main approaches could be further exploited.

Effectiveness

On aggregate, the retail portfolio reviewed had generated 1.8 million net new depositors (38% increase since baseline) and 528,600 new borrowers (21% increase) as at June 2011 against the outreach target. As a measure of sustainability, two thirds of the funded had increased their operational self-sufficiency ratio (OSS) since baseline and the overall aggregate OSS for the portfolio was 116%, exceeding the comparable 'benchmark average' of MIX Market MFIs in UNCDF countries by 15%. Portfolio quality (PaR30) had improved for half of the investees, but was higher than desired at an aggregate 9.6%. UNCDF's objective of serving at least 50% women had been exceeded, and a significant increase in rural outreach had been achieved. Overall, the majority of funded FSPs were thus performing well in absolute terms, but the attainment of UNCDF targets was uneven.

Almost all CSPs had provided support at the financial sector (meso) level, including association building, training, performance monitoring, and information sharing. Achievement levels varied, and results had been achieved primarily where meso-level partners were already strong. Few CSPs had leveraged private sector resources by supporting national financial BDS providers, but especially where CSPs had developed linkages to broader national IF forums, the investments made had likely contributed to increased sector inclusiveness. The UNCDF outcome indicators introduced in 2010 were not yet consistently reported on, but the more focused efforts on client protection in some countries were found likely to produce results in future.

At macro-level, the focus of the standard CSP model on national inclusive finance policies and strategies had likely contributed to improving IF policy frameworks in many countries. The expanding policy and regulatory agenda in many LDCs was reflected in UNCDF's corporate outcome targets and in new GTIs, but was not yet sufficiently integrated in CSP implementation. While stakeholders in general were satisfied with UNCDF achievements, a narrower focus on emerging market gaps, better synergy between the CSPs and GTIs and better documentation of lessons learned relating to the evolving IF policy agenda could increase effectiveness at macro-level.

Overall, UNCDF had selected partners that ensured contributions to UNCDF's broad range of intended results, especially where CSPs and the GTIs had focused on expansion into new markets and products. The contribution of UNCDF support to FSP results was strongest on the indicator of increased rural outreach and UNCDF's results measurement system could be further refined to better estimate and document the likely contributions of UNCDF programmes to results and systemic changes sought by UNCDF (attribution), especially at meso- and macro level.

The global GTIs had generated the bulk of results against UNCDF's catalytic funding (resource mobilization) objective. Especially in more mature markets, the standard CSP FIF/IC structure was not found to effectively promote catalytic representation, linkage building, and coordination/harmonization with other funders to increase funding availability to the IF sector. To increase effectiveness, UNCDF should review the functions and value addition of this model and consider redefining its 'role as an investor' by joining or handing over investment management to existing alternatives.

Efficiency

Overall, UNCDF's programme outputs had been reasonably commensurate with the input of resources and time allocated. The approval and implementation processes of GTIs was generally efficient, but the benefits of UNCDF's full integration into UNDP's administrative programming and implementation structure had been off-set in a majority of the CSPs by significant delays in programme preparation, start-up and staff recruitment which, combined with delays in recruitment of national staff and PMU procurement, had high opportunity costs for UNCDF and should be addressed.

Overall, the ‘investment cost’ per net new client reached was USD 8 for UNCDF core funds and USD 20 for total (core and non-core) programme grant funding. Forty percent of CSPs and YS investments and a quarter of ML investments had investment costs in line with or lower than this average. Contrary to GTIs, funding shortfalls for CSPs remained a challenge. CSP budget execution was 66%, but this measure of budget sufficiency did not consider ASL changes by UNCDF and UNDP, which had caused inefficiencies in planning and implementation. Better tracking over time of estimated and actual costs against results at retail (country) and programme (regional and global portfolio) levels could pinpoint drivers for programme cost effectiveness and areas of potential efficiency gains. In turn, this could help inform UNCDF’s strategic decisions on the optimal portfolio composition to balance its objectives of taking risks and getting results.

UNCDF’s systems for supervision, monitoring and reporting on investments and programmes were generally strong, especially for retail level investments. CSP programme governance bodies were mostly in place, but GTIs could be strengthened with a steering committee, and capacity gaps at country and regional levels should be addressed, especially for investment management. With the notable exception of YS, programmes had generated very little public information on implementation progress and lessons learned against the recently introduced knowledge management targets. Clearer operational guidance would help to incentivize partners and staff in both CSPs and GTIs to document contributions to UNCDF’s objectives and general new knowledge in inclusive finance.

The introduction of PBAs had impacted positively on investee performance and was perceived positively among all stakeholders. The PBA system and measures (indicators) could be adapted further to the ‘new product development’ agenda of UNCDF and to meso- and macro level investments, and should as a matter of priority be introduced for loans. Refining the targets set and the reporting against disbursements as well as introducing positive sanctions for performance against targets would likely further enhance incentivization.

Impact

With the significant net increase in outreach, the funded FSPs had clearly contributed to improved access to financial services, which had likely contributed towards MDG1, if the assumption is accepted that access to microfinance help people find a way out of poverty. Outreach had increased primarily in under-served markets/market segments, and also to UNCDF’s core market of poor people as indicated by relatively low average balances of deposits and loans in most countries. UNCDF support appeared to have impacted rural FSP expansion most directly. UNCDF had consistency and successfully targeted women clients with its investments, but impact on the more complex issue of women’s empowerment and on environmental protection in particular was not well tracked. UNCDF should consider introducing social and environmental performance monitoring requirements among investees to support its consumer protection agenda and generate better documentation of impact on MDG3 and 7.

UNCDF’s programmes continued to have a relatively high impact on the promotion of IF at macro-level, especially in countries where it was ‘first mover’ or sole sector funder. While some impact at meso-level was noted by stakeholders, it was found to be weaker both in terms of measurable contributions to industry strengthening and the leverage of private sector resources. In the new UNCDF focus area of client protection, however, efforts were found likely to generate future impact against the corporate advocacy target.

Overall, the outreach leverage of UNCDF funds was 17.2 to 1 for the loan portfolio. Outreach leverage for deposits mobilized had increased very significantly to 19 to 1, thus also strengthening the access by FSPs to sustainable private capital for growth. GTIs had generated catalytic funding from the private sector, allowing UNCDF to meet its overall corporate target for 2011. For CSPs, the catalytic function had been more successful in Africa than in Asia, but CSP funding leverage had decreased since 2010 to 2.1 to 1 and in the PR survey responses, UNCDF’s catalytic funding function was rated much lower by external than by internal respondents, underscoring the need to update the CSP investment management and resource mobilization model.

Like for effectiveness, UNCDF institutionalized results measurement system could be refined to better articulate the estimated contribution of UNCDFs interventions to the objectives set (impact), and to results produced by partners. With its strong M&E systems and existing ICs, UNCDF has the foundation for piloting a system to better estimate such attributable change in key indicators of financial sector development programmes in general as well as in the specific focus areas of the GTIs. This would be a major innovative contribution to the global microfinance agenda.

Sustainability

At FSP level, there was a clear overall positive trend towards sustainability as measured by OSS. Change since baseline was significant, and 67% of the UNCDF FSP portfolio was found likely to develop into sustainable institutions. The number of funded FSPs mobilizing domestic savings had increased and the value of their savings had grown very significantly to exceed the value of their aggregate loan book as well as the average for their MIX Market peer group. More funded FSPs had thus increased their ability to more sustainably finance operations by accessing domestic savings.

Partner institutions at meso-level appeared to 'own' the initiatives funded by UNCDF and a large majority of investees confirmed that they had developed plans for continuation of activities after the end of UNCDF funding. At macro-level, UNCDF funding agreements were typically based on shorter-term (annual) action plans and as a consequence, longer-term monitoring of sustainability was limited. Sustainability results were dependent in part on programme-external factors including the extent to which counterparts had the capacity, interest and resources to function as a national champion for the IF agenda in the longer term.

While all investments were time bound, only two of 16 CSP prodocs outlined exit strategies. In 2-3 countries, UNCDF had experimented with potentially more sustainable investment management structures than the standard FIF/IC model, but significant capacity and perception gaps as well as institutional challenges remained for both UNCDF and UNDP to participate effectively in investment funds. Building on the investment principles outlined in 2010, UNCDF should develop a policy guideline for clear and workable disengagement strategies, especially for 'Tier 1' LDCs.

Recommendations

Based on the findings of the PR review, the following six strategic recommendations were developed for improving the UNCDF strategy for IF support:

1. Strengthen the articulation of UNCDF value added at programme level
2. Redefine UNCDF interventions at macro-Level to focus on innovations in the policy agenda
3. Strengthen the private sector support principle at meso-Level to increase the multiplier effect
4. Redesign the retail level investment management and funding structure for CSPs
5. Increase the synergy between and integration of CSPs and GTIs
6. Fine-tune targets and indicators to enable better documentation of UNCDF's results and impact

The strategic recommendations led to twenty-one operational recommendations for improving UNCDF's project cycle management in the areas of:

- Policy guidance, programme governance, and knowledge management;
- More efficient time and resource allocation;
- Improved partner selection and due diligence focusing on UNCDF value added priorities; and
- Improvements to PBAs, reporting and monitoring systems.

UNCDF has developed its strategies from a retail-level project investment approach to supporting systemic changes through sector development underpinned by strong management and monitoring systems within the precincts of UN policy and implementation frameworks. Across the portfolio there were many attestations to the ambition with which progress towards this goal was pursued and results were being achieved. Seeking to integrate good practice evaluation principles and quantitative portfolio assessment with this Portfolio Review was itself evidence of UNCDF's focus on innovation. The findings and recommendations provided in this report are framed by a recognition of UNCDF's potential to further "punch above its weight"[1] and push the frontiers of innovation as a small but catalytic funder in challenging financial markets, while also contributing to learning related to results measurement in the microfinance donor community.

[1] FIPA Business Plan 2010-13.

1. Introduction

In October 2011, the UN Capital Development Fund (UNCDF) Evaluation Unit commissioned an independent review of the global portfolio of the UNCDF Financial Inclusion Practice Area (FIPA) in conjunction with a mid-term evaluation of the MicroLead programme.[2] The Portfolio Review aimed to provide UNCDF with a comprehensive assessment of the results of its approach to developing inclusive sectors in the Least Developed Countries (LDCs), both in terms of the performance and effectiveness of the individual Financial Service Providers (FSPs) supported (retail level) as well as its impact on the broader policy and institutional environment (meso- and macro-levels) through its financial sector development programmes at country-level and through its global thematic initiatives.

In compliance with UNCDF's Evaluation Policy[3], the assignment was undertaken during the period of October 2011 – January 2013 by a team of external, independent consultants reporting to the UNCDF Director of Evaluation, who reports directly to the UNCDF Executive Secretary.

This Synthesis Portfolio Review report presents the synthesized findings, analysis and recommendations on the performance of UNCDF/FIPA's portfolio as at June 30, 2011. Based on a draft Synthesis Report submitted 30 November 2012, it incorporates comments received in January 2013 from UNCDF and the Advisory Committee set up for this assignment.[4] A more detailed first draft Portfolio Review report was submitted in May 2012, and the Consultants presented key findings and strategic policy recommendations at a debriefing meeting with UNCDF in June 2012 and at the October 2012 FIPA Retreat. The report is organized in four sections. The remainder of Section 1 summarizes the evaluation approach and methodology. Section 2 presents a brief overview of UNCDF's rationale and approaches to support inclusive finance in LDCs and introduces the UNCDF/FIPA portfolio by key characteristics. Section 3 presents the synthesized findings and conclusions from the review of country programmes and GTIs by DAC[5]/UN criteria. Section 4 provides recommendations to UNCDF to guide future strategic directions and operational adjustments. The methodology for the portfolio review is elaborated in Annex 1. Annex 2 presents additional findings from the review and scoring of UNCDF FSPs, and Annex 3 provides the scores and complementary findings on UNCDF's project cycle management quality.

Throughout the assignment, the Portfolio Review team was fortunate to meet with committed professionals, who shared their insights and assessments of the current situation and constraints, and took time from a busy schedule to attend meetings and provide information and feedback. The Consultants would like to extend their sincere appreciation for all the time and effort that was put into the assignment by all persons met. The observations and recommendations presented in this report are those of the Consultants, and do not necessarily represent the views of UNCDF, its co-funders, stakeholders or investees.

1.1 Portfolio Review Purpose, Structure and Scope

The overall purpose of the Portfolio Review (PR) was to assess whether UNCDF's inclusive finance activities were effectively geared towards achieving the over-arching objective of contributing to the Millennium Development Goals (MDGs), in particular MDG1 to end hunger and extreme poverty; MDG3 on gender equality and (albeit more

[2] The conjunct evaluation exercise comprised a review of UNCDF's global portfolio of inclusive finance investments (PR) as at 30 June 2011 and a mid-term evaluation of the MicroLead Programme (ML MTE) covering the period of October 2008 to September 30, 2011 with programme data reviewed as at 30 June, 2011. Separate Terms of Reference (TOR) were issued for the ML MTE and the PR. The TORs interrelated in many aspects, and differences were reconciled in the methodological design to allow for the assignments to be conducted concurrently by the same team. See Inception Report: Portfolio Review/MicroLead Mid-Term Evaluation Financial Inclusion Practice Area of UNCDF, November 17, 2011.

[3] The UNCDF Evaluation Unit is mandated to conduct at least one strategic or thematic assessment per year in response to corporate priorities, and mid-term or final evaluations of selected projects in critical areas of relevance to the two UNCDF practice areas of local development and inclusive finance. This assignment responds to both requirements.

[4] An Advisory committee comprising UNCDF's Evaluation Unit, CGAP, and a representative from the MIX Market was established to support the process, and validate the deliverables and actions to be carried out. As per the TOR, the specific roles of the Advisory Committee included review and approval of the TOR; review of assessment methodology/scoring methodology; review of draft report; and participation in the HQ debriefing session.

[5] Development Assistance Committee of the OECD.

indirectly) MDG7 on environmental sustainability. It was conducted jointly with the MicroLead Mid-Term Evaluation (ML MTE)[6] with the specific, additional objective of exploring differences and synergies between the two main UNCDF approaches to promote financial inclusion: Country Sector Programmes (CSPs) and Global Thematic Initiatives (GTIs).[7]

The specific objective of the PR was to provide UNCDF with a comprehensive and strategic assessment of the results of its approach to developing inclusive financial sectors in the least developed countries (LDCs), both in terms of the performance and effectiveness of the individual Financial Service Providers (FSPs) supported (retail level) as well as its impact on the broader national policy and institutional environment (meso- and macro-levels), in line with UNCDF's inclusive financial sector development approach.

Table 1: Main Questions addressed in the PR
1. Are UNCDF's investments in microfinance strategically **relevant**, given its mandate, instruments and comparative advantage?
2. Are UNCDF's investments in microfinance **effective** in terms of achieving their intended results?
3. Are UNCDF's investments in microfinance **efficient** in terms of resources and time allocated?
4. What is the likely **impact** of UNCDF's investments in microfinance?
5. Are UNCDF's investments in microfinance leading to **sustainable provision of financial services** for the intended clients?
7[1]. How well did UNCDF **manage the portfolio to ensure project quality** at entry, satisfactory implementation and monitoring of the programmes.
Source: TOR for the Portfolio Review and PR Inception Report. [1]Main Question 6 addressed cross-cutting issues (gender, environment and aid management) and was incorporated into Question 1 on Relevance and Question 5 on Impact.

The TOR required the PR to provide conclusions on the performance of the UNCDF portfolio in terms of the standard DAC and UN evaluation criteria of design/relevance, effectiveness, efficiency, impact and sustainability as well as a sixth criterion: cross-cutting issues (gender, environment and best practice in aid design and management. The TOR specifically required a level of analysis extending beyond the assessment of individual FSPs and investments into a more strategic assessment of results of UNCDF's approach, by providing comprehensive responses to the key evaluation questions presented in Table 1.

The resulting **mandate** for the PR was to conduct a vertical (all Inclusive Finance (IF) sector interventions) and horizontal (both programme approaches) review to assess and compare the extent to which the strategic objectives of the UNCDF/FIPA approach were being achieved as at 30 June 2011:

- In terms of the strategic relevance of the investments[8] (including relevance for the promotion of gender equality and environmental sustainability);
- Their effectiveness and efficiency (including project cycle management);
- Their likely impact against the intended outcomes; and
- The extent to which positive trends towards sustainability have been achieved.

The Portfolio Review assessed and scored the performance of UNCDF/FIPA portfolio at three levels:

- The underlying performance of 93 of 107 (87%) retail FSPs supported by UNCDF;
- The performance of UNCDF's IF programme portfolio based on a detailed analysis of 14 of 18 country sector programmes (CSPs) and its Global Thematic Initiatives (GTIs) exemplified by MicroLead since 2008 and by the much newer YouthStart (commenced in 2010); and
- The quality of UNCDF/FIPA's project cycle management in response to key question no. 7 (see Table 1), incorporated where relevant under the five DAC criteria reviewed and in the recommendations.

The PR exercise was structured in three main stages:

- An Inception Phase (Oct 17 – 04 Nov 2011) during which a slightly revised results framework for UNCDF interventions was elaborated, and the evaluation methodology, data collection, scoring and analysis tools were

[6] The Mid-term evaluation of MicroLead was presented in a separate stand-alone report submitted in draft for UNCDF's review and comments, following the incorporation of which a final report will be submitted. See MicroLead Mid-Term Evaluation (draft version), 21 May, 2012.

[7] See Inception Report, op. cit., for the full rationale of the joint exercise.

[8] "Investments" is used henceforth as a collective term for all UNCDF's financial support, whether provided directly to an FSP or via a third-party Technical Services Provider (TSP) and including all instruments (grants and loans).

developed. The detailed approach and methodology was presented in an Inception Report, which was reviewed and approved by the Advisory Committee established for the assignment;[9]

- A combined desk review and field mission phase (05 Nov 11 – 31 Jan 2012) during which data and documentation was compiled, scoring tools were tested and adjusted, and a selected sample of FSPs and country programmes were visited to validate scoring results; and
- An analysis/synthesis phase (01 Feb – 31 Dec 2012) where the data compiled was processed and analyzed and overall conclusions and recommendations were drawn on the performance of the UNCDF portfolio and presented in two separate draft reports submitted in May 2012 prior to being synthesized in this report.

In accordance with the TOR, the **scope of the assignment** was segmented into four key tasks:

- Desk review of the extent of synergy between the two main UNCDF/FIPA approaches;
- Development of one or two (pending outcome of synergy review) adjusted intervention logic(s) for UNCDF's two main IF approaches based on which the Review/Evaluation methodology would be elaborated;
- Assessment of performance and current achievements against targets for intended output, outcomes and impact for the overall UNCDF/FIPA programme portfolio (and MicroLead), using the methodology developed from the revised intervention logic(s) in compliance with DAC/UN criteria; and
- Provision of recommendations for adjustments to the IF sector strategy and operational modalities as needed.

1.2 Methodology and Approach

The portfolio review and evaluation methodology was based on UNCDF's standard evaluation approach of assessing evidence of programme and investment performance against their underlying intervention logic and development hypotheses and on input received from UNCDF, which included a draft Standard Intervention Logic for the Inclusive Finance (IF) sector development programmes, the standard UNCDF project evaluation matrix as used for the SPIRE project in 2010, and the specific questions listed in the TORs. Helpful additional input was obtained from CGAP. Four core tools were developed:

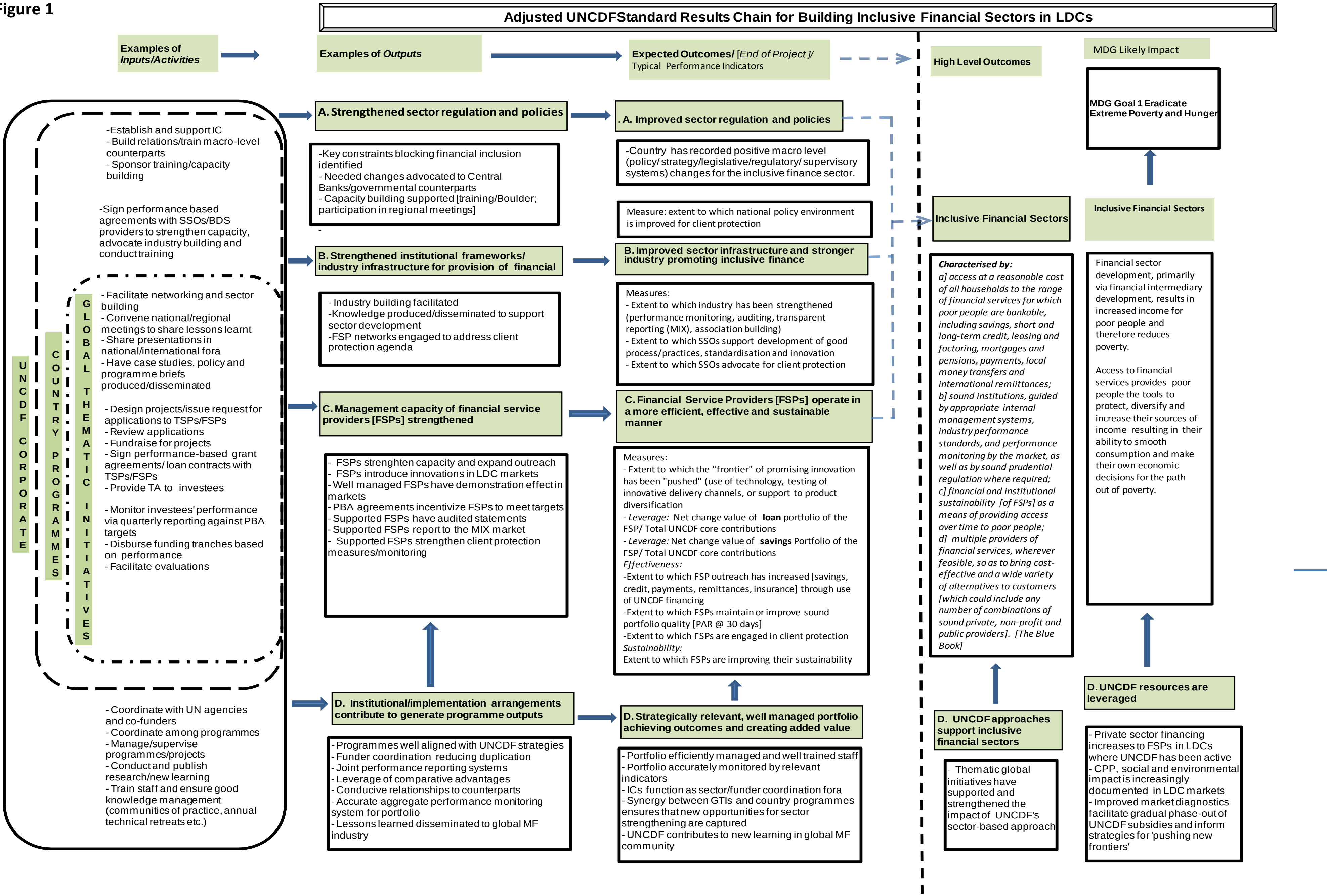
1. A combined sector development programme and GTI Intervention Logic/Results Diagram (See Figure 1);
2. A FSP data collection template and scoring matrix, which provided the basis for an analysis of the underlying performance of retail financial institutions being funded by UNCDF;
3. A Country Sector Programmes/Thematic Programme Scoring Matrix; and
4. A UNCDF Value Added and Management Quality Scoring Matrix.

The intervention logic underlying MicroLead (and by inference other GTIs) was found to further the same overall aim, objective and "higher-end outcomes" (impact) as that of UNCDF's standard IF sector development programmes. The two approaches differed primarily in their internal organizational and management structure (input level), and typically GTIs had more narrowly focused outputs/activities than Country Sector Programmes (CSPs), and were concentrated at the retail level. Finding no grounds for developing separate results chains, the PR Team adapted the existing UNCDF intervention logic diagram to better incorporate the GTIs while reflecting these minor differences (see Figure 1).[10] The revised diagram depicts the results chain and flow of technical and financial inputs from UNCDF and other donors engaged in supporting programme activities (output) for the development of inclusive finance sectors (outcomes) at the i) macro; ii) meso; and iii) micro (retail) levels.

[9] See Inception Report: Portfolio Review/MicroLead Mid-Term Evaluation for the Financial Inclusion Practice Area of UNCDF, November 17, 2011.

[10] See Inception Report, op.cit., for a detailed discussion of rationale for the adapted results framework.

Figure 1



Adjusted UNCDFStandard Results Chain for Building Inclusive Financial Sectors in LDCs
Examples of Inputs/Activities
Examples of Outputs
Expected Outcomes/ [End of Project]/ Typical Performance Indicators
High Level Outcomes
MDG Likely Impact
U N C D F C O R P O R A T E
C O U N T R Y P R O G R A M M E S
G L O B A L T H E M A T I C I N I T I A T I V E S
-Establish and support IC
- Build relations/train macro-level counterparts
- Sponsor training/capacity building
-Sign performance based agreements with SSOs/BDS providers to strengthen capacity, advocate industry building and conduct training
- Facilitate networking and sector building
- Convene national/regional meetings to share lessons learnt
- Share presentations in national/international fora
- Have case studies, policy and programme briefs produced/disseminated
- Design projects/issue request for applications to TSPs/FSPs
- Review applications
- Fundraise for projects
- Sign performance-based grant agreements/ loan contracts with TSPs/FSPs
- Provide TA to investees
- Monitor investees' performance via quarterly reporting against PBA targets
- Disburse funding tranches based on performance
- Facilitate evaluations
- Coordinate with UN agencies and co-funders
- Coordinate among programmes
- Manage/supervise programmes/projects
- Conduct and publish research/new learning
- Train staff and ensure good knowledge management (communities of practice, annual technical retreats etc.)
A. Strengthened sector regulation and policies
-Key constraints blocking financial inclusion identified
- Needed changes advocated to Central Banks/governmental counterparts
- Capacity building supported [training/Boulder; participation in regional meetings]
B. Strengthened institutional frameworks/ industry infrastructure for provision of financial
- Industry building facilitated
-Knowledge produced/disseminated to support sector development
-FSP networks engaged to address client protection agenda
C. Management capacity of financial service providers [FSPs] strengthened
- FSPs strenghten capacity and expand outreach
- FSPs introduce innovations in LDC markets
- Well managed FSPs have demonstration effect in markets
- PBA agreements incentivize FSPs to meet targets
- Supported FSPs have audited statements
- Supported FSPs report to the MIX market
- Supported FSPs strengthen client protection measures/monitoring
D. Institutional/implementation arrangements contribute to generate programme outputs
- Programmes well aligned with UNCDF strategies
- Funder coordination reducing duplication
- Joint performance reporting systems
- Leverage of comparative advantages
- Conducive relationships to counterparts
- Accurate aggregate performance monitoring system for portfolio
- Lessons learned disseminated to global MF industry
A. Improved sector regulation and policies
-Country has recorded positive macro level (policy/ strategy/legislative/regulatory/ supervisory systems) changes for the inclusive finance sector.
Measure: extent to which national policy environment is improved for client protection
B. Improved sector infrastructure and stronger industry promoting inclusive finance
Measures:
- Extent to which industry has been strengthened (performance monitoring, auditing, transparent reporting (MIX), association building)
- Extent to which SSOs support development of good process/practices, standardisation and innovation
- Extent to which SSOs advocate for client protection
C. Financial Service Providers [FSPs] operate in a more efficient, effective and sustainable manner
Measures:
- Extent to which the "frontier" of promising innovation has been "pushed" (use of technology, testing of innovative delivery channels, or support to product diversification
- Leverage: Net change value of loan portfolio of the FSP/ Total UNCDF core contributions
- Leverage: Net change value of savings Portfolio of the FSP/ Total UNCDF core contributions
Effectiveness:
-Extent to which FSP outreach has increased [savings, credit, payments, remittances, insurance] through use of UNCDF financing
-Extent to which FSPs maintain or improve sound portfolio quality [PAR @ 30 days]
-Extent to which FSPs are engaged in client protection
Sustainability:
Extent to which FSPs are improving their sustainability
D. Strategically relevant, well managed portfolio achieving outcomes and creating added value
- Portfolio efficiently managed and well trained staff
- Portfolio accurately monitored by relevant indicators
- ICs function as sector/funder coordination fora
- Synergy between GTIs and country programmes ensures that new opportunities for sector strengthening are captured
- UNCDF contributes to new learning in global MF community
Inclusive Financial Sectors
Characterised by:
a] access at a reasonable cost of all households to the range of financial services for which poor people are bankable, including savings, short and long-term credit, leasing and factoring, mortgages and pensions, payments, local money transfers and international remiittances;
b] sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required;
c] financial and institutional sustainability [of FSPs] as a means of providing access over time to poor people;
d] multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers [which could include any number of combinations of sound private, non-profit and public providers]. [The Blue Book]
D. UNCDF approaches support inclusive financial sectors
- Thematic global initiatives have supported and strengthened the impact of UNCDF's sector-based approach
MDG Goal 1 Eradicate Extreme Poverty and Hunger
Inclusive Financial Sectors
Financial sector development, primarily via financial intermediary development, results in increased income for poor people and therefore reduces poverty.
Access to financial services provides poor people the tools to protect, diversify and increase their sources of income resulting in their ability to smooth consumption and make their own economic decisions for the path out of poverty.
D. UNCDF resources are leveraged
- Private sector financing increases to FSPs in LDCs where UNCDF has been active
- CPP, social and environmental impact is increasingly documented in LDC markets
- Improved market diagnostics facilitate gradual phase-out of UNCDF subsidies and inform strategies for 'pushing new frontiers'

The FSP data collection sheet and aggregating scoring matrix was developed based on a draft received from UNCDF, incorporating UNCDF standard reporting indicators and standard CGAP/MIX Market performance indicators. The FSP matrix had three components: i) FSP profile data; ii) performance data against standard indicators at baseline, Dec 2010 and June 30, 2011, and iii) a FSP matrix scoring scale and system for assessing performance against internationally recognized (MIX) good practice benchmarks and UNCDF Performance Based Agreement (PBA) targets. FSP performance was scored on a scale of zero (exceptionally poor) to five (exceptionally effective) on six categories of performance indicators (see details on methodology and sample size in Annex 1 and detailed FSP scoring results in Annex 2).

The Programme Performance Scoring Matrix (see Annex 1) was designed to analyze and score overall programme performance against the underlying development results chain logic.[11] The matrix included main evaluation questions (tied to the DAC/UN evaluation criteria), key questions (tied to the UNCDF results framework), and sub-questions ("Verification items" or indicators) designed to address the aspects necessary to respond to each key question listed in the TOR for the PR, which shaped the structure of this Synthesis report. Sub-questions also enabled the tying in of FSP performance to the assessment of output (efficiency) and outcomes (effectiveness) of programmes. Programme performance was scored using a scale from 0 – 5, 0 being exceptionally poor and 5 being exceptionally effective, with each sub element counting equally towards the key question score.

Similarly, the Management Quality Scoring Matrix was designed to assess UNCDF's value added and project cycle management quality. Key findings from the scoring in this matrix have been incorporated under the relevant DAC evaluation criteria in this synthesized report (see Annex 1 on methodology and Annex 3 on detailed management quality scoring).

Scores were less intended to indicate how "good" a programme or FSP was, but rather to demonstrate its level of performance against the intended objectives, results (outcomes), and outputs. Innovatively, UNCDF has plans to conduct portfolio 'self-assessments' during periods between large externally-led portfolio reviews. The FSP and programme scoring matrices were developed with the explicit intent that they would enable UNCDF staff to self-evaluate performance of their FSP and programme portfolio, and templates and scoring guides have been submitted separately.[12]

Table 2: Time Schedule for Field Validation Visits

Country	***Time period***
South Sudan including meeting with RTA for East/Southern Africa	28 Nov – 02 Dec 2011
Rwanda	05-09 December 2011
Ethiopia	12 – 20 Dec 2011
Liberia	12 – 16 Dec 2011
Laos	09 – 17 Jan 2012
Bhutan	18 – 25 Jan 2012
Thailand (Regional Office Asia)	27 Jan 2012
DRC	23 – 27 January 2012

Field visits were conducted in seven countries, with the objective of validating and contextualizing the FSP performance scoring, MicroLead, YouthStart and CSP performance, and the management value-add of UNCDF in general, and MicroLead in particular. The countries selected and visited are presented in Table 2.

For each country visited, a briefing note on findings from the desk review was completed prior to arrival. During each country visit, the CTAs/UNDP staff greatly facilitated the Team's work by organizing appointments and logistics in the countries visited. Based on structured interview guides, the Evaluation Team interviewed internal and external programme stakeholders (representatives of co-funders, government partners, meso-

[11] A single evaluation matrix was developed for both the PR and the ML MTE with common main and key questions relevant to both CSPs and GTIs. Sub-questions were added to address issues unique to CSPs and ML in response to the two sets of TORs. Sub-questions also addressed the extent to which GTIs had been integrated with CSPs and synergies exploited.
[12] Templates and scoring guides for FSP performance assessment were submitted to FIPA on 20 February 2012 and for programme performance assessment on 14 May 2012.

level stakeholders and investees) to gain insights, verify data and triangulate opinions on FSP and programme achievements and UNCDF management support.[13]

Client-level impact assessment of the welfare of microfinance clients was beyond the scope of this review, and the main source of data for client impact assessment was the type and volume of microfinance delivered to clients by UNCDF-supported FSPs. To understand client perceptions of FSP products and services, however, ten focus group discussions were held in five countries with 15-50 clients of eight FSPs selected on a random stratified basis. [14]

Each country visit concluded with an optional debriefing with key stakeholders (CTA and stakeholders invited by CTAs, including UNDP staff) during which findings were validated and observations discussed.[15] Preliminary scoring of visited FSPs, of country programmes and UNCDF management quality were completed to the extent possible during the field visits and finalized during the analysis phase. Each FSP and programme was scored independently by two Evaluation Team members and discrepancies discussed before a final score was assigned.[16] For the scoring of the FSPs and programmes in Burkina Faso and Nepal the PR team was helpfully assisted by the external consultants having recently completed evaluations of these CSPs.

A bilingual electronic questionnaire (delivered via the software programme SurveyMonkey) was designed for the Evaluation to reach a broader audience of stakeholders, specifically in countries not visited. Based on stakeholder contact lists received from UNCDF staff, the survey was disseminated to 465 stakeholders and 126 responses were received (27% response rate) by 15 March 2012. All stakeholder groups were well represented in the survey (investees were most responsive, comprising 39% of all respondents) and stakeholders involved at country, region and programme levels responded (see Table 3). The ratings and comments received in the survey provided important additional validation and insights that have been summarized in this report.

Table 3: Response received to the PR survey

	Stakeholder groups					
	A (Internal)	B (Co-funders)	C (External)	D (Investees)	Total	In % of Total
Total surveys sent:	64	132	101	168	465	100%
Total surveys completed:	18	27	32	49	126	27%
Of which:						
# in English:	11	17	21	33	82	65%
# in French:	7	10	11	16	44	35%
Of which, an approximation of the primary responsibility of the respondents (a country, a region (including 'global') or a specific programme (GTI) is provided below. (Respondents had multiple choices):						
% Country	13	20	28	48	109	87%
% Regional	17	22	23	45	107	85%
% Programme	8	17	16	41	82	65%

In addition, a number of key stakeholders (UNCDF staff and co-funders) were interviewed by telephone using structured interview guides, and two of the three regional offices of UNCDF were visited to interview regional advisors and staff.[17] Finally, a large volume of secondary documentation was consulted in addition to the primary data compiled and data was generated in several analytical tools which the PR team hope will be of use to future UNCDF portfolio monitoring and analysis exercises (see Annex 1).

[13] See interview guides in Inception report, op.cit., Annex 4.

[14] See Inception Report, op.cit., Annex 4e for guidelines. FGDs were held in neutral locations without FSP or UNCDF staff present.

[15] Debriefing notes have been made available to UNCDF as part of the background data to this report.

[16] Initially, preliminary scores were expected to be completed prior to and then revised during field validation visits. However, due to time delays in accessing information, this was not possible and scores were completed during and directly after the field visits.

[17] See Interim Report, op.cit., for an overview of interviews conducted.

2. Overview of UNCDF Policy Framework and current Portfolio

2.1 UNCDF Policy Framework and Rationale for Microfinance Investments

The mandate given to UNCDF from the UN General Assembly (1966) is to "assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans". The mandate was modified in 1974 to focus on "first and foremost the least developed among the developing countries". Within its economic development mandate UNCDF focuses on both public and private financing mechanisms. Support to inclusive financial systems is defined as promoting private sector driven pro-poor growth by ensuring that financial services reach poor people and small businesses to help generate income, build assets, invest in opportunities and strengthen resilience to setbacks.[18]

UNCDF's mission is to support efforts to achieve the Millennium Development Goals (MDGs) in at least forty Least Developed Countries (LDCs) by "increasing poor people's access to microfinance and basic services, in ways that are sustainable and can be taken to scale by the private sector, development partners and national governments."[19] By offering seed capital, and technical and advocacy support (collectively termed 'investments' here) to build stronger financial sectors and local government systems, UNCDF aims to increase economic opportunities and greater access to essential services for poor people, and, ultimately, to contribute to the achievement of MDG no. 1 (poverty reduction) and support other MDGs, notably women's empowerment (MDG3) and environmental sustainability (MDG7).

UNCDF has two distinct practice areas: Local Development and Financial Inclusion. Since 2009, the separation of the two practice areas has been cemented, and all of UNCDF's financial services projects are now exclusively managed by the Financial Inclusion Practice Area (FIPA). UNCDF is fully integrated into UNDP's planning frameworks, and its entire country-level portfolio is now implemented via joint programmes with UNDP.[20]

For the period of 2010-13, UNCDF has identified four strategic objectives (SOs), of which two relate specifically to FIPA:

- SO.1: Strengthen the enabling environment and capacities of financial service providers (FSPs) in 25 LDCs to provide pro-poor products and services that will leverage at least 10 times UNCDF's original core investments by 2015; and
- SO.3: Develop new products and services that support efforts to achieve the MDGs in the LDCs.

These strategic objectives are reflected in the FIPA Business Plan for 2010-13, which defines three major focal areas:

- Capital investment instruments used in a catalytic way that maximizes leverage (to increase impact);
- Emphasis on the development of new products; and
- Stronger articulation between FIPA's IF sector development approach and its thematic initiatives.

In 2002, FIPA made a strategic shift from a 'project approach' supporting retail institutions to a sector development approach to the building of inclusive financial sectors and since then sector-based country programmes (CSPs) have been the core FIPA approach to attain its overall objectives. The sector development approach supports governments and stakeholders in building a common vision for the development of inclusive financial sectors. Sector assessments are conducted to identify gaps at macro- (policy), meso- (industry), and retail levels, which are then sought addressed to meet the demand for financial services at client level in LDCs. FIPA clarified its dual role of facilitator and investor[21] in this process in 2010.

[18] From: http://www.uncdf.org/mandate-and-focus
[19] UNCDF: Corporate Management Plan (CMP) 2010-2013, p. 4.
[20] CGAP: SmartAid for Microfinance Index 2011: UNCDF; and UNCDF roadmap for submission to SmartAid, February 1, 2011.
[21] Two concept notes were published in 2010 to this effect: N. Assouline and C. Poursat: "Concept Note on UNCDF's Facilitation Role" and "Operational Guidelines for UNCDF as an Investor", June 2010.

As a facilitator, UNCDF (FIPA) promotes a consultative process to develop national frameworks enabling stakeholders to coordinate efforts based on comparative advantages. Through its partnership with UNDP, UNCDF is recognized at the **policy level** in many LDCs as a neutral broker with technical competencies relevant to the promotion of financial inclusion as a means of progress towards the MDGs. Interventions supported at the macro-level have thus included advocacy, capacity building (training and exposure) for central banks and key government actors aimed at supporting the development of enabling regulations and supervision of the microfinance industry, as well as efforts to increase coordination and coherence among the funders of financial services at country level through national Investment Committees (ICs). ICs aim to help coordinate investment decisions, leverage funding instruments, and harmonize reporting requirements from recipient institutions.[22] National policy level advocacy is linked to UNCDF's global advocacy agenda, which is carried in large measure by the UN Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA).

At the **meso-level**, UNCDF has narrowed its support to focus on building reporting transparency for retail FSPs, notably through ratings, audits, and public performance reporting[23], where its internal Performance-based Agreement (PBA) system and close relationship with the MIX Market offer possible comparative advantages. UNCDF was the first donor agency to sign on to the Smart Campaign for Client Protection Principles (CPPs). Since 2011, UNCDF's PBAs have included an encouragement for investees to commit to the CPPs.

As an investor, UNCDF focuses on the **retail level**, and has a specific 'risk-willingness' objective which permits investments in young and promising institutions that other funders are unable or unwilling to make. This willingness also allows UNCDF to make investments in difficult (e.g. conflict-affected) environments and in countries with nascent microfinance industries, thus giving it a potential "first mover" advantage. In addition to its target of leveraging capital to FSPs, UNCDF has a stated intent to ensure that FSP business plans link to commercial sources of funding so that UNCDF grants do not 'crowd out' but rather engages commercial sources of funds.

The standard CSP programmes are usually led by a long term technical presence in the field, supported since 2005 by regional technical offices. This also means that CSPs are not geared to generate as much financial leverage (fundraising) as the more targeted interventions of GTIs, for which it is easier to raise external funds.[24] Nevertheless, the overall leverage of UNCDF's investments in 2010 was 3.8:1. UNCDF aims to raise this funding leverage ratio to 5:1 by 2013.[25]

To complement the CSPs, UNCDF has initiated and/or co-funded ten global and regional thematic programmes since 2007, which focus on "new frontiers". A clearer articulation of the links between UNCDF's IF CSPs and its new thematic "products" was an important priority of the FIPA Corporate Management Plan (CMP) for 2010-13, which set out 6 new tasks for its technical field staff (CTAs and RTAs) in order to clarify the inter-connectedness between the two approaches:

- Provision of Market intelligence: would a specific product be relevant to a specific country context?;
- Review proposals and advise on feasibility in country contexts;
- Facilitate the introduction of proposals to national authorities (including Investment Committees, ICs);
- Support implementation and generation of knowledge management (KM) products;
- Identify potential synergies between global thematic initiatives (GTIs) and IF sector development programmes (i.e. possibly to co-finance new products with resources mobilized from local ICs; and
- Help identify and develop policy dialogue related to the new products.[26]

[22] UNCDF: "Vision and Mission Statement for Building Inclusive Financial Sectors", 2010 update, and UNCDF: FIPA business plan 2010-13, section IV.
[23] UNCDF roadmap for submission to SmartAid, February 1, 2011.
[24] UNCDF: FIPA Business Plan 2010-13, p. 10.
[25] UNCDF Annual Report 2010.
[26] UNCDF FIPA Business Plan 2010-13, pp. 11-12.

2.2 UNCDF Country Portfolio: Programme Profiles and Key Characteristics

As at June 2011, UNCDF had IF investments in 28 countries. Country Sector Programmes (CSPs) were established in 18 countries of which the PR reviewed 14 (see Table 4). Four of these 14 CSPs were second phases of programmes which had started earlier (typically in 2004-05). The average CSP duration was 3.7 years from actual start date to current expected end date (including approved extensions for some CSPs), as illustrated in Table 4. The total budgets reflected in Table 4 were the approved budgets for the expected duration, for which UNDP and UNCDF in all cases had committed partial funds at prodoc signature, as per UNCDF's mission to catalyze funding from other sources. For most CSPs, a significant part of the total budgets was unfunded at the start, and funds were expected mobilized during implementation via Memoranda of Understanding (MoUs) with co-funders.

UNCDF Region	**Table 4: UNCDF Country Sector Programme Characteristics**					
	Country	*CSP Name*	*Curr. Duration*	*Key partner*	*Co-funders*	*Total Budget $*[2]
	Lao PDR	MAFIPP	Jul 10 – Dec 14	Central Bank	UNDP	7.0 million
Asia	Nepal	EAFS	Nov 08[1] – Dec 12	Central Bank	UNDP	9.97 million
	Timor-Leste	INFUSE	Sep 08 – Dec 13	Min of Econ/Devt	UNDP, GoTL, AusAid	5.4 million
Average			**56 months**			**7.46 million**
East/ Southern Africa	DRC	PASMIF II	Jul 10 – Dec 14	Min of Fin (MoF)	KfW, WB, SIDA, UNDP	14 million
	Madagascar	PAMIF	Mar 11 – Jul 13	MoF	UNDP, IFAD	6 million
	Malawi	FIMA	Jun 07 – Dec 11	MoF	UNDP, Cordaid, (Gov't)	6.23 million
	Mozambique	BIFSMO	Aug 07 – Dec 11	Min of State/Adm	UNDP	3.1 million
	Rwanda	BIFSIR	Aug 10 – Dec 12	MoF	UNDP	5 million
	South Sudan	BIFSS	Jan 10 – Dec 13	MoF/MoCI	UNDP	4 million
Average			**44 months**			**6.39 million**
West Africa	Burkina Faso	PRESEM	Jul 08 – Dec 11	MoF	WB, UNDP, RCPB	3.7 million
	Liberia	LIFS II	2009 – Dec 13	Central Bank	UNDP, UN JP, Danida	6.7 million
	Senegal	PALPS	Jul 08 – Dec 11	MoF	CIDA, UNDP	9 million
	Sierra Leone	MITAF II	Aug 11 – Dec 14	MoF/Central Bank	KfW, Cordaid, UNDP	20 million
	Togo	PASNAM II	Jul 09 – Jul 13	MoF	UNDP, (WB foreseen)	7.5 million
Average			**38 months**			**9.38 million**
Tot. Ave			**46 months**			**7.74 million**

[1]EAFS was formally launched only in April 2010. See EAFS Annual Report 2010/11.

[2]Budget figures in latest CSP progress reports were used. These differ with reported ATLAS (PBA) budget figures for Timor Leste and Sierra Leone by a total of USD 1.02 million.

As illustrated in Table 5, co-funding had been achieved for 8 of 14 CSPs (57%), but only in one case (Burkina Faso) has a semi-private party (an FSP investee) contributed to CSP costs. Government partners often contributed to CSPs in kind (only in Malawi did the government pledge funding), typically providing office space and/or staff. Where CSP budgets were significantly higher than the average (DRC and Sierra Leone), co-funders (KfW, World Bank) contributed the majority of funds.

All the CSPs under review were designed as per the standard UNCDF sector programme approach with objectives outlined for each of the three levels of intervention, but with a strong emphasis on retail level funding, also in budgetary terms. Where less focus was put on one or two of these levels, it was typically due to funding constraints or capacity/time limitations (e.g. Nepal and DRC), as illustrated in Table 5.

Most CSPs were implemented with the national Ministry of Finance and/or the central bank. Only in Mozambique had the key partner of the CSP changed from Ministry of Planning and Development to currently the Ministry of State and Administration. Efforts are ongoing to redevelop links to the Ministry of Finance to underscore the positioning of inclusive finance support within the financial sector.

The CSPs followed two different investment management models (see Table 5). The **standard CSP model** implemented in 11 countries was structured with a Steering Committee, which approved annual work plans and reports from a Project Management Unit (PMU) typically led by a UNCDF Chief Technical Advisor (CTA).

UNCDF Region	**Table 5: CSP Intervention levels and Investment Management Structures**								
	Country	*CSP Name*	*Main CSP outcomes*			*Governance & investment mgt.*			*# FSPs funded*
			Macro	Meso	Micro	Gov. body	Inv. Mgt	Approval	30 Jun 2011
Asia	Lao PDR	MAFIPP	√	√	√	PMC	PMU	IC	0 (+1 SSO)
	Nepal	EAFS	(√)	(√)	√	PBE	PMU	IC	18 (17)
	Timor-Leste	INFUSE	√	√	√	MCIF	PMU	IC	2
Subtotal									**20 (19)**
East/ Southern Africa	DRC	PASMIF II	√	(√)	(√)	SC (CP)	FPM	BoD	2
	Madagascar	PAMIF	√	√	√	SC (CPP)	PMU	IC	8
	Malawi	FIMA	√	√	√	SC	PMU	IC	6
	Mozambique	BIFSMO	(√)	√	√	SC (+Ref grp)	PMU	IC	7
	Rwanda	BIFSIR	√	√	√	SC	PMU, BDR	IC	1 (+3 SSOs)
	South Sudan	BIFSS	(√)	(√)	(√)	MCIF	SSMDF	BoD/MCIF	6 (0)**
Subtotal									**30 (24)**
West Africa	Burkina Faso	PRESEM	√	√	√	SC (CP)	PMU	IC	3
	Liberia	LIFS II	√	√	√	-	PMU	IC (CBL)	1
	Senegal	PALPS	√	√	√	SC (+CNC)	PMU	IC	9
	Sierra Leone	MITAF II	√	√	√	PAC	CLG	BoD	2
	Togo	PASNAM II	√	√	√	CP (CNM)*	PMU	IC	6
Subtotal									**21**
Total	**14**	**14**							**65****
*Togo was the only CSP designed with a clear handing over/exit plan to a defined local entity (ANDPM) to start in 2011.									
** No data was available for SSMDF investees in South Sudan. The PR also scored 3 CSP FSPs in Niger and CAR for a total of 68.									

PMUs managed FSP, TSP and Sector Support Organization (SSO) investments, including calls for proposals, appraisals, disbursement requests, monitoring and reporting. The PMUs functioned as secretariats for an Investment Committee (IC) typically comprising all funders of the CSP (and in rare cases also other industry funders as observers, e.g. in Rwanda), which approved investments based on recommendations from the PMUs. In the standard model, the budget lines for investments were often termed "Funds" (e.g. Fund for Inclusive Finance (FIF) or Fond d'Appui Institutionelle (FAI), but investment management remained 'internal' to the CSP, and the legal authorization to issue grants and loans was secured through the CSPs' status as UN projects with government endorsement. The PMUs were also in charge of meso-level activities, such as knowledge dissemination and coordination (if not direct implementation) of training, information exchange, and FSP ratings, etc., which were generally conducted with or through a national industry association. Likewise, the PMUs coordinated support at macro-level with relevant stakeholders.

In two countries (Sierra Leone and DRC), UNCDF experimented with a different and more **autonomous model for investment management.**[27] This model involved the contracting by international tender of a TSP to manage retail (and to some extent meso-level) investments on behalf of the CSP's funders, including KfW and World Bank. The TSP was charged with registering, establishing and managing an independent, nationally licensed (re)financing entity (either for loans or grants or both), typically in the form of a company limited by guarantee with a Board of Directors (BoD) or similar. The companies, managed by a TSP, assumed responsibility for the appraisal, preparation and monitoring of investment proposals for the approval of the BoD or a hybrid IC comprised of (project) investors, and in the case of Sierra Leone, also for management of other CSP activities. While this model had many advantages as a more sustainable entry and exit channel for

[27] While the SSMDF in South Sudan also represented this model, its structure was determined more by contextual circumstances than FIPA design.

investors, the transition from 'project funds' to this more autonomous model had been challenging for UNCDF.

2.3 Global Thematic Initiative Profiles and Key Characteristics

To complement the well-established CSPs, UNCDF has initiated and/or co-funded ten Global (or regional) Thematic Initiatives (GTIs) since 2007 to address specific shortcomings or additional needs in inclusive financial sector development. The thematic initiatives have focused on narrower product development needs (e.g., savings, insurance, remittances, etc.), segments (e.g., youth, clean energy), and delivery mechanisms (e.g. mobile/electronic banking) within the broader IF approach, collectively termed 'new frontiers'.

The business model for the GTIs departed slightly from the standard sector development approach of the CSPs. Rather than resulting from a national market gap analysis, the 'new frontiers' were identified by UNCDF based on experience generated in the CSP model or analysis of emerging trends deemed relevant to a significant number of LDCs, and funding was mobilized through partnerships once their relevance to UNCDF had been confirmed. Interventions were launched only when sufficient funding had been committed.

The more targeted 'new product development approach' of the GTIs naturally focused at the retail level, where the CSPs also invested most of their efforts and funds. The results of meso- and macro-level activities supported by CSPs were expected to benefit FSPs equally, whether funded through a CSP or a global initiative. Conversely, through catalytic influence (demonstration effect) and knowledge management activities in their new markets, successful GTI investments were expected to have meso-level impact on strengthening national microfinance industries, which might also influence the policy level.

The biggest differences between the two approaches (or input channels) were found in the internal organizational and management structure with GTIs being centralized and managed from one point in UNCDF without external representatives in an IC. With less overhead costs (one programme manager for MicroLead and one for YouthStart) than UNCDF's sector development programmes, the GTIs were expected to benefit from the human and technical infrastructure provided by the sector development programs.[28] Future GTIs are, however, planned with Programme Management Units (PMUs) of 3-5 staff.

2.3.1 MicroLead

Started in 2008, MicroLead (ML) was designed to fill an identified "market leadership gap" in LDCs through the provision of technical assistance (TA) and capital to support the entry of greenfield FSPs from the South into under-served LDCs, and/or build the capacity of existing FSPs to offer sustainable financial services, focusing on savings-led business models as its niche within the 'new frontier' agenda. It was designed to complement UNCDF's CSPs and was also expected to generate synergies with other UNCDF GTIs as they were developed. MicroLead was expected to add 525,000 active (net new) clients to investee FSPs by the end of 2013. The ML initiative was viewed as an opportunity to generate new knowledge within the nexus of savings mobilization, greenfielding and LDCs, and was consequently mandated to document and publish lessons learned to inform scaling-up efforts. Knowledge generation was to involve collaboration with key research partners and result in the development of innovative, cutting-edge strategies and approaches.[29]

Initially, ML targeted 59 market leaders identified by UNCDF with the intent to provide up to ten FSPs with a combination of grants and loans to be tranched over the period 2008-2013. A November 2008 Request for Applications (RFA) resulted in 14 applications, of which eight from five FSPs were approved. PBAs for six of these were signed in 2009 (see Table 6). With funding available for additional investments, applications were appraised on a rolling basis and as of June 2011, a total of 10 PBAs had been executed with TSPs and FSPs for

[28] UNCDF: FIPA Business Plan 2010-13.

[29] MicroLead Programme Document, October 2008. According to the ML PM, Outcome 3: "Documentation and publication of lessons learned to facilitate scaling-up" was apparently rescinded later with BMGF agreeing that UNCDF would not conduct key research under the ML programme. The PR could not find documentation for this change of the programme outcomes.

a total of USD 15.8 million. By end 2011, PBAs for three additional country-level investments had been executed; two involving TA to existing FSPs (one for a commercial bank with mobile banking services) and one for a greenfield. The ML PBAs provided support to a total of 29 FSPs/SSOs in 9 countries and the Pacific region. Of these nine, there were CSPs in 7 countries, and one of the ML investees (TRM) was also funded by a CSP. The ML investment in the Pacific was co-funded by the regional programme PFIP.

Table 6: MicroLead Portfolio

Country	*FSP/TSP*	*PBA Date*	*# PBAs*	*Amount Invested (USD)*			*Recipients*		*Type of Investment*		
		(D/M/Y)		Total	Grants	Loans	FSP	SSO	Green-field	Existing FSP	Post Con-flict
South Sudan	BRAC[1]	06/11/08	1	2,987,983	1,500,000	1,487,983	1		1		
	SUMI[1]	25/11/08	1	1,000,000	500,000	500,000	1				1
	Finance Sudan[1]	12/01/08	1	800,000	100,000	700,000	1				1
	Equity Bank	12/09/09	1	2,500,000	2,500,000	0	1		1		
Sierra Leone	BRAC	22/10/09	1	1,000,000	1,000,000	0	1		1		
Liberia	BRAC	22/10/09	1	1,000,000	1,000,000	0	1		1		
DRC	OI DRC	22/10/09	1	2,500,000	2,500,000	0	1		1		
Bhutan	BDBL (BASICS)	12/03/09	1	1,778,157	1,778,157	0	1			1	
Timor-Leste	TRM (BASICS TSP)	12/01/09	1	897,595	897,595	0	1			1	
Lao PDR	CARD TSP[2]	12/06/10	1	1,337,611	1,337,611	0	8	1		8	
Subtotal			10	15,801,346	13,113,363	2,687,983	17	1	5	10	2
Post June 30, 2011											
Ethiopia	BASICS TSP[2]	28/07/11	3	1,693,944	1,693,944	0	2	1		2	
Rwanda	Equity Bank	09/11/11	1	2,000,000	2,000,000	0	1		1		
Pacific Islands	Westpac	13/10/11	1	645,000[3]	645,000	0	7[4]		7		
Subtotal			5	4,338,944	4,338,944	0	10	1	8	2	0
Total			**15**	**20,140,290**	**17,452,307**	**2,687,983**	**27**	**2**	**13**	**12**	**2**
Average/PBA				**1,342,686**	**1,163,487**	**895,994**					

[1]Funding commitment made prior to ML start up.
[2]UNCDF has signed one PBA with CARD and CARD has signed PBAs with each of the eight FSPs and the 1 SSO it supports. In addition to the PBAs with 2 FSPs and 1 SSO, ML also signed a PBA with BASICS in Ethiopia.
[3]The UNCDF regional programme PFIP co-funded USD 355,000 for a total PBA value of UDS 1,000,000.
[4] Seven branches of Westpac bank were supported across the Pacific region.

The ML portfolio under review (excluding Westpac), thus included agreements with 7 FSPs/TSPs. The six greenfield investments were provided to three FSPs, of which two were Southern-based (BRAC's expansion to three countries in Africa from Bangladesh, and Equity Bank's regional expansion from Kenya to South Sudan and Rwanda). In addition, 12 existing FSPs and 2 SSOs had received long-term TA and capital through ML PBAs signed with two Southern-based FSPs (CARD Philippines and BASICS India) providing technical assistance, initially to FSPs in their region, but in 2011, BASICS expanded its TA services to Ethiopia. ML also included a Post-Conflict Window to support FSPs and good practice IF in conflict-affected environments. This window was created primarily to incorporate two UNCDF investments in South Sudan committed prior to ML start-up (SUMI and Finance Sudan), and no other post-conflict investments have been made since.

ML has been managed by a single Programme Manager (PM) recruited in March 2009, i.e. well after the initial RFA but in time to review applications prior to approval. The PM is located at UNCDF head office and ML has been implemented with the support of UNCDF regional technical advisors (RTAs), CTAs and programme officers. The programme's governance structure consists of an internal UNCDF investment committee (IC) including regional representatives that approve investments based on recommendations from the PM. As the key funder of ML, a representative from the Bill and Melinda Gates Foundation (BMGF) is a non-voting participant on the IC. The Programme Advisory Committee (PAC) composed of senior UNCDF FIPA staff including RTAs has provided further input/analysis on investments. Regular reports to the BMGF and members of UNCDF senior management has thus provided programme management accountability, and constituted the *de facto* governance body of the Fund. All major funding decisions and program decisions were approved by the UNCDF Executive Secretary.

MicroLead was started with a budget of USD 28.2 million, of which UNCDF committed USD 7.9 million.[30] The balance (USD 19.9 million[31]) was provided by the Bill & Melinda Gates Foundation. In July 2011, UNCDF raised an additional USD 23.5 million from The MasterCard Foundation to expand the programme with resources earmarked for underserved LDC and non-LDC countries in Sub-Saharan Africa.[32]

2.3.2 YouthStart

Concerned for the often bleak future of the growing population of young people especially in Africa, UNCDF and the MasterCard Foundation (MCF) identified a market gap, recognizing that young people were excluded from access to basic financial services, but also that few FSPs (and UNCDF staff) understood the specificities of serving this market segment and knew even less about the Youth Serving Organizations (YSOs) with whom they could partner to target and design products for young people.

UNCDF and MCF developed a concept for a Global Thematic Initiative named YouthStart to address access to finance for this "future microfinance market". MCF provided USD 11.9 million in funding to YouthStart with the aim to increase access to demand-driven financial and non-financial products and services (in particular savings and financial education) for poor and low income youth (age 12-24) in up to 14 LDCs in Sub-Saharan Africa during June 2010 – December 2014.

YouthStart (YS) was set up to support strong, existing FSPs in designing, piloting and rolling out youth financial products and services, while encouraging partnerships with non-financial YSOs providing educational, training and support services. It aims to reach 200,000 new young clients by end 2014, of which 50% would be young women/girls; build permanent technical capacity among FSPs in youth financial services; and facilitate the generation and sharing of new knowledge on inclusive finance for youth.[33]

The programme was designed with two stages, enabling interested FSPs to first access co-funding (average grant size USD 20,000) for market research, design and development prior to applying with a product development plan for Stage II piloting and implementation. The 12-month Stage I (funded by USD 970,000) was launched in June 2010 with an RFA sent to 58 FSPs in 14 countries, of which at least 21 were existing CSP or ML partners. By September 2010, 27 FSPs from 13 countries had responded, of which 11 (41%) were CSP partners. A performance-based selection process resulted in 18 FSPs (including 7 existing CSP partners) from 9 countries participating in Stage I, involving training by international TSPs, exposure and technical assistance to market research, adjustment of procedures, identification of YSOs, and the preparation of business proposals for Stage II. UNCDF staff participated in the trainings, further cementing involvement in the GTI and contributing to internal knowledge generation.[34]

Seventeen business proposals[35] were submitted to UNCDF in March 2011, of which ten were approved in June 2011 and PBAs were signed for a total of USD 7.2 million during September 2011 (see Table 7).[36] The

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[30] A USD 6,559,875 original commitment with an additional commitment of USD 1,311,975 in 2009.
[31] Earned interest on non-disbursed funds of USD 181,345 accounts for the balance.
[32] The MicroLead programme has been evaluated in detail by the Evaluation Team and findings have been submitted in a separate report: MicroLead Mid-term Evaluation, draft version, 21 May 2012.
[33] Summarised from the YouthStart Programme Document.
[34] Data from YouthStart's Annual Report 2011.
[35] Nyesigiso did not submit and ACEP was not invited due to poor performance in Phase I. YouthStart Annual Report 2011.

YouthStart grantees have projected to reach 402,727 new youth clients (double the target originally set) by the end of 2014.

Table 7: YouthStart Portfolio						
Country	*FSPs in Stage I*	*FSPs in Stage II*	*Date of PBA (D/M/Y)*	*Amount Invested (USD)*	*In countries with CSP*	*To FSPs also funded by CSP*
				Total Stage II[1]		
Burkina Faso	R/FCPB	R/FCPB	07/09/11	675,339	1	1
DRC	FINCA RDC	FINCA RDC	30/09/11	799,789	1	
	Mecrebu				1	1
Ethiopia	ACSI	ACSI	29/09/11	798,577		
	PEACE	PEACE	18/08/11	720,657		
	SFPI					
Malawi	OIBM	OIBM	23/09/11	800,000	1	1
Mali	Nyesigiso					
Rwanda	UCU	UCU	22/09/11	650,000	1	
Senegal	PAMECAS	PAMECAS	09/09/11	600,000	1	1
	CMS	CMS	12/09/11	716,651	1	1
	U-IMCEC				1	1
Uganda	FINCA Ug	FINCA Ug	23/09/11	718,451		
	FinanceTrust	FinanceTrust	22/09/11	750,000		
	Kitgum SACCO					
	PostBank					
	Stanbic					
Togo	FUCEC[2]				1	1
Total	**18**	**10**		**7,229,464**	**9**	**7**
Average				**722,946**		

[1]In addition, grants averaging USD 20,000 were allocated to Stage I participants in 2010.
[2]Due to savings on the budget, FUCEC is being considered as an 11th Stage II FSP for approval by the IC in June 2012.

As YS itself focused efforts at the retail level, UNCDF expected that synergies with CSPs would facilitate impact at meso- and macro level to remove barriers and promote youth-centered financial services (YFS). In addition, YS had very clear knowledge generation outputs, aiming to expand YFS knowledge by convening and facilitating interaction among stakeholders. YS was expected to contribute to the broader advocacy agenda by helping CSPs develop an active policy dialogue with national authorities and meso-level associations on the importance of YFS as a means to promote long-term financial inclusion.

YS is managed by a single Programme Manager (PM) located at the UNCDF Regional Office in Senegal, supported by RTAs and CTAs. Like ML, it does not appear to have a formal governance structure[37], but an internal UNCDF investment committee (IC) approves investments based on recommendations from the PM. A representative from MCF is a non-voting observer on the IC. The YS PM reports quarterly to MCF and members of UNCDF senior management thus providing programme management accountability.

2.3.3 Other GTIs and Regional Initiatives

The PR team identified a total of eight other global and regional initiatives forming part of UNCDF's thematic development agenda, intended to complement and create synergies with the sector development programmes at country-level. As agreed with UNCDF, however, only the two initiatives presented above that had commenced implementation or were under UNCDF direct management were analyzed and scored as part of this portfolio review.

[36]Due to savings on the budget, an 11th proposal was approved by the YS IC in June 2012 to FUCEC in Togo, following TA to develop a business plan.
[37] A Steering Committee to meet every six months is mentioned in the YS prodoc, p. 22.

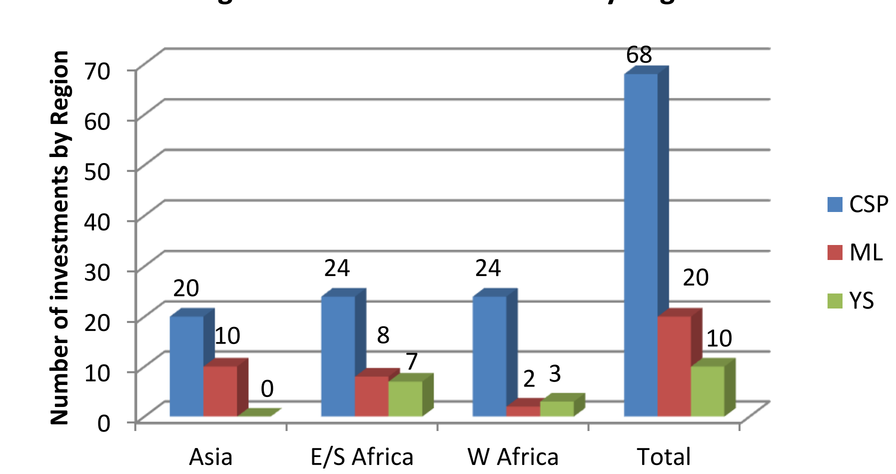
The UNCDF portfolio of global and regional initiatives spans many important areas and exciting 'new frontiers' in inclusive finance. UNCDF co-financing of programmes implemented and managed by specialized UN or other agencies (in particular related to remittances and microinsurance) was found to be an appropriate way to support the new development agenda, given UNCDF's limited budget and in-house technical expertise within these areas. Across the wide span of GTIs in which UNCDF has been involved, from VSLA methodology over mobile technology to insurance and remittances, the key comparative advantage of UNCDF would appear to be its inherent capacity for ensuring a two-way information sharing and communication pathway between the 'development hubs' of the GTIs and the IF stakeholders at national level in LDCs (CSP steering committees, ICs), which often do not have easy access to information.

2.4 Overview of UNCDF's IF Retail Portfolio

UNCDF reported to have a total of 107 active investments in FSPs and SSOs under its country and thematic programmes in the 28 countries as at end 2011.[38] The PR analysed and scored 93 (87%), five of which were funded by both a CSP and a GTI. The majority (70%) of the 93 FSPs had been funded through CSPs (including the five duplicate investments in Asia (1), East/Southern Africa (1) and West Africa (3)).

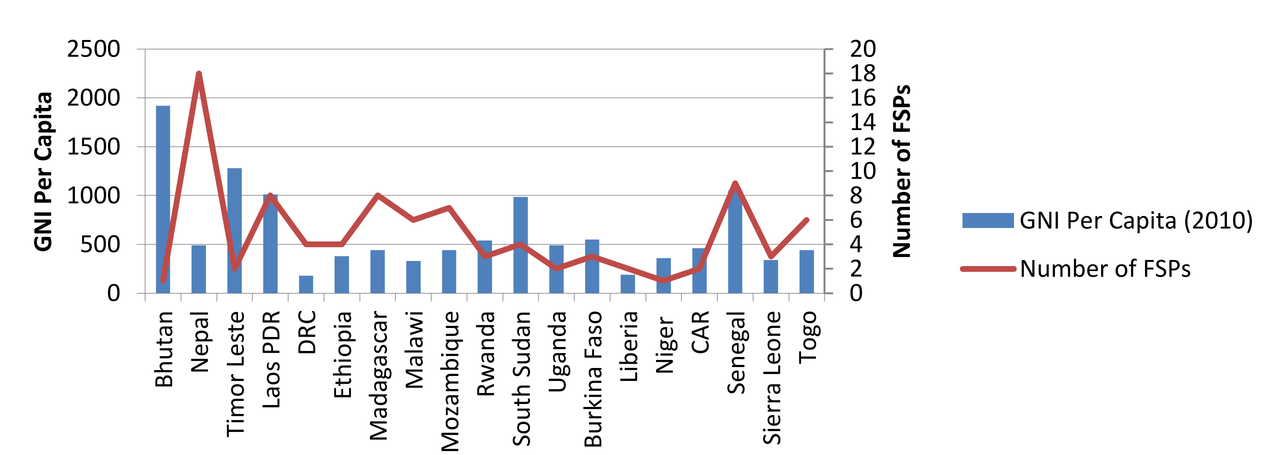
The MicroLead FSP portfolio made up 20% and YouthStart FSPs constituted 10% of the overall portfolio (see Figure 2).

Figure 2: UNCDF Investments by Region



The portfolio was relatively evenly located across the three UNCDF regions, with 31% in Asia, 28% in West Africa and 41% in East/Southern Africa. Within these regions, the portfolio was concentrated in LDCs as per Figure 3, with an average of 5 FSPs supported per country in the portfolio of 19 countries reviewed, that had an average GNI per capita (2010) of USD 625 (see Figure 3).

Figure 3: FIPA country portfolio of FSPs by GNI per capita (2010)

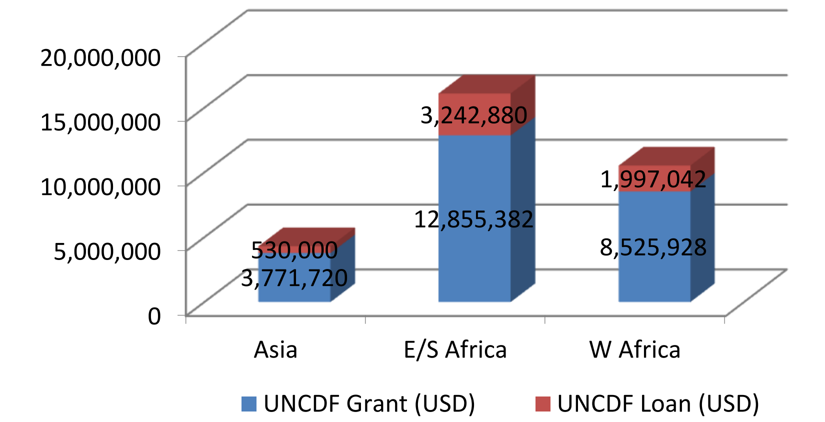


[38] It is noted that 6 loans and grants provided to small FSPs in South Sudan under the SSMDF funded by UNCDF under a PBA in 2010 were not included in this listing. As no data was available, these investments could not be rated. See also Annex 1.

The UNCDF FSPs reported to have received USD 133.3 million in total funding from or through the CSPs. The PR team could not verify the extent to which this reported amount included all funding received from any donor, but it appeared to include funding received in total over the period of partnership with UNCDF rather than a total of funding from all sources. Of this total, FSPs reported to have received a total of USD 30.92 million (23%) in grants and loans from UNCDF (disbursed and committed under ongoing agreements) as at 30 June 2011, 81% of which was provided as grants.

Of the total funding, 52% had been allocated to the 41% of portfolio FSPs in East/Southern Africa; 34% had been provided to the 28% of the portfolio in West Africa, and the remaining 14% of funding had benefited the 31% of portfolio FSPs in Asia (see Figure 4). See further details on the FSP portfolio in Annex 2.

Figure 4: FIPA Grants and Loans by Region in USD



3. UNCDF Country and Thematic Programme Performance

The PR assessed the performance of 14 Country Sector Programmes (CSPs) and two Global Thematic Initiatives (GTIs) as at 30 June 2011 on the five UN/DAC criteria: Relevance; Effectiveness; Efficiency; Impact; and Sustainability, using a series of key questions linked to the UNCDF/FIPA results framework. Under seven of the 21 key questions on which programme performance was assessed, 15 of the 91 subquestions related directly to FSP performance (see Annex 1). The current performance of YouthStart FSPs was included where relevant, but with the important caveat that their performance could not yet be attributed to YouthStart, which had only disbursed Stage II funds in September 2011. Findings related to (positive or negative) direct impact of UNCDF's management on programme implementation in the field were also incorporated where relevant.

3.1 Strategic Relevance of UNCDF Programmes

Main Evaluation Question 1: Are UNCDF's microfinance sector programmes and GTIs strategically relevant given its mandate, instruments and comparative advantages?

The PR assessed relevance of programme performance from four different perspectives reflected in four Key Questions: 1) their alignment to UNCDF's internal mandate, strategy and results chain; 2) their integration into national policy frameworks of governments and UN; 3) their alignment to and coordination with other funders of microfinance at country level and clarity of UNCDF's comparative advantages (value added) in that respect; and finally 4) how appropriate the programmes had been for the countries.

3.1.1 Alignment to UNCDF Strategies and Results Framework

Key Question 1: How well have programme objectives been aligned with UNCDF's broader mandate, IF strategy and results chain?	**Good (score: 3.3 of 5)**
Elements/indicators (sub-questions reviewed by the PR)	
1.1.1. Programme objectives reflected the UNCDF/FIPA results framework	Very good
1.1.2. Programmes reflected the FIPA mandate to take risk in conflict affected contexts	Good
1.1.3. Designs incorporated cross cutting issues (women, environment, aid management)	Acceptable
1.1.4. GTIs imparted comparative advantages/added unique value to CSPs/other GTIs	Acceptable

3.1.1.1. Alignment to UNCDF/FIPA Results Framework

Overall, the UNCDF programme designs were **very strongly aligned to the IF strategic results framework**. All CSPs had been designed based on the IF sector development approach, and had defined at least one objective each at macro-, meso-, and micro-level related to the three result framework outcomes A, B and C (see Figure 1). Where CSPs were not actively engaged at all three levels of the sector, this was due to funding deficits (Nepal), capacity or other constraints at the PMU (DRC, Liberia), or appropriate adjustments of workplans (if not prodocs) to new realities (Timor-Leste). The CSP alignment with the results framework was weakest in the three areas of innovation (micro-level), knowledge generation/dissemination (meso level) and client protection issues (meso- and macro levels). The client protection/transparency agenda is new to UNCDP, but several CSPs did have specific outputs related to client protection (CP), social performance monitoring and financial education.

In the GTIs under review, the alignment to the UNCDF results framework was slightly weaker, only because these programmes by design focus on the retail level, with expected 'spill-over effects' to meso- and macro levels rather than direct interventions, although ML had invested in two Sector Support Organizations (SSOs).

3.1.1.2 Taking Risks - Country and FSP selection

Both in terms of human development level, fragility, and business development, the **UNCDF portfolio countries were well aligned with the strategic 'risk willingness objective' to make investments in difficult (e.g. conflict-affected) environments**. Of the 28 countries in which UNCDF reported to have IF investments as at end 2011, 26 (93%) were LDCs.[39] Of the 19 portfolio countries reviewed, two (Timor-Leste and Bhutan) had surpassed the USD 1,190 GNI per capita threshold for UN-LDCs as at 2011[40], and two others (Lao PDR and Senegal) were very close to graduation. The average GNI per capita for UNCDF countries reviewed was USD 625, representing 122% of the average for all LDCs. All 19 UNCDF portfolio countries under review were placed in the lower half of the UN Human Development Index (HDI) ranking (2011) with Lao PDR ranked highest in 138th place of 187. All UNCDF countries except Senegal were ranked in the Failed State Index (2011[41]), reflecting their relative fragility, but only 5 UNCDF countries fell within the top 20% of the 60 states ranked in this index, and a further three (Mozambique, Sierra Leone and Timor-Leste) were expected to graduate from this Index in 2011.[42] Four UNCDF countries ranked above the LDC category in the World Bank Ease of Doing Business (DB) Index[43], albeit in the lower half of the lower middle income group (LMIC), and another five ranked in the highest third of the Low Income Country group (LICs).[44]

[39] See http://www.unohrlls.org/en/ldc/25/ for a list of all LDCs. Through PFIP and ML, UNCDF has investments in Tonga and Fiji funded by non-core funds.

[40] Timor-Leste's GNI per capita was USD 2,220 in 2010. UNCTAD: The Least Developed Country Report 2011, UN, Geneva, 2011 (based on WB database as at August 2011), p. 129.

[41] See http://www.foreignpolicy.com/articles/2011/06/17/2011_failed_states_index_interactive_map_and_rankings

[42] OECD, 2011, op.cit.

[43] Whereas UN defines LDCs below a GNI per capita of USD 1,086, the World Bank considers countries with a GNI per capita of USD 1,005 or less to be LDCs, and lower middle income is defined at a GNI per capita of USD 1,006 - 3,975.

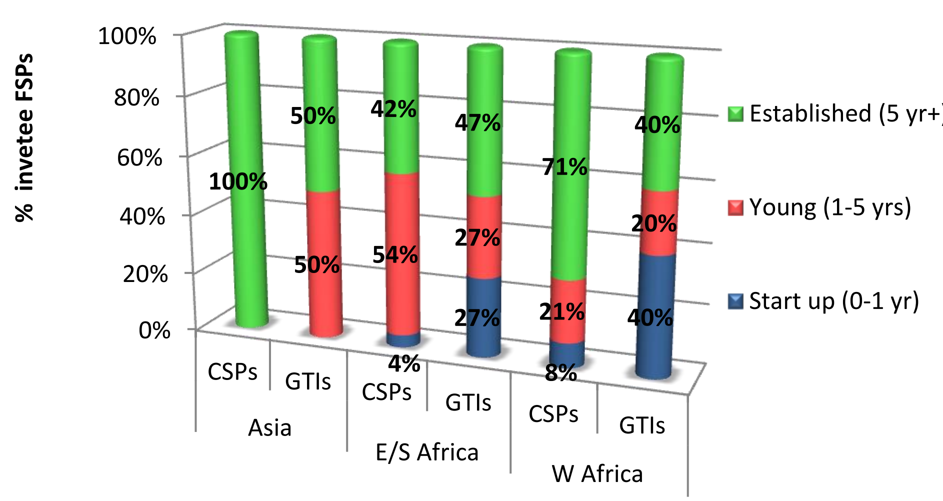
[44] Economies are ranked on their ease of doing business, from 1 – 183. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2011. World Bank: Doing Business, 2011.

In terms of UNCDF's positioning **in the context of financial sector needs, the portfolio reflected a balanced investment strategy,** including high risk markets, but spreading risk by also investing in more developed markets. In the DB country ranking by 'Access to Credit' (A2C), Lao PDR and Timor-Leste ranked low in their regional peer group of 24 (relatively higher-income) countries in East Asia and Pacific (EAPAC), but Nepal ranked second in the South Asian peer group of 8 countries.[45] Within Sub-Saharan Africa, Rwanda ranked second highest on the DB A2F criterion, but Madagascar and DRC ranked very low. UNCDF countries ranged from a high of 291 deposit accounts per 1,000 adults (2009 data[46]) in Togo to a low of 33 in Madagascar. Estimated access to deposit accounts was better in 6 of 13 UNCDF portfolio countries than the average for all of SSA (163/1000). Four of the 19 UNCDF portfolio countries in Africa had very high access gaps between reported total accounts (clients) and the population living below the national poverty line.[47]

This risk-balanced approach was also reflected in the selection of FSP investees and **UNCDF's FSP risk objective was only to a limited extent found to be reflected in the portfolio.** By design, the GTI YouthStart would not be expected to contribute to UNCDF's FSP risk objective of supporting young/small and promising FPSs (often referred to as 2nd and 3rd Tier FSPs), but MicroLead had a specific mandate to support the establishment of greenfields and CSPs would be expected to reflect the UNCDF FSP risk objective with an emphasis on younger and smaller FSPs. The average age of all FSPs at time of UNCDF investment was, however, 8.4 years, and 61% of the UNCDF portfolio was made up of FSPs older than 5 years at the time of UNCDF investment. Start-ups (greenfields) and young FSPs (0-5 years) thus made up 39% of the total portfolio, broken down by region and programme type as per Figure 5.

In Asia, 83% of the portfolio consisted of older (average age 10 years), established ('existing') FSPs, followed by West Africa, where 65% of all funded FSPs were established. CTAs explained the preference for older FSPs by 1) their comparative strength when expanding into under-served (rural) areas and 2) their perceived ability to better meet demanding outreach targets. Only in East/Southern Africa did the portfolio reflect an emphasis on younger FSP, with 14 of 24 FSPs funded through CSPs being younger than 5 years at the time of UNCDF investment.

Figure 5: Age breakdown of portfolio by programme and region at time of FIPA investment



The average size (by assets) was USD 16 million, highest in West Africa (USD 27.9 million), declining to USD 14.4 million on average for East/Southern Africa and USD 7.1` million for FSP investees in Asia (excluding an outlier in Nepal). With an average of 21 branches, the UNCDF FSPs had an average gross loan portfolio of USD 10.8 million held by 28,151 borrowers. On average, the 77 FSPs among the 93 that mobilized savings at baseline held USD 11.8 million for 60,389 depositors.

[45] However, in a recent study of Access to Finance in 8 countries in South Asia, Bhutan ranked 5th and Nepal 7th (2008 data), Kiatchai Sophastienphong, Anoma Kulathunga: Getting Finance in South Asia 2010, World Bank, June 2010.
[46] CGAP: Access to Finance, 2010, and data from IMF's Access to Finance database at http://fas.imf.org .
[47] See MIX Market: Mapping Africa Financial Inclusion – Results Review and Next Steps, September 2011.

3.1.1.3. Cross-cutting Issues

The link between access to financial services and **women's economic and social empowerment** is central to UNCDF's goal to contributing to the achievement of MDG3, and UNCDF has a vision and mission that underscores its commitment to gender mainstreaming. Several CSP prodocs emphasized a focus on women in inclusive finance, but programmes were rarely designed to address this focal area more specifically than by (also) funding FSPs that focused on women. Women's empowerment was measured only by the standard UNCDF PBA target that at least 50% of clients at country level should be women. Most PBAs reflected this requirement, and 96% of FSPs reviewed were able to gender-disaggregate their client data**. 75% of FSPs reached more than 50% women borrowers,** including the quarter of the FSPs portfolio which targeted women exclusively, and two thirds of FSPs had more than 50% women depositors. Outreach to women was particularly strong in Asia (except Bhutan). Across Africa, two-thirds (62-63%) of UNCDF FSPs reported and had reached above 50% women borrowers, but only half (55% in East/Southern Africa and 50% in West Africa) reported and had reached more than 50% women savers.

Considering the comparatively intensive focus most other multi-lateral funders, including CSP co-funders, place on environmental, health and safety issues, and social and environmental performance in general, **UNCDF's programme designs and management systems appeared out of sync with good aid management practices in the area of environmental, health and safety (EHS) aspects.** The UN and other funder have increasingly given priority to good EHS practices in their IF operations, as detrimental environmental practices among clients may not be detected, unless FSPs ensure close monitoring.[48] UNCDF did not appear to have a policy (outside of general UN regulations) reflecting environmental concerns of recycling at office level, usage of environmentally friendly technologies where alternatives existed, or including energy efficiency and green technologies as 'new product/service development' in project designs. The CSPs reviewed did not have even simple Social (including labour and staff considerations) and Environment performance Monitoring Systems (SEMS) for their programmes. The standard PBAs made no mention of SEMS either and UNCDF had no environmental sustainability indicators in its selection criteria or reporting formats.

3.1.1.4. CSP-GTI Synergies

N**either in design nor implementation had the two GTIs under review fully exploited the value proposition of close linkages to and synergies with CSPs**. The high *potential* for additionality of GTIs to the CSPs or for synergetic linkages between the two programme approaches in general was rarely reflected in programme documentation. The GTI synergetic additionality to CSPs was not found to be ensured by design, and required active engagement by CSP CTAs. In Lao PDR, MicroLead paved the way for a CSP, and ML investments had been incorporated in the CSP augmenting UNCDF-generated funding as well as ensuring country-level support and monitoring. In Sierra Leone, the TSP hired to manage the CSP also monitored the ML investments, and in Rwanda the CTA ensured good synergy between all three programmes present.

There were notable synergies between ML and other global thematic and/or country programs (e.g. in Lao PDR, Timor Leste, Sierra Leone and Rwanda with CSPs, and in Ethiopia with YS and Micro Insurance), and a few CSPs were actively scoping for the MicroLead expansion phase (e.g. Liberia). This synergy appeared to be less a factor of the age of the ML investment (as documented by Rwanda) than of the capacity and interest of in-country UNCDF staff. The GTIs had been integrated with CSPs most successfully where they had been adopted by CTAs and RTAs as additional instruments for sector development and when they perceived to get "credit" for the work undertaken to support GTI activities (including in the annual staff performance review exercise, the RCA). Further increasing the synergetic interaction between the GTIs – and their closer coordination with the CSPs – would increase UNCDF's strategic relevance.

[48] Multi-lateral Development Banks (MDBs) usually require funded FSPs to observe operating procedures in line with national legislation and in addition the MDBs' own guidelines, and to monitor their borrowers' activities (risk profiles), but recent evaluations also indicated that reporting arrangements from FSPs to funders could be improved. See ECG: Making Microfinance Work, op.cit., p. 32.

3.1.2 Relevance for National Contexts and Specific Market Needs

Key Question 2: How effectively are programmes integrated into national development strategies (poverty reduction strategies) and UN planning and results framework (CCA, UNDAF) at the country level?	**Score: Very Good (4.4 of 5)**
Elements/Indicators[49]	
1.2.1 Programmes aligned clearly with national context for poverty reduction	Very Good
Programmes aligned with/complemented national UN development strategies	Very Good
1.2.2 Programme designs addressed specific market gaps/needs (under-served areas)	Acceptable
Programmes reflected understanding of national leg/reg. challenges	Good

3.1.2.1. Alignment with National Development Contexts and National UN Strategies

The CSPs were found to be **very strongly aligned with national development and IF strategies, as well as UN country programme frameworks.** All prodocs made reference to national financial sector strategies (less than broader development strategies) and UN plans or results frameworks, identifying the UNDAF objective(s) to which they contributed. Many CSPs had been directly involved in formulating and implementing the national IF strategies.

3.1.2.2. Addressing Market Gaps and Needs and understanding National Challenges

The identification of market gaps inherent to the standard sector development approach was not in all countries strong, but UNCDF has recognized this in recent years, and marked improvements were detected in market analysis and gap identification from older to newer/Phase II CSPs.

Over the past decade, government institutions from 78 countries have joined the global Alliance for Financial Inclusion (AFI)[50], several with assistance from UNCDF CSPs. In all of UNCDF's Sub-Saharan African (SSA) portfolio countries, financial regulators had a strategy document for financial inclusion in place. While the objective of supporting implementation of existing regulatory frameworks thus remained very relevant, the macro-level focus in many prodocs/CSPs on national strategy development/revision appeared slightly outdated. Financial regulators have increasingly assumed the role of promoting financial access besides their traditional roles of regulating and supervising financial institutions. Consumer protection and financial literacy have been emphasized as important new reform areas for policy makers and regulators in many LDCs,[51] and 27 of 32 countries in Sub- Saharan Africa already have laws and regulations addressing at least some aspects of financial consumer protection.[52] With the recent strategic focus on client protection within UNCDF, the strengthening of technical skills in the area of legislation, regulation, and monitoring of client protection efforts may therefore be an avenue for increased CSP relevance at macro-level.

The market gaps remaining in many countries for the strengthening of the financial sector infrastructure and support to high-quality training, technical assistance and performance monitoring at meso-level[53] were reflected in almost all CSPs prodocs, but the interventions designed to address them were of mixed relevance and did not to a large extent reflect UNCDF's innovations agenda. Perhaps 'prodoc precedence' rather than specific market gap analyses or the relatively weaker expertise of UNCDF staff in macro and meso level interventions than for retail level support[54] had influenced the uniformity of CSP designs.

[49] For this and subsequent Key Questions, indicators have been combined where the findings were related, but the scores for each indicator have been maintained in the overview boxes.
[50] AFI is a regulator network launched in 2009. CGAP: Financially Inclusive Ecosystems: The Roles of Government Today, Focus Note 76, Feb 2012.
[51] World Bank, Financial Access Team: Access to Financial Services and the Financial Inclusion Agenda Around the World, Working Paper 5537, January 2010.
[52] CGAP/WBG: Financial Access 2010, Region Sub-Saharan Africa.
[53] ECG, Making Microfinance Work, op.cit., p. 43
[54] As also noted in an earlier evalution. See: Evaluation of BIFSA Phase I, May 2009, Synthesis Evaluation Report.

At retail level, UNCDF had recently focused more on extending financial inclusion to rural populations, which are in general excluded to a higher degree than urban dwellers, but only few CSPs had been specifically designed to meet access gaps in under-served (rural) areas, notably Nepal, Madagascar and DRC during PASMIF I. In most CSP designs, however, (any) FSP outreach took a clear precedence over the innovation agenda in the UNCDF results framework, reflecting perhaps a certain 'time lag' between ongoing CSPs designed some years ago, and the evolving policy agenda of UNCDF.

The GTIs had limited linkages with governments and consultation with other national stakeholders at start-up, which may have contributed to some ML investees not having aligned or understood the national contexts as well as the CSPs. This was especially evident in West Africa, where the two ML greenfields were not well adapted to their contexts. By contrast, linkages were much stronger where ML used TSPs (Ethiopia, Bhutan).

Since October 2010, UNCDF has been working with FinMark Trust and CENFRI to develop a new country-level diagnostic/programmatic tool to promote financial inclusion, initially named FIRE, now renamed to MAP (Making Access Possible). With a stronger capability to identify and incorporate the new trends that are rapidly transforming microfinance (role of technology, innovative agent banking models, potential of linking social program conditional cash transfers with savings accounts, etc.), the market gap assessments for CSPs could be set to improve, which should result in CSP designs that would be even better aligned to emerging needs, but may also require an expanded skill set for the implementation teams recruited.

3.1.3 Partner Coordination and Value Added

Key Question 3: How well are programmes aligned and coordinated with the strategies of other IF sector donors/partners/governments? Is UNCDF's value added clear?	**Score: Good (3.2)**
Elements/Indicators	
1.3.1. Designs were consulted with in-country stakeholders	CSPs: Good, GTIs: Poor
Designs were aligned with strategies/needs of investees	Good
1.3.2. Programme designs included/promoted effective coordination	Acceptable
1.3.3. UNCDF assessed, articulated, measured & documented own additionality/value added	Poor

3.1.3.1. In-country Consultations and Responsiveness to Investees

The potential for highly coordinated CSP strategies was in principle ensured by the consultative UNCDF design process, and in general**, a good level of consultation with governments and other direct counterparts had been ensured by CSPs. All UNCDF programmes were found to be 'demand-driven'** to a significant extent, with PBAs negotiated based on proposals from the recipients. But few CSPs were active members of sector forums like Financial Sector Donor Sub-groups, etc., and the wider circle of industry stakeholders was often unfamiliar with the approach, actual status of implementation, and funding of CSPs, and even less informed about implementation strategies of GTIs.

Several CSP prodocs listed other ongoing IF or microfinance initiatives in their countries, but there was a marked bias towards bi-lateral coordination with governmental structures and the wider UN family. Especially projects funded by more private sector-oriented actors (e.g. IFC, investment funds) were often overlooked in CSP designs. The CSPs reviewed seemed less familiar with developments in the 'funding markets' in which they operated than would be expected from a 'catalytic investor'. There were notable exceptions, including Sierra Leone and Senegal, but these programmes were 'majority co-funded' by CIDA and KfW, who may have driven the increased anchoring as a funder in the national industry more than UNCDF.

GTI investments were identified by global, competitive requests for applications (RFA) issued to targeted FSPs/TSPs, followed by appraisals and approval by UNCDF's internal Investment Committee.[55] The limited **consultation and the 'No objection' letters required from governments prior to GTI investments were**

[55] UNCDF: Inclusive Finance Programme Cycle Policies and Procedures.

insufficient to ensure alignment and coordination with other national initiatives and buy-in from national stakeholders. UNCDF pledged in the YS prodoc to promote the youth microfinance agenda through the national Investment Committees (ICs), which were seen as “powerful platforms to (i) sensitize other donors to the potential offered by youth microfinance, and (ii) leverage UNCDF’s own funding capacity to support the programme’s expansion”, but limited evidence of this interaction was found in the field. In several countries (DRC, Liberia, South Sudan), GTI investments were all but unknown to key industry stakeholders (even if the FSPs supported were known), and in some case (DRC, Liberia), stakeholders felt excluded from the decision-making process and perceived especially MicroLead investments to be parallel and to an extent unfairly competitive to CSP investments (South Sudan). Lack of effective communication was a large part of this problem, and it should therefore be rectifiable with more attention paid to the knowledge management objective of ML.

3.1.3.2. Promotion of Coordination

UNCDF’s standard CSP model of investment management has not been adapted to more mature markets where a supportive liaison role in sector programmes and investment funds led by other entities would be more relevant. All but two CSPs were set up according to the standard UNCDF design with internal project budget lines for retail- and meso-level investments typically called Financial Inclusion Fund (FIF) managed by the PMU and overseen by an Investment Committee (IC) of co-funders with the additional aim of attracting capital (and fee income for UNCDF). The FIF/IC design is in principle in line with the Paris Declaration on Aid Effectiveness, but the structure assumed an under-developed financial industry and a leadership role for UNCDF[56], which its limited financial capacity and its UN operational modalities were not able to accommodate in more mature markets where many funders were active.

The standard CSP structure has had its role and might have been a successful platform for funder coordination in UNCDF’s core markets (high-risk LDCs where UNCDF has often been a ‘first mover’). However, as an investment vehicle, the FIF model had two core limitations:

1) Its informal status of a ‘project fund’ with the inherent challenges of limited legality (the legal authority to ‘sue and be sued’ had been ensured by government affiliation as a UN project[57]), a short timeframe/budget cycle, protracted renewal/refinancing procedures, and risk of non-renewal; and
2) Other funders in UNCDF’s markets increasingly prefer to invest in autonomous legal structures with appropriate licensing (especially if the fund is lending), to ensure the Fund’s neutrality and independence from the central government, or simply to respect national legislation on Funds.

These limitations were acknowledged by UNCDF. The recent clarification of UNCDF’s role as an investor very soberly recommended that the IC structure be established only in countries where the market gap diagnostic was genuinely collaborative and partner buy-in could be secured. For less favourable circumstances, it recommended that UNCDF postponed or refrained from IC creation and retail refinancing (focusing on meso- and macro level) or joined existing initiatives with a possible value added role to oversee coordination of the ICs, and facilitate cooperation between the technical staff of the different committees, as in Mozambique.[58] Apart from the piloting of alternative funding mechanisms in DRC and Sierra Leone, the PR could find no evidence that these very relevant policy recommendations had resulted in revisions of CSP design since 2010. As also suggested with the new targets set at corporate level for knowledge management, a more active and sustained interaction with all IF funders at country level would be needed to retain and enhance relevance.

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[56] “To finance and coordinate the implementation of the national programmes, Investment Funds are established along with Investment Committees [..] Through facilitating the setting up of national investment committees, UNCDF has promoted donor coordination in terms of investment decision, selection criteria and joint performance-based monitoring standards. In addition, the Investment Committee seeks to substantially leverage funds with investments from private and commercial sources”. See Concept Note N° 001/ 2010: Building Inclusive Financial Sectors - UNCDF and UNDP Participation in Fund Institutionalization based on DRC and Sierra Leone Cases.

[57] The UNDP Legal Department ruled end-2009 that UNDP and UNCDF cannot be directly involved in setting up legal entities (neither non-profits nor private limited companies). UNCDF: Operational Guide for Investments, 2010.

[58] Operational Guidelines for UNCDF as an Investor, June 2010.

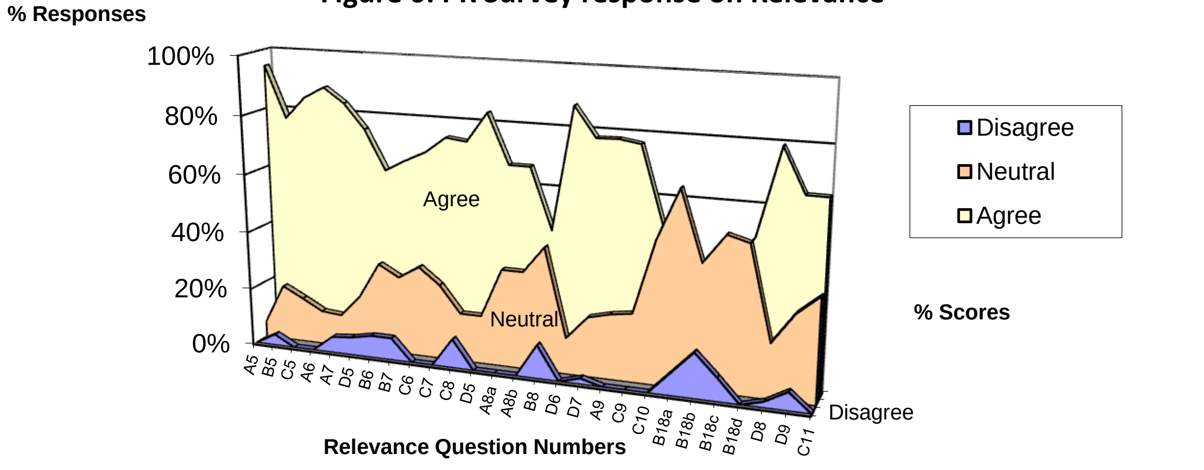
3.1.3.3. Value Added

The combination of a slightly out-dated model of investment management (IC/FIF structure) and limited sector-wide visibility did not enhance the clarity of UNCDF's value added. Very limited emphasis was found at field level on how and with which value added UNCDF CSPs could engage with other programs and funders for the benefit of the IF sectors in their countries. The weak articulation and measurement of UNCDF's value added in CSP designs reflected a lack of policies, guidelines and tools to help CSPs actively seek and track progress on coordination and catalyzing of funding to partner FSPs/SSOs, especially from the private sector. The value added of an ML grant to the regional expansion of the very well-capitalized regional market leader Equity Bank into Rwanda was also unclear. At corporate level, Equity Bank had decided to expand prior to ML funding, and ML could have a) considered debt financing this expansion, and b) as a minimum determined by very clear performance requirements what EBL would do *in addition* to its standard roll-out to meet ML objectives. The MAP tool is expected to be used not only by UNCDF but also to carry out joint diagnostics with other donors, with a view to design future CSPs and update existing sector development programs.[59] This could be a promising platform on which to re-launch UNCDF's approach to coordination with other funders.

The respondents to the PR survey largely confirmed the above assessment (see Figure 6), with relevance receiving the highest 'marks' in the PR survey with 68% in full agreement, 28% neutral and only 3% on average disagreeing with the statements referring to relevance issues. Across the four stakeholder groups to which the survey was sent[60], there was **generally overwhelming agreement that UNCDF programming had been very relevant.**

Over 80% on average agreed that "UNCDF's programmes are aligned with the national policy context" (questions A5, B5, C5 in Figure 6) and with UNCDF's strategic framework and UN country plans (A6-7, D5). Most investees (83% on average) found UNCDF funding instruments to be relevant to the needs in the country and adding unique value to their institutions (D6, D7, D8). 65% of national external stakeholders perceived UNCDF to have a high standing in the community (C11), and most of these stakeholders (72% on average) found UNCDF to be involved in the process of developing national strategies and ensure consultation of designs (C7, C8) with 10% of this stakeholder group registering discord. A majority (62%) of respondents representing co-funders agreed that "UNCDF's programmes are aligned and coordinated with the strategies of other funders and investors in the inclusive finance sector in my country" (B6), while 8% disagreed.

Figure 6: PR Survey response on Relevance



[59] FIPA Business Plan 2010-2013.

[60] Stakeholder groups included A: Internal UNCDF staff, B: representatives of IF co-funders; C: External stakeholders at national/regional level (governments, central banks, and un-funded industry associations; and D: FIPA investees. The question numbers reflect this categorization of responses.

A majority of the national external stakeholder group (69%) agreed that "UNCDF's programmes are designed to address relevant gaps or inefficiencies in the market/industry" (C6), and 65% of IF co-funders concurred (B7). However, a smaller 46% of co-funders agreed that "The UNCDF programme investments are appropriate for meeting the needs of the financial sector in my country" (B8) and 12% disagreed.

In terms of UNCDF's value addition, 40% of responding IF co-funders on average fully agreed that "UNCDF brings unique value-added to joint investments" while 52% were neutral (B18). UNCDF's value addition by "greater appetite for risk (high-risk investments)" (B18a) was fully agreed to by the smallest number of respondent co-funders (27%) and 65% were neutral, while 42% fully agreed and 15% disagreed that UNCDF brought added value by "supporting specific innovations in the industry" (B18b). 40% agreed while 52% were neutral about UNCDF's value-addition in terms of generating and disseminating new knowledge in the industry (B18c).

3.1.4 Appropriateness of Programmes

Key Question 4: How appropriate have programme investments been to the country/sector/FSP?	**Score: Good (3.6)**
Elements/Indicators 1.4.1. Investment types were relevant to country/sector context 1.4.2. Instruments were relevant to market needs and absorption capacity 1.4.3. UNCDF safeguarded against market distortion and secured a level playing field 1.4.4 Programme objectives remained valid/were adjusted during implementation	 Good Good Acceptable Good

3.1.4.1. Relevance of Investment Types

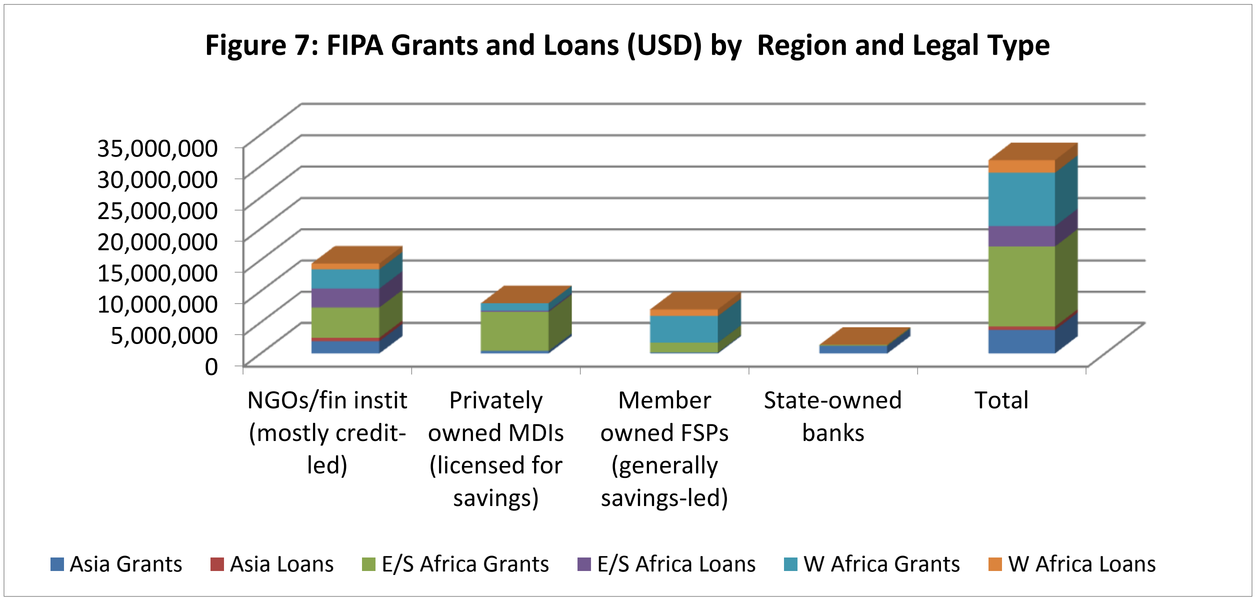
The UNCDF portfolio under review was well balanced in terms of types of investees with 31 NGOs (or similar non-intermediating FSPs); 31 MDIs (privately owned institutions with a savings license including commercial banks and financial companies); 29 member-owned FSPs (mutuelles, credit unions, SACCOs); and 2 banks/FSPs with government ownership. Investments appropriately reflected the regional industry composition: In West Africa, where 'mutuelles' (cooperatives, credit unions) dominate the industry, they also made up 65% of the UNCDF portfolio. In East/Southern Africa, 47% of the portfolio were FSPs with a license to intermediate savings, whereas in Asia 45% of the FSP portfolio was registered as NGOs or similar.[61]

3.1.4.2. Relevance of Instruments

As the only UN agency, UNCDF is mandated to provide debt financing (loans) in addition to guarantees, and grants as investment instruments**. UNCDF's preferred financial instrument was overwhelmingly grant funding**, however (81% of total reported funding), which UNCDF's financial database ATLAS also appeared better able to handle. By region, loans made up the largest percentage of total funding in East/Southern Africa (20%) followed by West Africa (19%) and Asia (12%). Figure 7 illustrates which type of FSPs received which type of funding by region.

Since 2010, debt finance had been actively discouraged, as FIPA was working to upgrade its MIS for loan management. While this effort was very necessary and could have been implemented earlier,[62] it resulted in the use of grants when loans might have been more appropriate, especially in East/Southern Africa, given the portfolio of large, well-funded, intermediating FSPs in that region. Most CSPs would not have the funding or capacity to adequately manage large, longer-term loans, and for that reason, loan management was centralized at UNCDF head office. There would seem to be value added in this additional instrument, especially as the core UNCDF market of '2nd tier FSPs' cannot easily access capital from more commercial lenders, and proper loan management would enable the recycling of scarce CSP resources. However, for this unique value-added instrument of UNCDF to remain relevant, the loan tracking system must as a matter of some urgency be strengthened.

[61] In Nepal, 10 of the portfolio of 18 FSPs were registered as NGOs, but did mobilize deposits.
[62] In July 2012, UNCDF took steps to recruit STTA to establish an improved loan management system at head office.



MicroLead invested grants and loans using two very different strategies. The *TSP model* of contracting Southern-based FSPs with documented experience to act as TSPs for weaker FSPs in other LDCs was found to be very appropriate in most markets, as it combined transfer of knowledge and thus national capacity building with expertise generated from actual implementation experience (as opposed to consulting experience only). Overall, the TSP-model funded by ML in Bhutan, Lao PDR, Timor Leste and Ethiopia had been very relevant and had performed better than the greenfield model. It may also be a better 'fit' for UNCDF, given its experience with established retail FSPs.

South Sudan and Liberia were found to be relevant markets for the ML investments in *greenfielding*. But greenfielding was new to UNCDF, and the lessons learned by other greenfield-funders did not appear to have been fully incorporated in the ML due diligence process.[63] While eligibility criteria were clear from the start, ML modified them following the initial poor response to the RFA, and despite an elaborate scoring process for applications, the selected portfolio of FSPs did not necessarily meet the savings-focused eligibility criteria established for the programme (BRAC, OI-DRC). Some investees under-estimated their challenges or over-estimated their capacity, and UNCDF might have been able to detect some such risk factors better upfront, as exemplified by the ambitious but ill-adapted applications from BRAC for West Africa appraised and approved by MicroLead following its first greenfield investment in South Sudan. The ML investments in the more mature markets of Sierra Leone, Rwanda and DRC was found to be less appropriate as national FSPs existed that might have developed into market-leaders with TSP support.

While YS invested only grants in very strong FSPs, its excellent and very transparent due diligence process was based on clear selection criteria and multiple ratings of applications by different teams, resulting in the selection of FSPs that consistently and clearly met the eligibility criteria set for the programme.[64]

3.1.4.3. Safeguarding against Distortions

UNCDF has defined a set of relevant design and implementation principles to ensure adherence to good microfinance practices. With the majority of the portfolio consisting of large, established FSPs and the primary instrument being grant funding, **UNCDF should diligently observe its principle of "*Market Failures as a Prerequisite*", to avoid distorting local supply markets and creating an unlevel playing field**.

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[63] See e.g. IFC SmartLessons: Frontier Finance - Microfinance as a Prudent First Intervention in Post-Conflict Countries, IFC, June 2008.

[64] See annexes to YouthStart Annual Progress Report 2011.

The greenfield model of ML was relevant (only, if funded by grants) in markets with obvious gaps that national FSPs were not strong enough to fill, even with TSP support. In particular, the grant investments in Equity Bank's expansion into Rwanda (and ACLEDA in Lao PDR) were not found to appropriately adhere to the principle of Market Failure as a Pre-requisite.

In addition, the UNCDF principle of *promoting private sector driven* pro-poor growth was not very clearly in evidence in the CSP designs, especially for meso-level activities. The argument that no technical providers of sufficient quality are available in the markets is becoming less valid in the microfinance industry in general, and in Africa in particular, and CSP designs could to a larger extent reflect this development.

3.1.4.4. Validity and Adjustment of Objectives

Where FSPs or other partners had requested **revisions of targets or timelines, these were found in general to be accorded within a reasonable time frame,** especially by GTIs (MicroLead). CSP programme documents had however not in all cases been revised to adjust for changed circumstances in markets, funding availability, or staffing levels (Timor Leste, Nepal, Liberia). Extensions of up to a year were approved without apparent adjustments to the prodocs (Burkina Faso) and as the prodoc was often the only documentation available to the public, stakeholders might be unaware that a CSP was still ongoing after its published end date. A more flexible process to periodically update CSP prodocs to changing circumstances should be sought.

3.1.5 Conclusions on Strategic Relevance

Overall, **UNCDF's microfinance sector programmes and GTIs were found to be strategically relevant given its mandate, instruments and comparative advantages with an overall aggregate score of 3.7 (Good)**. The UNCDF programme portfolio was found to be well aligned with its LDC mandate and priorities, and with the national development contexts and UN policy frameworks and priorities, even if some market gaps have been overlooked by the very faithful replication of the standard CSP model.

This model was found to be most appropriate in the high-risk countries with immature industries, where UNCDF had clear comparative advantages. However, UNCDF had remained in markets where the national financial sector frameworks had been strengthened (in part due to the efforts of UNCDF); the number of other funders had increased; and autonomous, legally registered Investment or Challenge Funds had been established which contested the relevance (and effectiveness) of UNCDF's FIF/IC model and its focus on macro-level strategy development. Although the limitations were recognized by UNCDF, the standard model had not been updated accordingly. While coordination with investees, government, and direct counterparts was found to be very good, CSPs and GTIs could invest more effort in increasing UNCDF visibility, representation and consultation with a broader range of IF funders and stakeholders at national level, thus also enhancing the in-depth market knowledge that remained one of UNCDF's core competitive advantages.

The portfolio did not to a large degree reflect the specific focus of UNCDF on higher-risk investments in 'small/young and promising' Tier 2 and 3 FSPs.[65] The selection of large and well-endowed FSP partners in many countries and the overwhelming use of grant funding carried risks of crowding-out and market distortion, while also diluting UNCDF's value addition. With a few exceptions where the UNCDF principle of "Market Failure as a Prerequisite" for support was not found to have been fully observed, the GTIs had invested in countries with large market gaps for their more narrowly focused retail-level support. Lessons are being learned from greenfielding as UNCDF's newest type of investment, and the portfolio composition pointed to a need to strengthen criteria for partner and instrument selection and due diligence efforts. UNCDF could improve relevance through clearer country and FSP selection criteria, developing more specific 'focal areas' for its interventions at all three levels in the sector development approach and clarifying its value added.

[65] As also noted by the Evaluation of BIFSA I (2009), op.cit.

3.2 Effectiveness of UNCDF Programmes

Main Evaluation Question 2: Are UNCDF's investments in microfinance effective in terms of achieving their intended results?

The PR analyzed the extent to which intended outcomes (results as per the UNCDF/FIPA Results Framework) had been or were likely to be achieved at the levels of macro-, meso-, and retail level, specifically exploring if programmes had supported significant changes in systems and processes in counterpart organizations and/or whether programme structures (specifically the investment committees) had contributed to better funding availability in the financial sector. The PR reviewed the attainment of results across regions to control for market-related (external) factors affecting effectiveness, focusing on factors that were within UNCDF's control. Where such factors pertained to UNCDF's management of the portfolio, they were incorporated in the analysis.

3.2.1 Achievements against Defined Outcomes and Performance Targets

Key Question 5: How well are programmes achieving their specific objectives and results (outcomes) at retail level	**Good (score: 3.0 of 5)**
Elements/indicators	
2.1.1. Specific performance targets at retail level have been met	Acceptable
UNCDF FSP performance exceeded comparable MIX market benchmarks	Good
2.1.2. Programmes have catalyzed capable FSPs into new products/markets	Acceptable
2.1.3. GTIs helped leverage grantee FSPs' ability to scale up and innovate	Good
The targeted GTI focus (savings/youth) resulted in stronger FSPs	Acceptable (too early to tell for YS)

3.2.1.1. Performance against Retail Level Targets

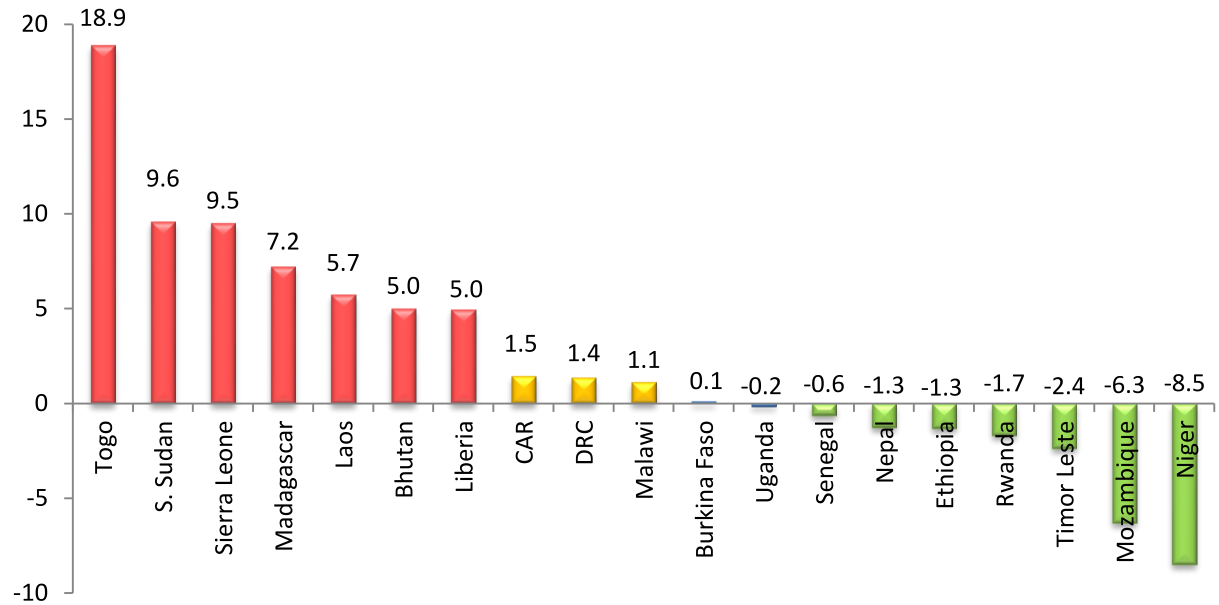
UNCDF measured effectiveness at retail level against (end of project) outcome indicator C: "FSPs operate in a more efficient, effective and sustainable manner" using three targets:

1. Improved FSP sustainability (% of all funded FSPs that show positive trends towards profitability) with a target of 80% by 2013.
    - **Against UNCDF outcome target no. 1**, the portfolio thus reported to have achieved **84% of the minimum 2013 target**, up from 64% as at end 2010[66] (see also section 3.5). As at 30 June 2011, the UNCDF portfolio on aggregate showed a positive trend towards sustainability. The average operational self-sufficiency ratio (OSS) was 116.4% (123.5% including the outlier ACEP in Madagascar which reported an OSS of 777%), which exceeded the 101% average OSS of their MIX Market peer group of MFIs (2011).[67] The average OSS was highest in Asia at 136%, followed by West Africa at an average level of 112% and East/Southern Africa at 104.3% (122% with ACEP). 62 of the 93 FSPs reviewed or 67% reported an increase in operational self-sufficiency (OSS) ratio, against the target of >80%.
2. Improved portfolio quality (reformulated in the UNCDF results framework to the more appropriate: "Extent to which FSPs maintain or improve sound portfolio quality" understood to be a PaR(30) ratio of maximum 5%), and measured by the percentage of all funded FSPs that improve their PaR(30) ratio with a target of > 80% by 2013.
    - **Against outcome target no. 2** the achievement against the 'progress' target on PaR was **53% of the 2013 target**, down from 56% at end 2010, and 64% of the 'benchmark' target had been achieved (see Figure 8). 39 of the 93 FSPs portfolio under review or 42% had improved their PaR(30) ratio since baseline and 47 FSPs (51%) reported a PaR30 ratio below the benchmark of 5%. Against the MIX Market peer group benchmark PaR(30) of 7.75%, the overall average PaR(30) for the UNCDF

[66] 2010 results taken from UNCDF: Annual report 2010, p. 26.
[67] Throughout this report, the MIX market 'peer group' benchmarks were calculated from the MIX database of 169 MFIs in the 19 FIPA countries under review having reporting annual 2011 figures. 70 FIPA-funded FSPs were included in the benchmark figures.

portfolio was 9.3%, having increased by 2.2% from baseline which was not encouraging. Privately owned banks or micro-deposit taking institutions had performed best with an average PaR30 of 3.8%, whereas NGOs had an average PaR30 of 8.9%, and the member-owned cooperatives prevalent in West Africa reported an average PaR30 of 15.4%. At the level of individual FSPs, the PaR30 rate in West Africa had increased (deteriorated) the most (by 4.9%) since baseline, while an increase of 1.4% was recorded in East/Southern Africa and Asia had registered the least deterioration (0.8% increase). By programme, MicroLead FSPs had the highest Par30 (15.6%).

Figure 8: Change in PAR30 (percentage points) by Country (negative change = improvement/decrease in PAR30)



3. Improved client outreach, measured by net new number of either borrowers or savers that have sustainable access to financial services from UNCDF-supported FSPs, targeting 6 million by 2013. In UNCDF's results framework, the FSP growth measure of active client outreach was sensibly broadened to also include clients receiving payments, remittances, or insurance services, and three ancillary indicators were added to emphasize transparency and social responsibility, including: Extent to which FSPs had audited statements; reported on the MIX Market; and were engaged in client protection.[68]
    - **Against UNCDF's third target,** UNCDF FSPs had added a total of 1,987,030 net new clients or **33.1% of the 2013 target**. The 93 FSPs reviewed had a total reported outreach of 3,034,070 borrowers and 6,439,235 depositors[69] across 19 countries. At an average of 32,624 borrowers and 78,527 depositors, the UNCDF FSPs had grown significantly larger than their MIX Market peer group, which averaged 22,766 borrowers and 58,782 savers (end 2011). The FSPs had achieved a net aggregate change from their baselines of 1,789,299 depositors (38% increase) and 528,604 borrowers (an increase of 21%). Adding up the larger number of either net new savers or borrowers by FSP, the total net increase in clientele was 1,561,765 for (16) CSPs and 1,037,562 for GTIs (including but not suggesting any attribution to YS), for a total of 1,987,030 adjusted for clients of FSPs funded by both a CSP and a GTI. This reported outreach seemed slightly behind the target and low compared to the 2010 aggregate result of 3.5 million clients, but it did not include clients reached by PFIP/Westpac.

[68] UNCDF FIPA draft results Framework of 05 October 2011, based on which the PR team developed the adjusted Results Framework incorporating GTIs, as presented in Section 1.2.

[69] The PR team would have preferred to analyze data on 'voluntary savers' only, as reflected in the standard FIPA portfolio performance reporting templates incorporated in most PBAs, but the data reported by FSPs was not robust enough to reflect a break-down of savers, hence the depositor figure reflected all types of depositors (including savers with compulsory, term, and current savings accounts).

At the individual level, UNCDF **FSPs had mixed results in terms of meeting the targets for outreach set in the PBAs** and reported to the PR team. For a number of FSPs, performance data was reported without targets, and in a few cases, targets were lower than baseline, or clearly meant to measure expansion in a limited area (e.g. new rural branches) and hence did not relate to overall performance on outreach. In Asia, the strong performance of FSPs in Nepal (CSP), Timor Leste (CSP) and Bhutan (GTI) made up for lower achievements in Lao PDR. In East Africa, CSP FSPs had performed relatively well, and overall achievement was augmented by some GTI FSPs (notably the strong FSPs selected by YS and Equity Bank in South Sudan supported by ML) which balanced out the weaker performance of other ML FSPs. In West Africa, the older, stronger FSPs to some extent outweighed poor performance of both ML greenfields and weaker CSP FSPs, although asset quality (PaR30) remained a concern across the investees in this region. Overall, however, **programme results as formulated were being met to an acceptable extent.**

3.2.1.2. Catalysation into New Products and Markets

The recent expansion of Corporate Outcome Target 3 to include clients served by 'new products and services' was generally not strongly reflected in the PBAs or in outcome targets of the programmes reviewed. Some CSPs (Liberia, DRC) did have a strong focus on women's empowerment at the objective level. Other CSPs and ML investments had focused outcomes on 'new frontiers', such as:

- Outreach to rural/under-served areas (Bhutan, Nepal, Mozambique, Madagascar, Burkina Faso);
- Outreach to women (Malawi, Rwanda, Sierra Leone, Liberia, DRC) and youth (DRC, Rwanda);
- Agricultural finance (Malawi, Sierra Leone, Mozambique);
- Support to bank/investor linkages (Senegal, Malawi, Togo);
- Linkages to microinsurance providers (DRC, Togo); and
- Electronic/mobile banking and remittances (Malawi, Timor Leste, Mozambique). [70]

It was beyond the scope of the PR to analyze the product range of the FSPs in detail, but FSPs (or CTAs/RTAs reporting on their behalf) did list a series of product and service innovations having been supported by UNCDF (see Table 2.3. in Annex 2). Including primarily well-known microfinance products, this nevertheless presented **an acceptable degree of CSP efforts to catalyze investees into new product areas.**

As a proxy for expansion to under-served markets, a total of 73 FSPs (78%, Malawi not reporting on branch structure) were able to report on # rural branches. This subset of FSPs reported to have a total of 1,038 rural branches as at June 2011, representing a **significant absolute increase in rural presence** of 32% since baseline. The rural expansion had been highest in West Africa (39%) and Asia (38%, 5.5% higher than overall expansion), driven by the very focused support from the CSP in Nepal. The absolute rural expansion had been least pronounced in East/Southern Africa at 20%, but the rural expansion here was still 3.5% higher than the overall branch expansion.

In addition, the *proportion* of rural to total branches had changed by only 1% (from 44% to 45%) since baseline, indicating that FSPs grew at the same rate in urban and rural areas. Given that costs to FSPs of rural expansion are generally considered to be higher than the costs of deepening urban penetration, FSPs might therefore counter-factually be expected to expand faster in urban areas of the UNCDF countries where competition-driven 'market over-heating' was generally not very pronounced. This indicated **potential direct attribution[71] of UNCDF-funding and PBA target setting on the indicator of rural expansion**, as the PBAs signed with rurally-focused FSPs specifically listed targets for rural expansion. Supporting this finding, 71% of investees responding to the PR survey agreed that "UNCDF programmes help MFIs achieve sustainable growth in under-served markets/market segments" (see Figure 9, D13) and a majority of national stakeholders (52%) concurred (B12).

[70] Electronic/mobile banking is also the focus of UNCDF's PFIP programme which has successfully supported E/M banking across seven Pacific Island States. PFIP was not reviewed as part of the PR.
[71] Total change less counterfactual change. See also DCED: Attribution: Measuring attributable change caused by a Programme, August 2012.

3.2.1.3. Performance of GTIs

YouthStart deliberately targeted large, existing FSPs in Africa. The contribution of the selected YS FSPs' performance to programme effectiveness could not be attributed to YouthStart investments which only commenced in 2011, and it **was too early to tell if YS FSPs will become stronger due to their focus on youth.** However, the very clear selection criteria, targeted PBAs and reporting requirements **offered promise** that UNCDF will be able to document attributable leverage on YS FSPs' innovations in the area of financial services to youth in future.

This was **less evident for MicroLead**. The initially clear selection criteria were diluted (see section 3.1.4) and reporting requirements and PBAs were less targeted to the specific outcomes of the savings-focused GTI. ML funded 20% of all FSPs reviewed, but these had contributed only 10% to outcome target 3 (net new clients) of which 6.5% (102,320) were new savers as at 30 June 2011. This might be partially due to ML's focus on younger FSPs which generally take longer to achieve outreach (six[72] of the total of 9 start-ups funded by UNCDF were supported through ML and start-ups constituted 30% of the ML portfolio), but outreach to borrowers had grown very fast also among start-ups. Only two of ML start-ups were mobilizing voluntary deposits. For the 3 BRAC subsidiaries funded, support had not resulted in increased strength or resilience.

Key Question 6: How well are programmes achieving their specific objectives and results (outcomes) at financial sector (meso) level	**Acceptable (score: 2.8 of 5)**
Elements/indicators	
2.1.4. Programmes contributed to stronger MF industries	Poor
Funded SSOs met needs of retail FSPs	Acceptable
Innovation frontiers were pushed forward	Acceptable
Programmes contributed to advocacy effort [for client protection]	Good
2.1.5. GTI contribution to increased standards/capacity in markets	Acceptable
GTI establishment/dissemination of good practices/new knowledge	ML: Poor, YS: Exceptionally effective

3.2.1.4. CSP Performance against Meso-level Targets

Since 2010, UNCDF's (end-of project) outcome B ("Improved sector infrastructure and stronger industries promoting IF") has been measured by the ability of networks and associations to provide advocacy (e.g. for client protection) to FSPs. Two indicators were used:

1) "Number of activities with FSPs after UNCDF intervention (e.g. client protection training)" with the target of "more than 70%"[73], and
2) "Extent to which FSPs are engaged in e.g. client protection" measuring the percentage of all funded FSPs that had endorsed the CPPs, which is clearly easier to track, but does not necessarily indicate a high level of 'engagement' or a more well-functioning IF industry at country level.

The **results against these** relatively new **indicators and targets were not (yet) consistently reported by CSPs**, and the level of achievement could therefore not be accurately ascertained. Almost all of the CSPs under review had some activities **at meso-level**, but the **variance in terms of intensity and achievements was high**. Overall, around half of external national stakeholders and investees responding to the PR survey perceived meso-level results to be achieved (see 3.2.2.2 below).

In most CSPs, an existing or emerging association or network of FSPs was supported with grants, but results were mixed. Where CSPs could partner with relatively strong associations that were able to present a coherent business or activity plan to the CSP for support, the results of the grant funding had generally been good, even if progress had been slow (Senegal, Rwanda, and to some extent Mozambique). However, several CSPs worked in industries where cohesion was not strong, and there, financial support had not (yet) been

[72] Including Equity Bank Rwanda, which UNCDF requested included in the ML Mid-term evaluation and hence also in the PR despite it having only operated for two months at the time of scoring. Its performance has been scored as at end December 2011.

[73] CMP Score card 2010-13. It was unclear to the PR team what constituted the total (100%) against which this indicator would measure progress.

sufficient to generate significant achievements at meso-level (Malawi, Togo, Burkina Faso, and to some extent Madagascar). Where CSPs did not fund associations, the reasons were either market–related (in Timor Leste, only three FSPs survived the conflict in 2006 and building an association was thus of little interest and relevance to the FSPs), or due to funding constraints (Nepal) or capacity limitations (DRC, Togo PASNAM I).

Most CSPs had also supported capacity building at meso-level through information exchanges, training and exposure events. Several CSPs directly provided (Liberia) or contracted international technical expertise (Mozambique, DRC) without apparent emphasis on knowledge transfers to national providers. In the DRC in particular, stakeholders lamented the change of approach from PASMIF I where local business service providers were engaged to deliver services to FSPs, to PASMIF II where TA was provided by (largely international) experts recruited through the TSP, seemingly crowding-out national service providers. Other CSPs offered sponsorships (e.g. to Boulder in Turin) or provided funding to an association to coordinate and deliver training (Malawi, Mozambique), and in some cases more formal education to build the future skills base for FSPs (and banks) had been supported through diploma courses (Liberia, Mozambique, Timor Leste). In no country under review were technical publications on lessons learned from such interventions found to have been published by CSPs.

Despite explicit objectives in some prodocs (Sierra Leone, Timor Leste, Togo, Malawi), CSP focus and hence achievements had been significantly weaker in developing sustainable (private sector) business support services to the IF industry, where better returns in terms of multiplier effect might otherwise be expected. In several countries, however, auditors had been trained in the CGAP-based audit methodology for FSPs (Liberia, Sierra Leone), and local business service providers had been contracted to provide training and/or ICT services (Malawi).

The efforts of the recently recruited policy advisor to facilitate and/or support training sessions on client protection (Senegal, Mozambique, Liberia, and Madagascar) were paying off to increase the focus on client protection principles (CPP). As CPP as a focal area had only been introduced in 2010, it was unsurprising that only three (recently designed) CSPs were found to have developed direct objectives related to increased advocacy capacity of associations (DRC, Sierra Leone, and Madagascar, which as the only CSP reviewed had a specific indicator related to meso-level CPP work). However, the older CSPs in Malawi and Timor-Leste also had a clear focus on transparency and financial literacy, the latter no doubt inspired by PFIP. At least two additional FSPs had endorsed the CPPs, as reported by CTAs in annual progress reports as at end 2011, and in at least four countries (above mentioned and DRC), sector-wide initiatives had addressed client protection.

3.2.1.5. GTI Performance against Meso-level Targets

MicroLead had made meso-level investments in associations via TSPs in Ethiopia and Lao PDR. It was not evident that the investment in Lao PDR had contributed to industry strengthening.[74] In Ethiopia, the government had required additional (more) support to the network AEMFI as a precondition for its 'no objection' to ML retail investments. This might potentially increase programme effectiveness by ensuring broader exposure by the national industry to the expected benefits from the TSP investment and thus diminishing TA concentration and potential distortions in the relatively well developed retail supply market. Contrary to MicroLead, **YS had from its start made excellent and very deliberate efforts to disseminate information and new knowledge on youth-related financial services**, augmenting the likely future effectiveness at meso-level of this GTI.

Key Question 7: How well are programmes achieving their specific objectives and results (outcomes) at policy (macro) level	**Acceptable (score: 2.8 of 5)**
Elements/indicators 2.1.6. Targets set for policy improvement were clear and measurable Programmes positively influenced/supported changes in the enabling policy environment	 Poor Acceptable

[74] See details in MicroLead Mid-Term Evaluation Report, draft version, 21 May 2012.

Funded projects were conducive to policy-level improvements	Acceptable
Programmes have resulted in improved national policies for client protection	Acceptable

3.2.1.6. Target setting and Performance at Macro Level

The CMP Score card for 2010-13 established one corporate indicator which spanned both meso- and macro level interventions, i.e. the extent to which the national policy environment had improved for client protection (macro-level). This was measured by the number of sector-wide initiatives/activities at country level addressing client protection (meso-level) and targeted at ">70%" for 2013 but it was unclear what this percentage target was in fact measuring. UNCDF had commendably added the macro-level outcome indicator "Extent to which the national policy environment has improved", measured by the extent to which countries have recorded positive macro-level changes for the IF sector (policy/supervisory/regulatory/national strategies). Understandably, however, no target was set for this hard-to-measure indicator, but programmes could indicate with a '1' that change had taken place and provide a write up, or enter a '0' for no change.

All CSP prodocs included relatively lofty objectives and outcomes linked to the development or refinement of IF sector policy documents and strategies and their implementation through increased clarity, coordination, consultation and official adoption. **The reporting made available to the PR and the current indicators for effectiveness at macro-level were not found to enable an assessment of the extent to which these outcomes were being achieved**. Results measurement of complex systemic change is notoriously difficult, but it should be possible for UNCDF to further clarify its indicators, especially if more specific objectives were set at macro-level for CSP interventions.

In general, counterparts had signed grant agreements with defined outputs (rather than outcomes) relating to action plans to be implemented, and CTA reporting also focused on outputs. CSPs had typically supported their government counterparts to better perform their roles and duties through grants for equipment and operations (field inspections, meetings, documentation of sector performance, development and consultation of work plans, etc.); and had supported capacity building through sponsorships for central bank and government officials to relevant technical trainings and exposure visits to peer institutions. The core CSP output of support to national IF strategies/policies and their adoption in most countries appeared to have contributed to more effective regulatory frameworks. The ongoing support to implement these frameworks had been effective in many countries, leading to improved supervisory capacities. The grants were clearly appreciated by often under-funded government agencies, and might well in several countries be regarded as a significant value added of UNCDF. Half of the national stakeholders responding to the PR survey agreed that "UNCDF programmes have positively influenced/supported changes in the enabling policy environment" with the balance agreeing somewhat (see 3.2.2.2 below), and in the SWOT analysis of UNCDF, the highest number of PR survey respondents who provided comments (22%) indicated that **policy level interventions, including access to and alignment with national policies and policy makers were key strengths** of the programmes (see Annex 3).

Some CSPs had supported macro-level activities outside of the standard CSP design. In Malawi and Timor Leste, efforts were underway to develop policy frameworks for financial literacy; studies/frameworks for rural finance strategies were supported in Mozambique and Senegal; and linked to the CPP SmartCampaign, the TSP in Sierra Leone had developed an early-warning system for client over-indebtedness and supported a review of the legal framework for NGO transformation. The standardized reporting framework accorded very little opportunity for CSPs to document results from such innovative efforts, which should be rectified.

The GTIs did not, by design, work at macro-level, but an early lesson learned from YouthStart was that macro level outputs/outcomes should have been better integrated in the programme framework to facilitate efforts supportive of an enabling environment for youth financial services. Commendably, a policy paper had already been published to bring attention to barriers identified during the pilot phase of the programme.[75]

[75] UNCDF and MasterCard Foundation: Policy Opportunities and Constraints to Access to Youth Financial Services, March 2012.

3.2.2 Programme Effectiveness to Effect Changes in Counterpart Organizations

Key Question 8: How well have programmes supported significant changes in systems and processes in counterpart organizations?	**Good (score: 3.3 of 5)**
Elements/indicators 2.2.1. Targets set for systems & procedures changes were clear and measurable Targets were being timely met by FSPs, Associations, Policy makers 2.2.2. Counterparts were satisfied with results of programmes	 Poor Acceptable Very Good

3.2.2.1. Target setting and Performance on Institutional Changes

No corporate targets were set specifically to monitor internal systems changes in counterpart organizations **at macro level.** Achievements of systems and process changes appeared to depend very much on the extent to which counterparts had the capacity, interest and resources to function as a national champion for the IF agenda.

The relatively recent outcome indicators for meso-level institutional change were not yet reported on consistently enough for the PR to generate reliable quantitative data on their achievement. **Where targets had been set at meso-level against which to measure progress, these were largely numeric and established at output level** (# trainings, # participants, # BDS providers supported), possibly due to lack of corporate guidance.[76] Another possible explanation for the focus on outputs was the limited budgets actually allocated to CSPs for effective meso-level results. A third was the UNCDF targets set in the results-based management system, which focused the attention of CTAs and implementation teams on the retail level leverage targets. As 'what doesn't get measured, doesn't get done', the important aspect of meso-level support might have been given less priority. Several CSPs reported significant delays and constraints in achievements of these outputs, but partners did appear to have made acceptable efforts to meet set targets (see also below).

For FSPs, outcome target C: "FSPs operate in a more efficient, effective and sustainable manner" was measured by change in performance (growth, asset quality, viability), but the internal processes assumed to generate these changes were not very well monitored. Especially in West Africa, however, several CSPs had supported performance monitoring systems (MIS) to improve transparency and reliable data reporting, and the number of FSPs providing audits and reporting to the MIX Market did appear to be diligently tracked at country level. Almost all of the FSPs were audited in 2010,[77] and while the PR identified 38 MIX Market reports from the FSPs under review (41%) for 2010, data for 70 (75%) FSPs had been reported to the MIX Market as at end 2011. Little knowledge generation and publication had taken place within the programmes, with the notable exception of YouthStart, to document more qualitative changes in systems and processes as a result of UNCDF funding. The standardization of PBA reporting requirements to a set of quantitative indicators and the apparent discontinuation of the requirement to report in a narrative format also limited UNCDF's knowledge of changes in systems and processes, lessons generated and experience gained.

Change in institutional capacity (systems and processes) at retail level is often reflected first in productivity and efficiency, and only later in actual financial performance improvements, but these 'interim' indicators were rarely included in key targets or disbursement conditions of the UNCDF PBAs. Several FSPs were unable to report on these basic indicators, including the entire portfolio in Malawi and Sierra Leone. Overall, the **UNCDF FSPs displayed better performance on efficiency than on productivity:**

- Intermediating FSPs had 280 depositors per staff on average, up by 25 since baseline. The average for the peer group of MFIs in UNCDF countries reporting to the MIX market was 364;
- Average loan officer (LO) caseload was 304 against 356 for comparable MFIs, and had increased by only 3 since baseline;
- Average cost per borrower for FSPs was USD 106; but

[76] In the 2010 Annual report, FIPA pledged to further develop and refine its results indicators for meso- and macro level, but this has yet to be accomplished with the exception of the target for associations advocating for client protection.
[77] UNCDF: Annual report 2010, p. 26.

- The average reported Operational Expense Ratio was high at 38% against the 26% average for the peer group (see Annex 2), and had increased by 6% since baseline.[78]

On all these indicators, the variance across the portfolio and even within country portfolios was extreme. This indicated that factors within the control of FSPs and related to the operational systems, structures, processes and products might be reflected in **productivity and efficiency measures, which could therefore be monitored more closely to gauge the effectiveness of support aimed at changing institutional behaviours.**

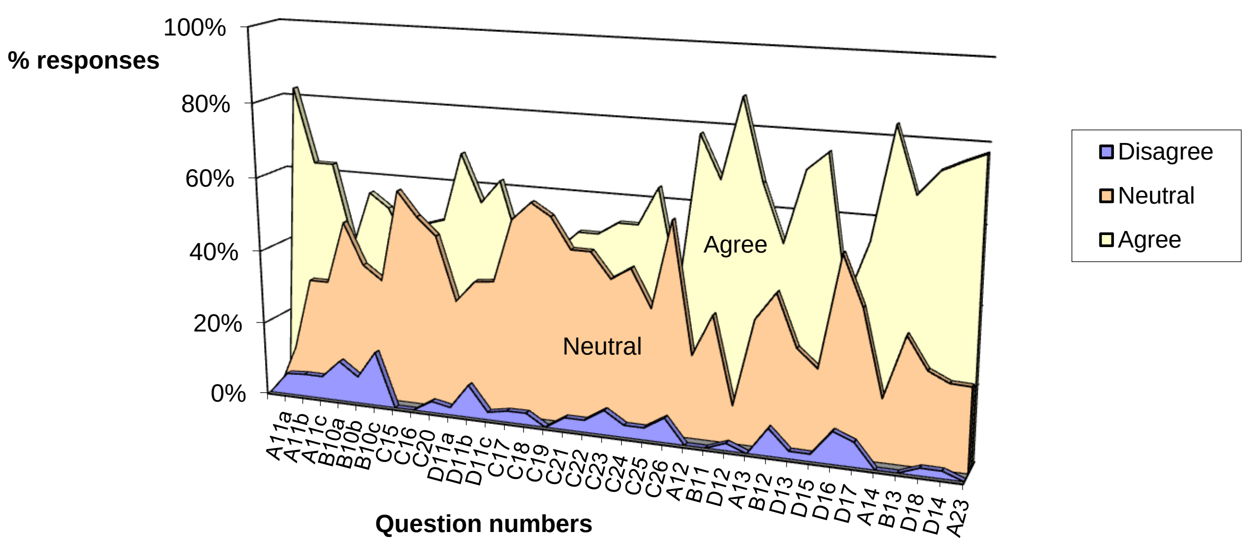
3.2.2.2. Counterpart Satisfaction

Table 9: Level of Satisfaction by External Stakeholders with the *results* of the UNCDF programmes		
Question: How satisfied are you with the results of the UNCDF inclusive finance programmes in your country to date?		
Response options:	*Numerical*	*In %*
Extremely satisfied	6	19%
Very satisfied	8	25%
Reasonably satisfied	14	44%
Not very satisfied	3	9%
Not at all satisfied	0	0%
Total respondents	31	97%
# skipped question	1	3%
Total External stakeholders who took the survey	32	100%
Total External stakeholders who received survey	101	

Most stakeholders perceived UNCDF's programmes to be reasonably effective or better (see Table 9) although UNCDF effectiveness was scored lower than relevance, with an overall average of 59% of respondents fully agreeing, 37% being neutral and 4% disagreeing with the issues queried on effectiveness. Conversely, three fourth of all respondents fully agreed that "UNCDF could improve its achievement on outcomes" (see Figure 9, A14, B13, D18).

Internal stakeholders overwhelmingly perceived that UNCDF programmes were achieving their intended results and specific objectives, especially at retail level (83% agreed to A11a in Figure 9), and 62% of investees agreed (D11). Half of the co-funder respondents concurred, albeit 15% did not agree that UNCDF was attaining its results at macro level (by contributing to enhanced knowledge and facilitating policies) (B10c). 47% of national stakeholders perceived UNCDF to be fully achieving their key objectives (C15, C16, C20) with the balance agreeing somewhat.

Figure 9: PR Survey responses on Effectiveness



78 The PR was unable to verify the formula used by FSPs (or CTAs) to report this ratio. Operating expenses/total assets was requested, but if FSPs/CTAs instead reported operating expenses/gross loan portfolio, the result would be in line with the 40% average of FIPA FSPs' peer group of 169 MFIs in FIPA countries reporting to the MIX Market as at end 2011. See also Annex 2.

The majority of respondents across all stakeholder groups (78% on average) agreed that "UNCDF improves access to financial services for poor people" (questions A12, B11, D12). A majority (76%) of investees also agreed that "UNCDF funding helps leverage the ability of investees to scale up and innovate" (D15). Similarly, an average of 63% of internal, investee and co-funder respondents agreed that "UNCDF funding helps FSPs achieve sustainable growth in under-served markets/market segments" (A13, B12, D13), and 76% of investees agreed that UNCDF had catalytic effect on FSP expansion (D14).

The external national stakeholders were less sure about UNCDFs achievements at meso-level (43% on average fully agreeing that specific results were being achieved (questions C17-19). However, 54% of investees agreed that "UNCDF-funded Sector Service Organizations have met the needs of the retail MFIs in my country" (D17).

3.2.3 Programme Effectiveness for Sector Funding Availability

Key Question 9: How well have programmes contributed to better coordination and funding availability in the financial sector?	**Good (score: 3.0 of 5)**
Elements/indicators	
2.3.1. IC approved investments contributed to more inclusive financial sectors	Good
IC compositions and influence have affected programme effectiveness	Poor
2.3.2. UNCDF's private sector engagement was reflected e.g. in physical location of CTAs	Poor
2.3.3. Level of sector coordination has increased since start of UNCDF investment in country	Good (no attribution)

3.2.3.1. IC contribution to more Inclusiveness and Effectiveness

Overall, **the risk-balanced portfolio resulting from the IC approvals appeared likely to have contributed to increased sector inclusiveness**, as confirmed by 50% of national stakeholders in the PR survey agreeing that ICs had contributed to a more inclusive financial sector (see Figure 9, C21). However, investee selection criteria could be clarified to better document how inclusiveness is taken into account when especially CSP ICs make investment decisions on competing FSP applications. In the standard CSP model with its (internal) Financial Inclusion Funds (FIF), the Investment Committees (ICs) approved the actual investments as recommended by the PMUs. In several CSPs, however, the PMU seemed to be the de facto decision maker (Madagascar), and might not always have had the skills or resources for this task (Togo and Malawi).[79] The IC model worked most effectively where PMUs were appropriately staffed (both in terms of quantity and quality) to produce well-documented investment recommendations; where ICs met regularly and had established common good-practice based principles for fund functions; and where IC representatives had obvious investment experience (often contributed especially by co-funders) and/or linkages had been developed to a broader national forum of IF stakeholders to counter limited IC participation. In several ICs, UNCDF and UNDP had clearly advocated for pro-poor, inclusive investments.

The FIF/IC was not found to be an attractive platform for more effective coordination and might have deterred funders from co-funding CSPs in more mature markets. The FIF/IC structure appeared to be potentially most effective in markets with weakly developed industries, where smaller and more passive bilateral funders without IF expertise seek to support financial inclusion, and no other investment or challenge funds have yet been established. However, the lack of formality of the retail-level FIFs in more developed markets seemed to conflict with UNCDF's macro-level objective of enabling IF legislation and regulation. In Liberia, for example, the central bank was establishing a parallel fund for retail investments. In several of the more mature markets where standard CSPs operated (e.g. Malawi, Senegal and Rwanda), other (both challenge and investment) funds existed in parallel, and some funders were quite adamantly uninterested in joining the UNCDF-managed co-funding structure. This could partially explain why a majority of CSPs had found it hard to raise the co-funding needed to finance otherwise well designed programmes aimed at catalyzing funding to more inclusive financial sectors.

[79] Findings from the Evaluation Synthesis Report from the BIFSA I evaluation, May 2009 and FIMA progress report 2011.

If UNCDF intends to continue in its role as an investor, it **would need to be authorized to and learn how to become a better investor.** Since 2010, UNCDF has defined its role as both a facilitator and an investor (see Section 2.1), but contrary to many other funders investing in IF markets, the agency and its standard IC model was not found to be ideally suited for the investor role. As it is legally barred from founding (providing equity to) national investment funds, UNCDF had experimented with participation in the governing bodies (BoDs) of investment fund-like structures in Sierra Leone and DRC through national representatives or TSPs. In both cases, UNCDF (and UNDP) had faced challenges in adapting to the new mandate, processes and role as one of several Fund governors, and negotiations with other, more investor-like funders had significantly delayed implementation. In Sierra Leone, the technical investment expertise provided by the TSP appeared effective, but it had been a challenge in the DRC where identified representatives had been given conflicting mandates. As a representative of a co-funder succinctly put it:

> *" It seems like UN [UNDP/UNCDF] is unfamiliar with the (investment) fund model (as opposed to challenge funds) and unable to really cope with and work within the [investment fund] model, where the funders agree on the frameworks and then delegates authority to the fund management to present proposals for approval to supervisory board, without earmarking funds. Earmarking can happen in parallel projects, but not in a Fund. Also, UN doesn't appear to know the rules - confidentiality, separation of roles for shareholders/supervisory board members, and autonomy of implementation by fund manager once the framework has been established by funders. UN wanted the Fund (including us other investors) to pay their board members! It was both unclear if this was legal, and was of course a potential conflict of interest. UNCDF should enlarge its instruments to include participation in [investment] funds and should learn to work with and as a fund investor".*[80]

In contrast to the GTI ICs (and UNCDF head office ICs approving CSPs), the PR could find very **little evidence that the national IC structures – with or without government as a voting member – specifically promoted or otherwise impacted effective implementation of UNCDF's investments**, even in relatively uncrowded markets. While national CSP IC structures to some degree increased information sharing and transparency, they rarely appeared to contest or change investments proposed by PMUs. Documentation on changes in IC compositions since establishment was hard to come by. In the ICs, the Central Bank Governor/Deputy Governor was often the non-voting chair, or Governments had 1-2 (minority) votes, and UNCDF's Regional Technical Managers/Advisors represented UNCDF on the ICs. It appeared that ICs had remained very stable with few new entries since their start, but in a few countries (e.g. Togo, Lao PDR), co-funders that were expected to join (as per the CSP prodocs) had decided otherwise.

As illustrated in Figure 9 above, respondents to the PR survey were neutral (rating 2-3 of 5 possible on a scale from "fully disagree" to "fully agree") to a higher degree than positive about the effectiveness of the IC structure. **An average of 52% of national stakeholders agreed that the IC contributed to achieving results** (questions C21-C24), but 7% disagreed that "the Investment Committee has increased harmonization of funders' approaches" (C23). Direct beneficiaries of CSP funds and government agencies participating in CSP Steering and Investment Committees were generally appreciative of UNCDF's efforts, but they very uniformly raised the problem of under-funding of the programmes, and often referred to other IF sector funders when looking for partners for larger, longer-term reform programmes at macro-level. 39% of investees found that "the funding partnerships with governments have increased programme effectiveness" (Figure 9, D16).

3.2.3.2. Location of PMUs reflecting Private Sector Engagement

Where CSPs were savings-focused and thus focused on catalyzing private capital to FSPs through savings mobilization and protecting poor savers, placing the PMU with the central bank made good sense, as e.g. in Nepal. This location had not had similar benefits e.g. in Liberia. Many CSPs seemed insufficiently trained, equipped with a "good sales pitch", or linked into the local funding market to fully meet the catalytic objective of resource mobilization, which also reflected in the limited funds raised. The likelihood of external programmatic coordination appeared to increase with the tenure, capacity and relationship building skills of

[80] Source withheld for confidentiality reasons. Transcript available with the PR team.

the CTA, as well as with the autonomy (from both government and UN entities) and resources of the PMUs. In almost all countries, **CSP PMUs were located within a government agency or at a UNDP compound, neither of which added to visibility or accessibility**, and in some countries, the co-location with government agencies would actively discourage particularly private sector stakeholders from taking contact to CSPs (e.g. Malawi and to some extent Rwanda).

3.2.3.3. Increased Donor Coordination

The ICs had not resulted in a markedly improved donor harmonization. Many CSPs and even the Investment Fund in the DRC still operated with separate reporting and accounting for managed (earmarked) funding, even between UNCDF and UNDP, which otherwise use the same budget management database (ATLAS). Several ICs concluded separate or parallel agreements with investees, using differing targets and indicators; and required separate reporting templates for FSPs, contributing to increased workload for investees. A notable exception was the reported achievement of a harmonized quarterly reporting template in Senegal in 2011.

In addition to funding leverage (see Section 3.4 on impact below), UNCDF measured the funder coordination aspect of effectiveness by "the extent to which donors support the UNCDF financial systems approach", measured as the % of all IF donors that participate in UNCDF supported investment committees with a target of >70%.[81] In 2010, UNCDF reported that 49% of donors participated in its ICs against a target for the year of 66%.[82] In the portfolio under review, 8 of 14 CSPs (57%) were co-funded by funders other than UNDP, but several were managing their funds in parallel rather than through the IC. Other IF funders had in some countries joined the ICs as observers.

By comparison, four of the 20 IF funders (20%) that represented 85% of total funding commitments to global microfinance in 2010[83] participated in UNCDF ICs as at June 30, 2011, whereas on average around 24% of (public and private) IF funders recorded in the CGAP Cross-Border Funder Survey 2010 participated in UNCDF programme ICs in the 19 countries under review. Conversely, UNCDF's presence in six of these countries through GTIs and newer CSPs was not recorded in the CGAP survey.

While **coordination – and to a larger degree funding availability to sectors – may very well have increased in some countries since UNCDF entry, it was not possible to establish the extent to which the IC structure (and UNCDF input more broadly) might have contributed to this development**. A majority of national partner stakeholders responding to the PR survey (63%) concurred that coordination in the IF industry "had improved over the past 3 years" (Figure 9, C25), but only **37% agreed that "improvements in funding effectiveness can be directly attributed to UNCDF"** (C26).

3.2.4 Conclusions on Effectiveness

UNCDF investments had been effective in terms of achieving their intended results at retail level. At macro level, results also appeared to have been achieved, but results at meso-level were mixed, generating an **aggregate score on programme effectiveness of 3.0 of 5 or "good".** Given the very significant variance in scores on all of the performance areas, this substantial aggregation of scores might not fully illustrate the good progress and performance against PBA targets of many UNCDF FSPs and of many country-level programmes (for scoring details, see Annex 1, Table 1.2 and Annex 2).

The FSP portfolio had attained good results against the outcome targets set. Outreach had increased and OSS levels were showing a strong positive trend. Portfolio quality had improved for half of the retail investees, but

[81] CMP Score Card 2010-2013.

[82] FIPA Annual Report 2010. In January 2013, FIPA management provided the updated information that for 2011, the number of "potential grant funders at country level participating in ICs had increased to 53% (31 of 58) or 89% of the 2011 target". This would indicate that the annual target was 60% rather than the 70% stated in the CMP. The PR did not have access to the list of funders used and could not explain why only 'potential grant funders' would be included.

[83] CGAP: Cross-Border Funding of Microfinance 2010, December 2011.

high arrear levels continued to mar especially the West African portfolio. Most of the growth in depositor outreach was contributed by the large, established FSPs dominating the UNCDF portfolio, but increase in OSS was higher among younger FSPs. UNCDF funding had contributed most directly to increased rural expansion as a proxy for outreach to underserved markets. Productivity and efficiency measures could be monitored more closely to better document the effectiveness of support geared at changing institutional behaviors.

In some countries, UNCDF was appropriately credited for support to association-building, industry training frameworks and increased capacity for FSP audit among audit companies, but meso-level funding budgets were in general limited, and the preferred use of (operational) grants rather than TA to partners produced results primarily where meso-level partners were already strong. Few CSPs had leveraged private sector resources at meso-level through support to national financial BDS providers, which could have a multiplier effect on sector capacity strengthening. The more focused efforts on client protection issues in some countries were found likely to produce results in future.

At macro-level, the initial focus of the standard CSP model on national inclusive finance policies and strategies and their implementation had likely contributed to improve IF policy frameworks in many countries. Across most LDC, the regulatory agenda had expanded to incorporate many new topics, including client protection. This development was reflected in UNCDF's corporate outcome targets and support through GTIs, but was not yet sufficiently reflected in CSP implementation or results. While stakeholders in general were satisfied with UNCDF achievements, clearer outcome targets and more systematic reporting at both macro- and meso level could improve documentation of results.

The global GTIs had generated the bulk of results against UNCDF's catalytic funding (resource mobilization) objective. Especially in more mature markets, the standard CSP FIF/IC structure was not found to effectively promote catalytic representation, linkage building, and coordination/harmonization with other funders to increase funding availability to the IF sector. To increase effectiveness, UNCDF should review the functions and value addition of this model and consider redefining its 'role as an investor' to join or hand over investment management to existing alternatives to the standard FIF/IC model.

3.3 Programme Efficiency

Main Evaluation Question 3: To which extent have programme outputs attained to date been commensurate with the input of resources and time allocated?

The PR sought to measure programme outputs (qualitative and quantitative) in relation to the inputs provided by and via UNCDF in order to establish the extent to with UNCDF had used the least costly resources possible in order to achieve the desired results, but a full counter-factual comparison to alternatives was beyond the scope of the PR. Due to findings already presented under relevance and effectiveness, we focused the discussion of efficiency on issues of timeliness and funding resources to achieve the desired outputs. Project cycle management quality issues are addressed where relevant, in particular related to the UNCDF PBA system and its contributions to more efficient programming.

3.3.1 Programme Time and Cost Efficiency

Key Question 10: To which extent have amount and duration of investments been sufficient to deliver outputs/outcomes within reasonable time periods?	**Good (score: 3.0 of 5)**
Elements/indicators	
3.1.1. Timeliness of design, appraisal, approval and implementation processes	CSPs: Poor; GTIs: Good
3.1.2. Sufficiency of budgets since start of investment to attain targets by Jun 2011	Acceptable
3.1.3. Programme unit costs of investment were in line with global cost-levels of CSPs/GTIs	Acceptable
3.1.4. USD investment value had produced development outcomes >average for CSPs/ML	Good

3.3.1.1. Timeliness of Design and Implementation

The average *expected* duration of a UNCDF CSP was 4.4 years. On average, programmes in Asia were planned to be slightly longer at 5 years, while the average across Africa was 4.2 years. By comparison the duration of the GTI investments under review averaged 4.0 years under the 5.5 year old Phase I of Microlead, and 3.25 years (implementation phase only) under the 4.5 year Youth Start programme. The approval and start-up process in UNCDF's project cycle includes five steps involving UNCDF HQ and national committees and partners,[84] already indicative of a long process. The planned duration of **CSPs were compressed to an average *actual duration* of 3.7 years or by 7 months**, most drastically in Asia (reduced by a year on average) but also by a significant 8 months in East/Southern Africa. The CSPs in Asia and West Africa, for which the PR was able to access data, had been compressed by 6 months on average (see Table 11).

Significant delays (5 months on average occurred during *preparation* in the time allocated from the design (draft prodoc) to approval, with MITAF II in Sierra Leone; BIFSIR in Rwanda; and FIMA in Malawi being particularly delayed. This was assumed to be caused primarily by protracted fundraising efforts necessary to secure the minimum required co-funding prior to approval. The average *start-up* gap (from approval of prodoc to launch) was 4.5 months. This period would seem appropriate as a preparatory stage to equip, staff and set up programme structures. However, **the average gap between programme approval and arrival of the CTA on the ground was 11 months.** The recruitment process for UNCDF CTAs (which followed UN standards) generally took around a year and included the presentation of especially TSPs for approval to UNCDF's procurement committee – and to UNDP's procurement committee for contracts exceeding a value of USD 100,000. The latter step can in itself result in significant delays.

Table 11: Timeline for CSPs

Region	***Country***	***CSP***	***Time line***							
			Ph. I duration	*Eval Ph I*	*Proj design /SA*	*Expected start[1]*	*Prodoc approved*	*CSP launch*	*CTA on site*	*Expected end date*
Asia	Lao PDR	MAFIPP			Mar-09	Jun-10	Jul-10	Jul-10	Aug-11	Dec-14
	Nepal	EAFS			Feb-06	Nov-08	Oct-08	Apr-10	Apr-11	Dec-12
	Timor-Leste	INFUSE			Dec-05	Nov-07	Apr-08	Nov-08	2008, now vacant	Dec-13
ESAF	DRC	PASMIF II	2004-09	Dec-09		Jun-10	Oct-10	Nov-10	Jan-11	Dec-14
	Madagascar	PAFIM			Aug-10	Jul-10	Aug-10	Dec-10	Mar-11	Jul-13
	Malawi	FIMA			Jun-05	2006	Jun-07	Apr-07	Dec-08	Dec-11
	Mozambique	BIFSMO			Jun-06	Jan-07	Jan-07	Aug-07	Nov-09	Dec-11[2]
	Rwanda	BIFSIR			Dec-08	Jan-09	Dec-09	Aug-10	Aug-10	Dec-12
	South Sudan	BIFSS			Oct-08	Jan-10	Sep-10	Dec-10	TSP to Feb11, none since	Dec-13
WAF	Burkina Faso	PRESEM			Feb-06	Sep-07	Sep-07	Sep-07	Jul-08	Dec-11[3]
	Liberia	LIFS-II	2005-09[4]	Jan-09		2009	Nov-09	Mar-10	CTA till Feb10, from Aug-10	Dec-13
	Senegal	PALPS			2006	Sep-07	Sep-07	Jul-08	Jul-08	Dec-11
	Sierra Leone	MITAF II	2004-10[5]	Sep-09	Nov-09	Aug-10	Pending	Pending	Aug-11[6]	Dec-14
	Togo	PASNAM II	2005-08	Dec-08		Jul-09	Jul-09	Jul-09	n.a.[7]	Jul-13

[1] As per annual/quarterly progress reports. [2] Extended from original end date of December 2009. [3] Extended from original end date of December 2010. [4] Extended from original 2 year duration 2005-07; Phase I only became operational in 2007. [5] Extended from original end date Dec 2009 to June 2010. [6] As at Sept 2011, the TSP was still awaiting formal approval and launch of MITAF II. During Aug 2010-Dec 2011, preparatory activities were financed by KfW and advanced MITAF II funds from CordAid. [7] PASNAM is managed by a national IF expert whose contract has been renewed annually since 2009.

[84] See UNCDF: Inclusive Finance Programme Cycle Policies and Procedures for the full process.

The PR found it doubtful whether the compressed time allocated to a majority of the CSPs would be adequate to efficiently implement their work plans and attain the planned outputs as defined in the prodocs. Given the long CTA recruitment process, it was found **inefficient that UNCDF did not proceed with CTA recruitment concurrently with local appraisals of prodocs "pending final approval"** as is done by most other agencies, rather than delaying the recruitment process until prodocs were signed.

PASNAM II in Togo led by a national IF expert and DRC's PASMIF II (CTA recruited from the RO) were the most time-efficiently implemented programmes. Mozambique's BIFSMO on the other hand took 7 months to approve, but 2.8 years to recruit a CTA for, and the CTA for EAFS in Nepal arrived 2.5 years after CSP implementation started. Malawi's FIMA was rapidly approved and launched, but it then took 18 months to recruit a CTA. The consequences were well expressed by the CTA:

> *"Launching the program without a management team in place had considerable negative impacts on stakeholders' perception of the program and did not allow sufficient time for strategic planning, prioritization and strategic decision making in response to ongoing events".*[85]

While recognizing that the CSP approval process aims to promote national buy-in and technical soundness, the **protracted process had high opportunity costs.** In the rapidly evolving IF markets, where market gaps change fast and other funders might be able to act faster, delays had resulted in activities (outputs) identified in the prodocs becoming outdated or superfluous (e.g. Timor Leste) or too compressed for the CSP to maintain an appropriate strategic overview (Malawi). In Lao PDR, the CSP lost substantial co-funding as a direct result of the delay in start-up.[86]

Compounding the slow CTA recruitments, **the procurement and recruitment of national staff for the PMUs** (typically the responsibility of UNDP or host governments) was also found to be **inefficient:**

- *S*everal CSPs have remained under-staffed for long periods of time (Malawi, Liberia);
- The UNDP staff rotation and replacement system had resulted in significant staff turnover in some CSPs (Malawi). In others, external and HR issues resulted in high turn-over and subsequent gaps in staffing due to the protracted recruitment process (Timor Leste);
- UNDP procurement procedures substantially delayed the setting-up of several CSP PMUs. As an example, the PMU in Rwanda still had not received its vehicle 16 months after the arrival of the CTA.

Without national consultations on designs, **the GTIs had significantly better approval expedience** and the duration of grant and loan agreements under the GTIs in general appeared appropriate for the outputs to be achieved.

- YS amply demonstrated expedience by being able to approve and sign ten PBAs in one month;
- The required 'Letters of No Objection' from the host country and the agreement to reflect UNCDF support in the UN Development Assistance Framework (UNDAF) were generally obtained before PBAs were signed. However, disbursements on two signed YouthStart PBAs were delayed for almost 6 months due to difficulties in obtaining the No Objections from a country where UNCDF did not have a presence (Uganda), which might have been avoided if a more inclusive investment review process had been conducted;
- The significant delays in the obtaining of savings licenses from the more inexperienced ML greenfield investees (BRAC and OI-DRC) negatively impacted their ability to contribute to the core output of MicroLead. Whereas the delay for OI-DRC was largely exogenous to the programme (although better coordination with the CSP might have resulted in on-site assistance for the licensing process), the delay in transforming BRAC subsidiaries into intermediating FSPs related more to BRAC reluctance than to external impediments,[87] and hence pointed to weak ML selection procedures (due diligence).

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[85] FIMA Annual Progress Report, Dec 2011.

[86] In the first prodoc for the CSP in Lao PDR (2009) co-funding commitments from KfW and UNDP (USD 1.5 million) were obtained. Delays in start-up resulted from a restructuring within the BOL's microfinance sector unit and in the setting up the PMU, which caused KfW to withdraw from the project, and UNDP's co-funding to be reduced to USD 100,000.

[87] In Sierra Leone, a legal study in 2011 confirmed that there were no technical hindrances to BRAC's transformation.

3.3.1.2. Budget Sufficiency

The aggregate CSP budget execution[88] was 65.8% against 74% of MicroLead and 72% for YouthStart. While it could therefore seem on the surface that CSPs were sufficiently budgeted for their execution and absorption capacity, their ability to implement and deliver outputs remained contingent on commensurate annual budget allocations (ASLs) set at corporate level. Despite approved prodoc budgets and annual workplans and even with successful fundraising efforts at country-level, **disbursement/replenishment delays and ASL changes by UNCDF and UNDP had caused inefficiencies in planning and implementation, and the short (annual) budget cycles of Joint Programme (JP) partners did not ensure efficient financial planning or monitoring:**

- Where UN partners provided only short-term funding (within their annual budget cycles), it resulted in TA grants to SSOs and FSPs which did not meet their needs for longer-term support, and were not efficient for attaining and measuring impact (Liberia);
- Where ASLs were reduced, often at short notice, planned activities were postponed or cancelled, often at the expense of UNCDF's/the CSP's credibility and standing with stakeholders (Liberia had to cancel the popular internship programme with Cuttington University in 2011, and Nepal cut back almost all its meso- and macro level support due to lack of funding);
- The lack of (efficient use of) imprest accounts caused cash flow problems for several CSPs. To avoid participants in a training workshop for auditors having to submit individual vendor profiles for vetting by UNDP, the CTA in Liberia pre-financed a workshop, and was reimbursed only 6 months later; and in Timor-Leste the protracted procurement and payment processing delayed a time-sensitive TA contract;
- In Senegal, a consultancy on prudential ratios for FSPs and a Client Protection workshop were pre-financed by the national association due to delays in disbursements from UNCDF. Commendably, the CSP conducted a workshop with partners to evaluate the cooperation which resulted in some improvements in procedures.[89]

Grant budgets made up 47.6% of total budgets on average (54.3% excluding the newly established or transition programmes in Lao PDR and Sierra Leone). On average, CSPs had spent (executed) 71.2% of these budgets (excluding Sierra Leone and Lao PDR), and six of the remaining 14 CSPs (43%) under review had spent more than 80% of their aggregate grant budgets. This did not indicate severe challenges of under-funding for the CSPs, but the **efficiency measure of 'budget execution' did not take into account the delays or changes in ASLs**, and therefore to an extent covered up significant budget sufficiency challenges in the CSPs.

GTIs, which due to effective fundraising and their central programme management were less constrained in allocations and budgeting, had higher grant proportions of their total budgets (81% for ML and 66% for YS), but similar grant execution levels of these budgets (73%).

3.3.1.3. Programme Unit Costs

UNCDF was not found to use any cost efficiency measures (input versus output) for programmes and should consider adopting the DCED good practice of tracking programme cost by major component (macro, meso, retail) for its CSPs and GTIs and compare these costs to output and outcomes achieved.[90]

The ATLAS programme finances reviewed by the PR team were broken down only by grants and 'other expenditures', which was assumed to include programme administration but likely also other programme related expenses (e.g. directly contracted TA or BDS services, equipment for partners, KM activities, etc.), so it was **not possible to establish an accurate 'overhead' (administration) cost by programme** based on the

[88] Total expenditure/budgets including all grant funding (only) from 2008-11 (or start of CSP of later) as extracted from ATLAS.
[89] Progress Report Dec 2011 for PALPS, Senegal.
[90] See Universal Standard no. 6 in DCED: Standard for Measuring Achievements in Private Sector Development, ver. V, January 2010.

documentation reviewed.[91] UNCDF estimated this cost to be 16% for 2011, and a quick review of prodoc budgets suggested that PMUs on average cost 7-20% of the total CSP budgets.[92] By comparison, the percentage of the non-core (fundraised) budget allocated to programme administration was 19.6% for MicroLead and 8.2% for YouthStart.

To address PR key question 10 (see above) the PR calculated a point-in-time 'investment cost' input per unit of core inclusive finance output: net new clients (higher of either borrowers or savers). **Each client reached as at June 2011 by the investee FSPs supported through all programmes had cost an average of USD 8.1 of UNCDF dollars and USD 20.2 of all programme grant funding** as illustrated in Table 12.

The 'investment unit cost' was USD 6.7 for UNCDF funding of CSPs, increasing to USD 11 when all grant funding was considered. **Five of 12 CSP s with available data (42%) had programme unit costs in line with this overall average or lower.** The GTIs with lower net new client outreach had a higher investment unit cost, but for the small portfolio of youth clients generated to date, YS appeared to be a more cost-efficient programme at USD 73 per youth client than MicroLead. If only disbursed grant amounts were taken into account, this average investment cost for YS decreased to USD 48 per net new client as at end 2011. **Four of the 10 YS investees (40%) were in line with or below these cost averages.**

The 'opportunity cost' of up front grant investments in FSPs that had not (yet) produced the expected output in terms of new clients was reflected in the higher investment unit cost of USD 103.5 per dollar spent by BMGF and UNCDF for the net new outreach reported by MicroLead FSPs. If outstanding loans were added, the investment unit cost increased to USD 127 per net new client served. By age group of FSPs (at time of investment), the **greenfields had contributed 77% of net new clients for 62% of funding, as the most investment cost-efficient ML FSP group**. With limited outreach as at June 2011, the young ML FSPs had received 22% of the overall investments but only contributed 6% of new clients and were thus the least cost-efficient at an investment cost of USD 476 per new client, which is likely to decrease once the newly included Ethiopian investees report growth since baseline. **As at June 2011, 5 of the 20 ML investees (25%) had a return on ML investment in line with this overall ML portfolio average or lower.**

The snapshot investment cost figure did not take into account the different stages of programme implementation during which outputs and expenditures and hence unit costs obviously vary. The investment unit cost was highest where relatively large investments had generated little outreach, either in small, high-cost markets (Timor Leste) or where programmes were new (Lao PDR) and established with higher (up front) cost structures such as TSPs to manage Funds (DRC), or in transition, hence unable to invest in increased outreach (Sierra Leone). Unit costs would be expected to decrease over time. It might be of interest for UNCDF to track the trend of this 'investment cost unit' for each programme over time, and generate lessons learned on drivers for programme cost efficiency.

[91] FIPA management clarified in January 2013 that for 2011, the total expenditure of USD 20.3 million broke down as 56% grant investments, 28% capacity building, 7% programme support costs and 9% other costs. The total expenditure for 2011 according to the ATLAS data availed to the PR team for 18 CSPs, ML, YS and PFIP was USD 16.2 million.

[92] The PR team attempted to calculate an actual average administrative cost per CSP as benchmark for more conventional cost-efficiency calculations, but this was not possible from the data provided. However, FIPA estimated this average administrative cost/overhead to be 16% for 2011 (programme support and other costs).

Table 12: Investment cost per unit of Outreach as at end June 2011

CSP	*Launch date*	*Total expend-iture for CSP (core, non-core)[1] USD*	*Expenditure of UNCDF core funds[1] USD*	*Net new clients reported Jun-11*	*Investment "unit cost" of outreach achieved, USD*	
					Total CSP funding (core, non-core)	*Total UNCDF Core funding*
Lao PDR	Jul-10	332,829.50	314,643.70	0 outside ML	n/a	n/a
Nepal	Apr-10	877,107.10	877,107.10	178,899	4.9	4.9
Timor-Leste	Nov-08	2,430,178.70	718,253.10	5,496	442.2	130.7
Asia		**3,640,115.30**	**1,910,003.90**	**184,395**	**19.7**	**10.4**
DRC	Nov-10	1,560,642.10	760,637.70	6,287	248.2	121.0
Madagascar	Dec-10	443,248.50	443,248.50	106,059	4.2	4.2
Malawi	Apr-07	1,507,278.60	1,507,278.60	297,154	5.1	5.1
Mozambique	Aug-07	1,619,610.20	1,052,233.10	47,279	34.3	22.3
Rwanda	Aug-10	966,430.50	966,430.50	21,381	45.2	45.2
South Sudan	Dec-10	329,523.00	329,523.00	0 reported	n/a	n/a
E/S Africa		**6,426,732.90**	**5,059,351.40**	**478,160**	**13.4**	**10.6**
Burkina Faso	Sep-07	928,177.50	928,177.50	393,371	2.4	2.4
Liberia	Mar-10	898,073.60	898,073.60	22,500	39.9	39.9
Senegal	Jul-08	4,328,420.70	973,126.00	158,127	27.4	6.2
Sierra Leone	Aug-10	118,686.00	118,686.00	1,962	60.5	60.5
Togo	Jul-09	479,514.40	479,514.40	302,055	1.6	1.6
West Africa		**6,752,872.20**	**3,397,577.50**	**878,015**	**7.7**	**3.9**
Total CSP		**16,819,720.40**	**10,366,932.80**	**1,540,570**	**10.9**	**6.7**
GTIs for comparison:						
MicroLead[2]	Nov-08	15,711,719.60	3,671,310.60	151,843	103.5	24.2
YouthStart[3]	Jun-10	2,400,459.80	4,710.00	32,942	72.9	0.1
Overall total		**34,931,899.80**	**14,042,953.40**	**1,725,355[4]**	**20.2**	**8.1**

[1]Data compiled from prints of ATLAS Project Budget Breakdowns (PBB) as at end 2011 (ATLAS cannot generate financial data as at a specific date)
[2] Start date listed as date of first PBAs signed. MicroLead itself reported a total of 151,325 net new clients reached by its FSPs as at June 30, 2011, see BMGF interim report 2011, Appendix B, Objectives and Outcomes, Objective 1 target, Progress.
[3]The strong FSPs selected by YS reported to have added 855,719 new clients to their portfolio since baseline, but this is not attributable to YS. YS itself reported 368,927 net new clients reached by its FSPs by Dec 11 since baseline of Dec 10, of which 32,942 were youth clients, a more appropriate figure to include in this table.
[4] Includes a total of 4,987 duplicate clients from TRM, funded by two programmes (CSP and ML).

3.3.1.4. Cost Effectiveness of Investments

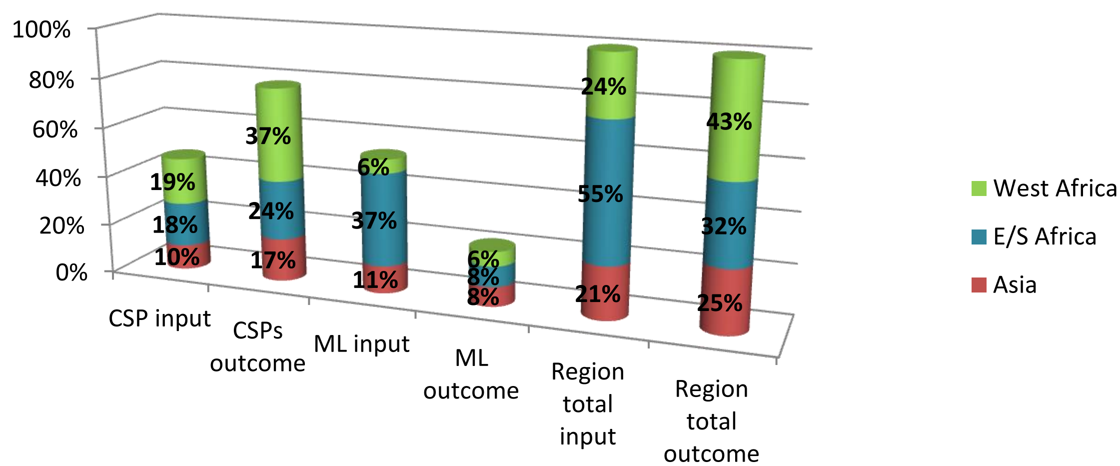
For retail investments, UNCDF had introduced the indicator 'cost to acquire a client' in a template to be used by PMUs when presenting investments for approval to Investment Committees (for both GTIs and CSPs) but the measure did not appear to be used consistently across the portfolio and the available data did not permit aggregate analysis of this indicative cost efficiency measure.[93]

[93] The PR reviewed 29 minutes of IC meetings for GTI and CSP investments dated 2004-2011. This measure of cost efficiency was used by both ML and YS when recommending investments for their IC approval, by the recent CSP BIFSIR in Rwanda, and in the original prodoc for BIFSS in South Sudan. It was not recorded in IC minutes or other reporting from other CSPs except for Madagascar, which used the slightly different indicator of expected increase in value of deposits and loan portfolio/total investment cost (outreach leverage).

As an important monitoring indicator, UNCDF tracked the achievement of outcomes by funded FSPs (notably net new clients) as *outreach leverage* against investment costs (see Section 3.4.1.3). The global proportional results of outreach leverage did not appear to be related back to the initial estimates provided at the time of investment approval. A systematic compilation and analysis of trend lines over time for both estimated and actual cost/client measures across the UNCDF portfolio might generate further insights into driver of efficiency.

In the absence of more refined benchmarks for cost-efficiency of grant funding to FSPs, Figure 10 provides a tentative indication of the relative net contribution of the CSPs and the oldest current GTI MicroLead by region to a broader range of intended development results against the relative 'cost' of the funds invested as at 2011.[94] By region, the largest 'net contributor' of outcomes was West Africa, delivering 43% of the outcomes produced for an input of 24% of all funding expended. East/Southern was the 'least efficient' region in this optic, having delivered only 32% of total outcomes for 55% of all the funds spent.

Figure 10: Comparative % input (funds) vs outcome contribution by region and programmes



For a roughly equal share of all funding input (46% for CSPs and 54% for ML), the CSPs had delivered 78% of the total outcomes, against MicroLead's 22%. While MicroLead was very highly leveraged by non-core funds, it had not yet shown the same level of efficiency as the CSPs, due to its selection of higher-risk and younger FSPs. While ML's West African portfolio with its 5.5% of total inputs delivered on expansion of credit (new borrowers and among them women in particular), it did not at all contribute to MicroLead's core value proposition of increased savings mobilization. ML's East/Southern African portfolio had received the lion's share of input (37% of all funding) but only delivered 8% of the output as at 2011.

While "the nature of UNCDF's IF sector development programs, with a long term technical presence in the field and a wider agenda of interventions (at the macro, meso and micro levels) are not geared nor expected to generate as much leverage[95]" as GTIs, they appeared overall to have delivered results more efficiently, in part due to selection of lower-risk (large, established) FSPs. Like the investment unit cost, this illustrative 'cost benefit' measure was calculated at one point in time not taking into consideration the age of each investment. Trend analyses of these (or similar) indicators could, however, add an efficiency aspect of

[94] Outcomes taken into account in Figure 10 are net new number of branches, savers, borrowers and jobs (staff); value of additional deposits mobilized and loans outstanding (portfolio value); and average net change in OSS by country as a measure of increased sustainability. Percentage wise contributions on all these outcomes were compared to the total funding invested at end 2011 by all sources through FIPA.

[95] FIPA Business Plan 2010-13.

UNCDF's strategic decision making process of how to balance risks and results within the investment portfolio to get maximum "bang for its bucks".

3.3.2 Institutional and Implementation Arrangements

Key Question 11: To which extent are institutional and implementation arrangements sufficient to generate expected outputs and outcomes?	**Good (score: 3.0 of 5)**
Elements/indicators	
3.2.1. Programme governance arrangements supported efficient management	Acceptable
3.2.2. Capacity in programmes were commensurate with responsibilities	Acceptable
3.2.3. Counterparts' and programmes' perception of targets and UNCDF management	Good
3.2.4. Knowledge management target setting and performance was efficient	Poor
3.2.5. UNCDF database accurately reflected performance by programmes	Good (see also 3.5.2)

3.3.2.1. Programme Governance

All CSPs were governed by a Steering Committee (SC, named differently in different countries) typically comprising representatives of all funders, the government partner and related ministries, and in some cases also representatives of industry associations. Only in Liberia was a governing committee not yet established. S**Cs appeared to work more efficiently in countries where they linked into a wider sector coordination network** to which government and other funders were committed, e.g. the National Committee for Microfinance in Togo, the Inclusive Finance Donor Reference Group in Mozambique, and the National Coordination Committee (CNC) in Senegal). The prodoc for MITAF II in Sierra Leone included the most direct attention to governance principles of all reviewed, and the prodoc for PALPS in Senegal specifically addressed the training of members of the CNC.

As CTAs did not have a UNCDF 'resident representative' to go to for support, the ROs and regional programmes had in several cases played an important role as 'empowered UNCDF superiors' (e.g. the DPM for PFIP for Timor Leste, the West Africa RO for Liberia, and the Asia RO for Lao PDR). The support from the South/East African RO was reported as more varied in quality and responsiveness. UNDP in Rwanda thus specifically lamented the lack of a UNCDF country representative. As one representative of a co-funder said:

> *"It is a problem that UN (CDF/DP) does not appear to have the flexibility in systems or the skills to partner effectively. Until recently, UN had too many people involved in decision making and too much staff turnover. None had the time to really understand the issues, so decisions were ad hoc and changed frequently — and quality was not always the best. It [is] a particular problem that decision making power has been with the RO which has little time for the individual investments. [This is] very difficult, both for co-funders and for UN staff on the ground, who have no say. It has led to delays, and too many changes in policies/strategies. In fact, we considered escalating the matter as UN was becoming an unreliable partner. It would be better with an empowered local rep who understands financial sector development".*[96]

The GTIs were managed as central 'project (challenge) funds' in a Direct Implementation Modality (DIM) within UNCDF. The global mandate of the GTIs, their focus on 'new frontiers' where UNCDF did not necessarily have in-house experience, and the weak linkages to national level stakeholders, however, placed extensive demands on the PMs for selection, appraisal and negotiation of targets with applicants and monitoring of performance. Without a governance body, the accountability structure to funders alone might have led MicroLead to succumb to internal or donor-driven disbursement pressures during the rolling application process following the initial weak response to its RFA. To guide PMs during design and start-up and to balance out any disbursement pressures, a **GTI advisory/supervisory committee could be established including UNCDF-external stakeholders** with expertise in the relevant product development areas.

[96] Source withheld for confidentiality reasons. Transcript available with the PR team.

3.3.2.2. Capacity in Programmes

UNCDF's decentralization in the mid-2000's resulted in a higher percentage of field-based technical staff than most other funding agencies.[97] UNCDF had a **well-developed and well documented system for supervision, monitoring and reporting on investments and programmes**. But **in some regions and countries, the resources allocated to ensure efficient oversight of investments were limited**.

GTI investments were monitored by the Programme Managers, but according to UNCDF policy, the RTM/As *responsible for the country* of GTI investment were required to monitor investments "with global oversight" from (in this case) MicroLead. This policy might explain the poor monitoring of the CSP and limited support to the MicroLead investments in South Sudan (inherited from older UNCDF operations), as the formal transfer of country responsibility for South Sudan from the RO in Cairo (South Sudan was listed in UNCDF's 2010 portfolio as an Arab State[98]) via head office to the RO in Johannesburg was not yet completed as at end 2012. Compounded by funding limitations, this had, in the opinion of national stakeholders, resulted in this **one CSP effectively having been abandoned**. It had had no on-site management support since February 2011, despite a clear UNCDF commitment in the prodoc signed with government to provide long-term technical assistance.[99]

In several countries, complex UN-internal programme management structures (Joint Programmes, JPs) appeared to have been constructed without prior agreement on the basic operating principles of good practice-based UNCDF CSPs. Differing interests, target groups and priorities of co-funding UN programmes had impacted the selection, due diligence and subsequent management of investments, and not always for the better (e.g. Liberia and to some extent DRC, where a parallel community-based microfinance programme funded by UNDP remained in operation). In Liberia, the JP partner UNWomen would like to continue a direct funding relationship with UNCDF, but doubted its feasibility due to the "embeddedness of UNCDF in UNDP procedures".[100]

Where a CSP SC was not in place or not functioning as intended (e.g. Liberia, Togo), the causes appeared two-fold: CSPs (CTAs) had not 1) had the capacity to efficiently manage national political sensitivities and power structures; and 2) did not feel empowered to address the issues arising.

- *The capacity gap* reflected a generally lower level of skills and experience among CTAs in policy-level interventions, where strategic analyses of stakeholder interests, moderation and arbitration skills, and creative conflict resolution skills are often key. **The functions of 'investment manager' as opposed to the more traditional role as 'project administrator'** also **appeared unfamiliar to many PMUs**.
- *The empowerment gap* arose from the often difficult position of CTAs embedded in government structures (and to a lesser extent in UNDP). CTAs were asked to ensure transfer of knowledge on good practice inclusive finance to government and/or UNDP counterparts; cement good working relations, which often meant delivering quickly on all macro-level grant support foreseen in the prodoc; promote macro-level change by developing national champions; and motivate staff to meet the day-to-day work plan objectives without direct referral authority (most national staff reported to the CTA on technical matters, but administratively to UNDP or a government office) and without any financial authority.

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[97] In 2010, UNCDF's Inclusive Finance Practice Area had a total of 34 staff: 6 at HQ, 11 in the 3 regional offices and 17 at country level. FIPA Business Plan op.cit.

[98] UNCDF Annual report 2010, p. 22.

[99] The BIFSS PRODOC states that "this programme will make available both additional SSMDF staffing […] starting in 2010; funding for resident international Technical Assistance within SSMDF beyond the current [TSP] contract; and short-term international consultancies in the areas for specialized expertise". While national stakeholders were disappointed that these obligations had not been honoured as at November 2011, FIPA management had decided not to transfer funds because SSMDF had dismissed the international TSP without replacement and had not met the FIPA PBA targets.

[100] Interview with UNWomen Liberia, December 2011.

Upon IC approval, the authority to sign PBAs was re-centralized to UNCDF. The deputy director at HQ and the regional UNCDF managers (RTMs) had a financial approval authority of up to USD 30,000 only, which would not be relevant for the vast majority of investments made by CSPs.[101]

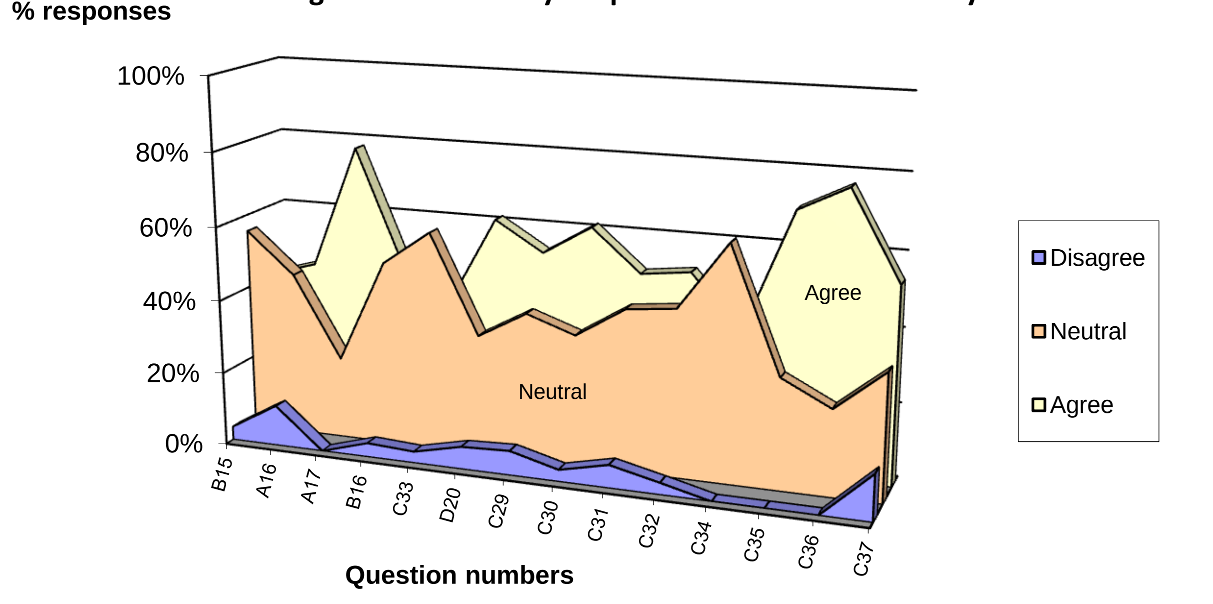
While financial safeguarding is obviously important, and the PR team did not find many long delays in the PBA execution (signature) process, the financial authorization levels nevertheless seemed unnecessarily stringent. The **limited integration achieved between Direct and National Execution processes (DEX and NEX)** were reflected in several PMUs still being required to maintain separate financial accountabilities, reporting formats and/or separate sections of joint reports broken down by budget line funded by individual funders (including UNDP), unnecessarily increasing the high administrative burden on leanly staffed PMUs.[102]

3.3.2.3. Counterpart Perceptions

The PR survey 'ranked' UNCDF efficiency issues almost at par with effectiveness. On average 61% of all respondents fully agreed, 34% were neutral and 5% disagreed with the survey statements exploring efficiency questions (see Figure 11).

A majority (53%) agreed that "UNCDF's implementation arrangements are appropriate for the programmes" (C29) and 7% disagreed with this statement. Roughly one third (38%) of national external stakeholders fully agreed that "UNCDF deploys its management resources in a timely fashion" (C33), and 34% could fully agree that "UNCDF ensures efficient handing-over when changing management resources" (C34). However, 52% agreed that the quality of the staff eventually deployed was high (C32).

Figure 11: PR Survey Responses on Overall Efficiency



From the perspective of the IF co-funders, 41% fully agreed that "UNCDF management has maximized the value for the funds invested by us/other funders" (B15). Less than half (**44%) of UNCDF internal stakeholders agreed that "UNCDF institutional arrangements and resources are sufficient to achieve outputs and outcomes in a timely manner", and 11% disagreed with this statement** (A16). Investees, however, did not seem to be negatively affected: 61% agreed that "UNCDF management (approvals, disbursements, monitoring, follow-up) of investments is efficient and timely" (D20).

[101] UNCDF: Inclusive Finance Programme Cycle Policies and Procedures. Further decentralization appeared to have been made to ROs, as several larger PBAs were signed by RTMs, but this was not found to be reflected in the policy.
[102] The Annual report Dec 2011 from PASNAM in Togo was a good, but by no means the only, example.

3.3.2.4. Knowledge Management

The corporate UNCDF focus on strong KM was not (yet) found by the PR team to be reflected in general availability to the public of basic documentation of UNCDF programming and lessons learned. The FIPA Business Plan for 2010-13 emphasized knowledge management and dissemination as a core objective and an indicator with two targets was included in the UNCDF CMP. The lack of effective operationalization of the KM objectives were confirmed at RO level, where staff acknowledged having received publishing guidelines, but as KM was not defined as work plan activities, time spent on KM would not easily be justified despite the fact that KM was a specific objective of the ongoing BIFSA II programme, which funded the ROs. Very few CSPs had knowledge management activities included in work plans, and no topical publications generated at the CTA level were identified by the PR team. Apart from the data processing for FIPA's part of UNCDF's Annual Reports, very little aggregate portfolio analysis appeared to take place as input for learning and strategic programming (see also Section 3.5.2.2).

The views of internal and external stakeholders varied significantly with regard to UNCDF management and reporting systems: 78% of internal stakeholders agreed that "UNCDF management and reporting systems are transparent, comprehensive and timely" (A17 in Figure 11), but a much smaller 46% of IF co-funders agreed to this statement (B16). 53% of national external stakeholders agreed that "UNCDF shares regular programme progress reports with my organization" with 13% disagreeing (C37).

Most programme documents were availed on the UNCDF website, but in many cases (5 of 16 prodocs reviewed), the publicized documents were unsigned and/or undated, hence not necessarily the final versions. Programme evaluations were publicly available but **very little information during and about implementation was publicized**. Several CSPs did publish informative annual reports, including Nepal, Timor Leste, Lao PDR and Mozambique. Innovatively, UNDP Madagascar had posted the Annual Review of the CSP PAFIM on Facebook and Twitter.

As part of defined meso-level activities, most CSPs included support to information sharing and in a few cases also publication of information by partner organizations. Examples included funding for a news bulletin for APIM in Togo, a sector resource center with MAMN in Malawi, and a newsletter with performance data in Sierra Leone. The PR team was unable to verify if the planned outputs had been achieved, as results were not uploaded, e.g. on the UNCDF country websites. While flag waving by donors in general should be discouraged, it was **not evident that UNCDF fully exploited its comparative advantage of technical field presence by ensuring effective and generous information sharing** across its own network of staff, or more broadly by contributing to new learning and information sharing in the global microfinance industry. In general, progress reports on implementation were of better quality where CSPs had co-funders or strong government ties, indicating that partners might place more value on public information management than UNCDF. The largest number of respondents providing comments to the UNCDF SWOT in the PR survey (albeit only 12%) listed issues pertaining to limited communication and visibility, and working in isolation from key stakeholders as a key weakness (see Annex 3, Table 3.3).

Commendably, **YouthStart had** used the UN TeamWorks technology to share information among partners but also to post performance data to encourage friendly competition as one of many KM activities accomplished by YS as per a clear KM output defined in the prodoc. Its **excellent design and achievements to date in reporting and publication of experiences[103] stood in marked contrast to the dearth of lessons learned published by MicroLead**, despite its three years of implementation, and its specific objective to generate new information. The KM objective was also not found to be reflected in ML PBAs with TSPs/FSPs, which would otherwise be an appropriate additional activity for funded greenfields and TSPs, the results of which MicroLead could help disseminate.

[103] E.g. UNCDF and MasterCard Foundation: Listening to Youth, Market Research to Design Financial and Non-Financial Services for Youth in Sub-Saharan Africa, 2011.

3.3.2.5. Accuracy of Results Monitoring

National stakeholders overwhelmingly agreed that "UNCDF monitors and evaluates its programmes regularly and efficiently" (C35 in Figure 11, 70%) and that "UNCDF requires appropriate reporting from its projects" (C36, 77%), confirming UNCDF's strong M&E systems.

The introduction of the results-based M&E system across UNCDF in 2010 had had a profound impact on programme management efficiency as evidenced by the concerted focus on corporate targets set, which emphasized the importance of ensuring that the targets measure what UNCDF wants to achieve. The historic retail-level focus of UNCDF reflected in stronger FSP results monitoring than at meso- and macro level. FSP grant investments were in general actively monitored, and CTAs/PMs appeared diligently to require FSPs to report to the MIX Market, and compile annual audited financial statements from most investees.

FIOL could generate overall summaries of FSP performance by country, but not easily aggregate performance data across parts or the entire portfolio. ATLAS could not generate funding data in an aggregate form relevant for portfolio analysis. The PR team was informed that the ongoing migration process of the FIOL database to the MIX Market included a data cleaning exercise, which would appear to be called for. Comparing reported performance, funding and profile data compiled from CTAs, RTAs and PMs to reported data as at the same date in FIOL and in MIX market reports, **there were significant data differences for 2010, but less so for June 2011** (see Table 13). However, as at June 2011 for the FSPs reviewed, a difference of USD 239.7 million in total deposits mobilized could not be reconciled between the reports from FSPs and FIOL.

Table 13: Aggregate Differences in data between sources reviewed – selected indicators

Data for 37 FSPs as at Dec 2010	*1. PR datasheets*	*2. FIOL*	*3. MIX*	*Diff b/w 1 & 2*	*Diff b/w 2 & 3*
Total Borrowers	963,331	890,716	899,479	72,615	8,763
Total Gross Loan Portfolio (USD)	721,124,748	660,690,444	642,313,998	60,434,304	18,376,446
Average PAR (30 Days)	10%	9%	6%	1%	3%
OSS (%)	91%	102%	88%	11%	14%
Caseload	257	-	265		

3.3.3 Incentive Systems - the Performance-Based Agreements (PBA)

Key Question 12: To which extent has UNCDF's incentive systems been efficient in attaining programme output and outcomes?	**Good (score: 3.2 of 5)**
Elements/indicators	
3.3.1. PBA targets for objectives and outcomes were clear and easy to monitor/evaluate	Acceptable
How well has the UNCDF PBA system incentivized FSP performance?	Acceptable
PBA conditions have contributed to programme management efficiency	Good
3.3.2. PBA targets and indicators were perceived as appropriate, relevant and trackable	Good

3.3.3.1. Quality and Efficiency of PBA Targets and Tools

The standardized Performance-based Agreements **(PBAs) introduced in 2010 was an improvement** on earlier systems and had facilitated the process of monitoring progress and taking action in cases of under-performance. The standardized PBA template for *grant agreements* (as opposed to loan agreements) was found to be used almost throughout the portfolio (only a few old grants were found to not having been amended to the PBA standard).

The operational guide for the PBAs provided clear explanations on how to set targets and disbursement conditions (milestones), and specified who was responsible for monitoring and for enforcement in cases of non-compliance. Enforcement included waivers for cases where disbursement was justified in spite of missed performance targets, suspension of grants, and termination. The policy on enforcement was sufficiently flexible not to undercut the ability of an FSP to implement solutions to their challenges, and could include TA. The relevant option of calling in TA for FSP partners facing challenges could be an element of significant UNCDF value added to FSPs, but it was not found to be extensively used by CSPs. It would appear that the very rigid funding cycle (ASL) exacerbated by long delays in budget disbursements and lack of imprest accounts at PMUs precluded the option for CSPs to contract short-term TA to help 'trouble-shoot' challenged FSPs.

The split between 'key indicators' (indicators that should be met at end of project) and 'disbursement milestones' (required performance for release of funding) in the PBAs was not found to be optimal. UNCDF had deliberately and appropriately kept the number of PBA 'key indicators' to a minimum (typically PaR30, OSS and outreach measures).

- Key indicator targets were outreach-biased, with almost all PBAs reviewed having set portfolio growth targets, but targets to ensure the quality and sustainability of the growth (PAR, FSS or RoA) were less frequently set, reported by CTAs, and enforced, and targets for systems change (productivity, efficiency[104]) were very rarely included (see Section 3.2). In recent ML PBAs, target setting had improved to ensure more focus on savings and outreach to low income clients, but with UNCDF's preferred use of the grant instrument and its portfolio of many well established FSPs, the high and increasing OER levels found in the portfolio suggested a possible link between grant funding and loss of efficiency, which it may be of interest to UNCDF to monitor more closely;
- Conversely, the PBA milestones typically reflected qualitative activities to generate operational changes in the FSP rather than quantitative progress measures of e.g. efficiency and productivity. Similarly, quantitative measures of progress on expected results from these processes, like increased outreach to low-income clients, and progress on PaR30 or sustainability were rarely incorporated as requirements for disbursements;
- An FSP could therefore be under-performing on a key indicator (e.g. PaR30, which was a significant problem in West Africa), but still meet the defined disbursement milestones. Some grantees had received disbursement tranches, even if their performance on key indicators might have warranted temporary suspension, or at least the contractual notification (threat) thereof. Examples included LEAP, Liberia (46% PAR); TIMPAC, Togo (79% PAR); and PROGRESSO Mozambique (246% OER/assets) where the sustainability of the FSP was at risk due to poor performance.

The standard reporting format had not been adapted to include relevant indicators to measure new product development. The quantitative FSP performance reporting template introduced in 2010 as the foundation for UNCDF's monitoring system has been standardized across the portfolio of programmes to include a series of relevant indicators. This is an advantage for comparative analysis of portfolio performance, but it is a detriment to grants which specifically seek to 'push the frontiers' by supporting the implementation of new products, services or delivery mechanisms, e.g. electronic/agent banking, non-financial services (e.g. savings campaigns or CEE+), or social performance.

- The PBA template was amended with a clause to encourage endorsement of the Client Protection Principles, which has been used for grants signed in 2011, but no indicators were found to have been included in the reporting template;
- The PBAs signed by PFIP had been adjusted to the mobile money activities supported, and these might serve as the basis on which a new template could be developed.

PBAs for meso- and macro-level activities had not been sufficiently adjusted from the standard template designed for FSPs, and where done (e.g. in Rwanda) they were apparently approved only at great expense of effort. In countries without CSPs, GTI investments in meso-level associations such as AEMFI in Ethiopia could have substantial sector development impacts, but these would not easily be captured by the standard reporting format. As macro-level counterparts were typically represented in CSP SCs or ICs, the conflicts of interest inherent to negotiation and approval of grants to them would require stronger and more objectively verifiable PBAs, especially where PMUs were located in government offices and often considered as 'staff'. In

[104] FIPA used an OER formula dividing operational expenses by average gross loan portfolio (GLP). This can disfavour smaller FSPs/FSPs that provide smaller loans, and FSPs that primarily offer savings or other services, that may compare unfavourably to others, even though they might be serving their target markets efficiently. Average total assets would be a more appropriate denominator for financial intermediaries.

many CSPs, such grants appeared to have been approved based on the prodoc by UNCDF ROs or HQ, and hence did not always adhere to the PBA standard with measurable targets and disbursement conditions.

The quarterly reporting template included a section for 'targets', which did not in all cases reflect the targets set in the PBA. Around a fourth of the FSP datasheets compiled by the PR had no; very few (1-2); or what must be erroneous targets (lower than baseline), implying that CTAs/RTAs did not have ready access to the PBA targets established for a given FSP. While annual targets must of course be adjustable, this should not be unilaterally accomplished by a reporting FSP, and **the reporting template would benefit from being linked more closely to the actual targets agreed to in the PBAs.**

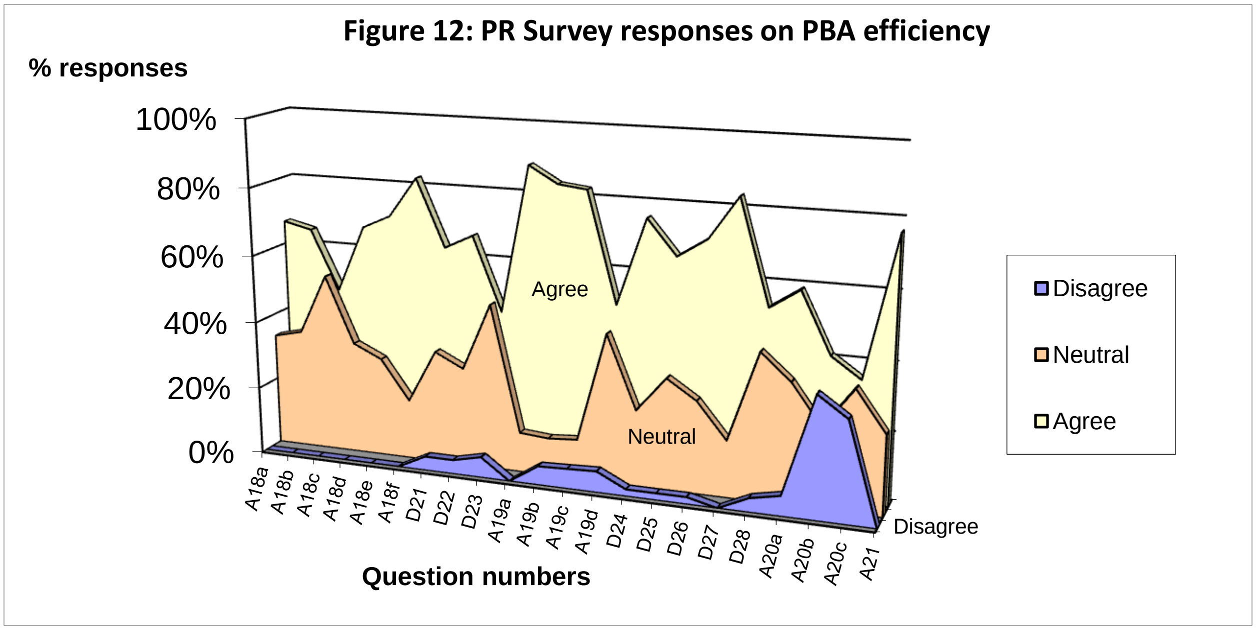
In only a very few of the PBAs reviewed by the PR team was a narrative template included to enable the FSP to respond more fully to the requirement of quarterly reporting. **The narrative format appeared to have been lost with the standardization of the reporting format in 2009-10** (older PBAs tended to include a narrative format, especially in West Africa, e.g. SEN/IUMCEC 02/08, versus SEN/IUMCEC 02/10, which had none). Most CSPs received only quantitative reporting – and relatively often late - which did not always tell the full story. The GTIs also used the standard template for FSP investments. However, the YouthStart PBAs included a clear narrative reporting format (designed by MCF). Whereas impact assessments as included in this template may be too much to ask for on a quarterly basis, the template could serve as the foundation for the development of a UNCDF narrative reporting template for FSPs.

3.3.3.2. Counterpart Perceptions of PBAs

The introduction of **PBAs had impacted positively on investee performance** (especially where targeted to outreach into under-served areas), but the extent to which the PBAs incentivized better performance was also influenced by the importance attached by grantees to UNCDF's funding. Especially for larger FSPs, the PBA was perceived as a guideline for reporting rather than a requirement for performance. In the seven countries visited by the PR team, no major complaints about the PBAs were raised, and overall stakeholders perceived UNCDF as a patient, easy-going and understanding funder, who would listen to explanations on under-performance, and would not rush PBA enforcement.

Three quarters (76%) of investees confirmed that "PBA indicators and targets are appropriate, relevant and trackable" (see Figure 12, D24), and a large majority (82-88%) of UNCDF staff concurred that this was the case for both partners and staff, and for grants (A19a,b,c). 71% of investees agreed that "the UNCDF PBA conditions have contributed to improved efficiency of programme management" (D26). **Two-thirds (65%) of investees also agreed that "the UNCDF PBA system has incentivized us to perform better"** (D25). Qualifying this, 59% of UNCDF-internal respondents agreed that "the PBA instrument improves programme/project performance because it sanctions under-performance" (A20a), but 35% of staff disagreed that the PBA deters under-performance (A20b), and 29% confirmed that the PBA system did not work with positive sanctions to "reward over-performance" (A20c). As a consequence, 76% of staff agreed that "a PBA system with both sanctions and rewards (bonuses) would improve programme/project performance".

A majority of investees (53%) agreed that "we can document that programme/project unit costs (e.g. of TA) are in line with market-rates for similar input" (D28), but 43% were less sure, which might be an efficiency concern, and better documentation for cost-alignment to market pricing could be considered.



50% of UNCDF staff agreed that PBA targets were appropriate, relevant and trackable for loans (A19d). But **UNCDF's loan agreements were *not* performance-based**, and the weaknesses in the entire system for managing loans have been highlighted by several UN audits and by CGAPs SmartAid Index 2011. The loan portfolio was not integrated neither in FIOL nor in ATLAS. It was found unacceptable that UNCDF has not capitalized on this comparative advantage and developed a better system for deciding when debt finance may be more appropriate than grants; for negotiation and establishing clear terms for performance under the loans; and for reporting and monitoring of loans. Of the current outstanding loan portfolio (recorded at HO and availed to the PR team) of USD 5.74 million, USD 3 million or 53% was in arrears as at June 2011, representing 9 of the 19-23 loans provided. Without PBAs to enforce performance and secure repayment, UNCDF may have to write-off a large portion of this portfolio.

3.3.4 Conclusions on Programme Efficiency

Overall, the PR found UNCDF's programme **outputs to have been commensurate with the input of resources and time allocated to a good degree with a score of 3.1 of 5.** The approval and implementation processes of GTIs was generally efficient, but the many benefits of UNCDF's full integration into UNDP's administrative programming and implementation structure had been off-set in a majority of the CSPs by significant delays and operational bottlenecks which had high opportunity costs for UNCDF, as also reflected in stakeholders' perceptions. The UN efforts to develop a harmonized "Deliver as One" programme support structure remained a work in progress. As UNCDF relies upon the procurement and disbursement systems of UNDP, an inter-agency task force to review and improve the efficiency of this collaboration might be called for.

Forty percent of CSPs and YS investments and a quarter of ML investments had investment costs per unit of output (net new clients) in line with or lower (better) than the average for the global programme portfolios. Within UNCDF, funding shortfalls (for CSPs) remained a challenge. Better tracking over time of estimated and actual costs against results at retail (country) and programme (regional and global portfolio) levels could pinpoint drivers for programme cost effectiveness and areas of potential efficiency gains. In turn, this could help inform UNCDF's strategic decisions on the optimal portfolio composition to balance its objectives of taking risks and getting results.

UNCDF had a well-developed and well documented system for supervision, monitoring and reporting on investments and programmes. But in some regions and countries, the resources allocated to ensure efficient oversight of investments were limited, and capacity building in the areas of catalytic linkages, and analyses of comparative advantages and UNCDF value addition along with increased decentralization of financial authority might support and empower CTAs to better meet new market demands.

The introduction of PBAs had impacted positively on investee performance and was perceived positively among all stakeholders. The PBA system and measures (indicators) could nevertheless be fine-tuned to further incentivize performance. The good corporate intent for better knowledge management could also be further operationalized to incentivize partners and staff in both CSPs and GTIs to document contributions to UNCDF's objectives and general new knowledge in inclusive finance.

3.4. Impact of UNCDF Programmes

Main Question 4: What is the likely impact of UNCDF's Microfinance Investments?

As in most other development interventions, impact assessment in microfinance remains a challenge. Whereas standards and benchmarks have been developed for retail level investments, standards for measuring systemic changes through sector programmes have only more recently begun to emerge. UNCDF has the potential to contribute further to this learning agenda. Using UNCDF's existing results chain, the PR attempted to assess the likely positive and negative changes induced by UNCDF's programmes directly or indirectly, intended or unintended, focusing on the overall economic level (related to UNCDF's objective of promoting achievement of the MDGs) and the three levels of intervention. Two specific indicators were analyzed, related to UNCDF's mandate to also promote progress towards women's empowerment (MDG3) and environmental sustainability (MDG7), often presented as 'cross-cutting issues'. While external factors affecting impact were noted, the review focused on internal factors which UNCDF could more easily address.

3.4.1 Improved Access to Finance

Key Question 13: To what extent have the programmes contributed to improved access to financial services for low-income people?	**Good (score: 3.2 of 5)**
Elements/indicators	
4.1.1. UNCDF-funded FSPs have increased client outreach	Very good
4.1.2. Average savings balance/GNI per capita has decreased over period of funding as a proxy for reaching low-income clients	Acceptable
4.1.3. Leverage on outreach has increased	Very good
4.1.4. Clients expressed overall satisfaction with changes in FSP products/services	Good

Retail level impact has been at the heart of UNCDF's efforts to promote financial inclusion, as evidenced by its prominence in UNCDF's overall corporate mission to: "support efforts to achieve the MDGs in at least forty LDCs by *poor people's increasing access to microfinance* and basic services in ways that are sustainable and that can be taken to scale by the private sector, development partners and national governments". Strategic Objective 1 of the UNCDP CMP targets the strengthening of "the enabling environment and *capacities of FSPs* […] to provide *pro-poor products and services* that will leverage at least 10 times UNCDF's original core investments by 2015. Strategic Objective 3 emphasizes the development of *new products and services that support efforts to achieve the MDGs in the LDCs".*

UNCDF measured programme impact on access to finance by an '*outreach leverage*' measure for the ability of funded FSPs to generate development outcomes. For the period of 2010-2013, outreach leverage was measured by the net change in value of (aggregate) FSP a) loan and b) savings portfolio compared to c) UNCDF core funding and to d) all funding received through sector programmes (core, non-core and parallel). For 2013, a target of 20:1 was set for net change in aggregate value of FSP savings/total.[105] Leverage played an important role in UNCDF investment decisions, where the projected end-of-project 'outreach leverage'

[105] CMP Score Card 2010-2013, which should perhaps be revised to measure FSP growth in savings vs. UNCDF's core funding and the 2010 target of 5 to 1 be retained for this indicator.

was assessed, not unlike a more commercially oriented funder would assess the internal rate of return on an investment. Like for results (effectiveness), however, **the indicators used were not found particularly well suited or fully used to document programme impact at retail level**:

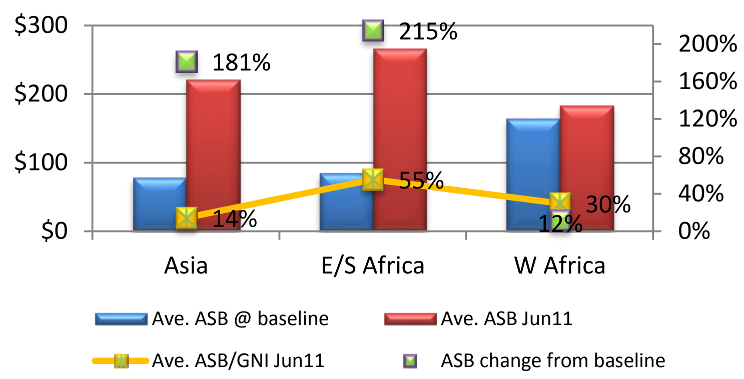
- UNCDF did not sufficiently document the estimated contribution of its interventions to the total observable change;[106]
- The leverage indicator did not consider the qualitative measure of poverty-focus in the objective, hence weakening the links in the UNCDF results chain from output to outcome to objective level;[107]
- The outreach leverage achieved did not appear to be systematically compared to the estimated leverage at time of investment approval, and the leverage estimates might not be calculated as systematically as expected. Better use of the data of expected and actual leverage could improve documentation of impact.

3.4.1.1. Increased Outreach

The outreach by the 93 FSPs reviewed as at June 30, 2011 constituted a net aggregate change of 1,789,299 depositors (38% increase over baseline) and 528,604 borrowers (an increase of 21%, see section 3.2.1.1). There was thus **no doubt that the funded FSPs had contributed to improved access to financial services**. This had likely contributed towards MDG1, if the assumption is accepted that access to microfinance help people find a way out of poverty.

3.4.1.2. Increased Depth of Outreach

Figure 13: Change in Avg. Savings Balance (ASB) and ASB/GNI as at 06/11 by Region



Impact at the objective level of financial depth (reaching poorer clients) was slightly less clear. **For savings services, UNCDF funded FSPs registered increases in average balances per savings account in all regions**, least so in West Africa (see Figure 13). The **average savings balance/GNI of 34% as at June 2011 was** nonetheless slightly below **the 37% average for all MFIs in UNCDF countries** that reported to the MIX in 2011 (excluding Bhutan, CAR, Ethiopia, and Liberia), also at regional level.

The **overall average loan balance/GNI for UNCDF FSPs** of 110.5% was 14% lower than the average for the MFI peer group (excluding Bhutan), **indicating a generally good outreach to poorer borrowers**. In West Africa in particular, FSPs had generated 47% of net new outreach to borrowers and the 75% increase since baseline in loan portfolio value had been accompanied by a decrease in average loan size/GNI per capita (see Figure 14), indicating increased outreach to poorer borrowers. In Asia, FSPs had added 36% of all new borrowers and grown the aggregate loan book by 25% with a modest increase of 14% in average loan balance (see also Annex 2).

In **East/Southern Africa the data suggested that a higher net-worth clientele was served.** In this region, where UNCDF had invested the majority of its funding (52%), the limited increase in borrowers (88,342 or 17% of all net new FSP borrowers) had increased the aggregate gross loan portfolio by 45% or USD 165 million. The average loan size per borrower had increased by 120% since baseline to a 156% average loan

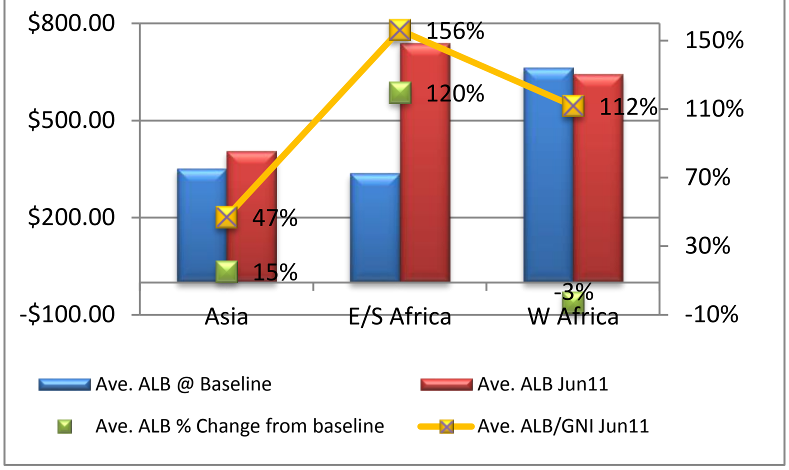
[106] Without clear estimates of the extent to which observable change is due to the programme interventions, attribution (total change less counterfactual change) cannot be established. See DCED: Attribution: Measuring attributable change caused by a Programme, August 2012.

[107] If changes at lower levels of the result chain (measured e.g. by change in productivity, efficiency, ave. loan/savings balances/GNI) did not occur, attribution of interventions cannot be made to any observable change at higher levels (e.g. increased access to finance by poor people). See DCED: Attribution, op.cit., p. 3.

size/GNI per capita against the regional average for the UNCDF peer group of 146% (including EBL in Rwanda and South Sudan).

The apparent focus on Small and Medium sized Enterprises (SMEs) rather than/as well as micro-clients would not be surprising given that the East/Southern African portfolio included 58% of the typically more commercially oriented MDIs (MF banks or similar) which often serve different segments (both poor and higher income groups) and 'cross subsidize' products in order for it to make business sense for them to serve the poor. Within this region, 18 (47%) of all FSPs funded were MDIs. SIPEM in Madagascar, NBS Bank in Malawi and MicroLead's Equity Bank greenfields in Rwanda (started only in November 2011) and South Sudan contributed most to the high regional loan balance/GNI per capita with average loan balances above USD 2,000.[108] SIPEM and the Equity Bank in South Sudan also increased the average savings balance/GNI per capita for the regional portfolio.

Figure 14: Change in Avg. Loan Balance (ALB) values and ALB/GNI as at 06/11 by Region



3.4.1.3. Outreach Leverage

Overall, **the outreach leverage as measured by UNCDF as at June 2011 was 17.2 to 1 for the loan portfolio** under review, slightly down from 18 to 1 in 2010[109] for UNCDF core funds. **The outreach leverage of deposits mobilized was 19 to 1, significantly up from the 2010 result** of 10.8 to 1[110] for UNCDF core funds.

The UNCDF FSPs reported to have received USD 133.3 million in total funding from or through the UNCDF programmes. Of this total, FSPs reported to have received a total of USD 30.9 million (23%) in current UNCDF grants (81%) and loans (disbursed and committed), while the UNCDF database ATLAS reported USD 32.7 million.[111] Against this input, the FSPs under review had delivered a net increase in aggregate loan portfolio outstanding of USD 531.5 million and a net increase in deposits mobilized of USD 587.2 million since baseline. On average, thus, the UNCDF FSPs had received (reported) UNCDF funding at a level of USD 332,505 (USD 270,463 in grant funding disbursed as at end 2011), against which they had achieved an average net increase in loan portfolio of USD 5.7 million (see Figure 15), and a net increase of deposits mobilized (by the 82 FSPs mobilizing savings) of USD 7.2 million since baseline (see Figure 16).

If all funding reported to have been received by the FSPs was taken into account, the outreach leverage decreased to 4 to 1 for loan portfolio outstanding, slightly up from 3 to 1 by end 2010; and 4.4 to 1 for deposits mobilized, almost doubling the 2010 result of 2.3 to 1, and closing in on the target of 5 to 1 for 2013 set in 2010, but falling well short of the 20 to 1 target, possibly erroneously set in UNCDF's CMP for 2013 (see footnote 105).

[108] Equity Bank South Sudan provided data as at May 2012, which indicated that their micro-loan portfolio had increased dramatically from 1% to 22% of the total loanbook since June 2011. During this period, however, the ALB for micro-loans had also doubled from USD 617 to USD 1,278. See Annex 2, Box 1.
[109] 2010 numbers included a large portfolio of customers reached by the mobile banking initiative under the PFIP programme of 362,749 new clients in a period of a few months, which were not included in the PR. UNCDF: Annual Report 2010, May 2011.
[110] UNCDF Annual report 2010, p. 23.
[111] ATLAS cannot provide data as at a given date within a year, so the PR team used total expenditure for 2011 from ATLAS and added the outstanding loan balance tracked by FIPA HQ to arrive at this comparative figure.

Figure 15: Return on Outreach: Net GLP Change vs. Current UNCDF Funding Received (Grants and Loans) (USD '000)

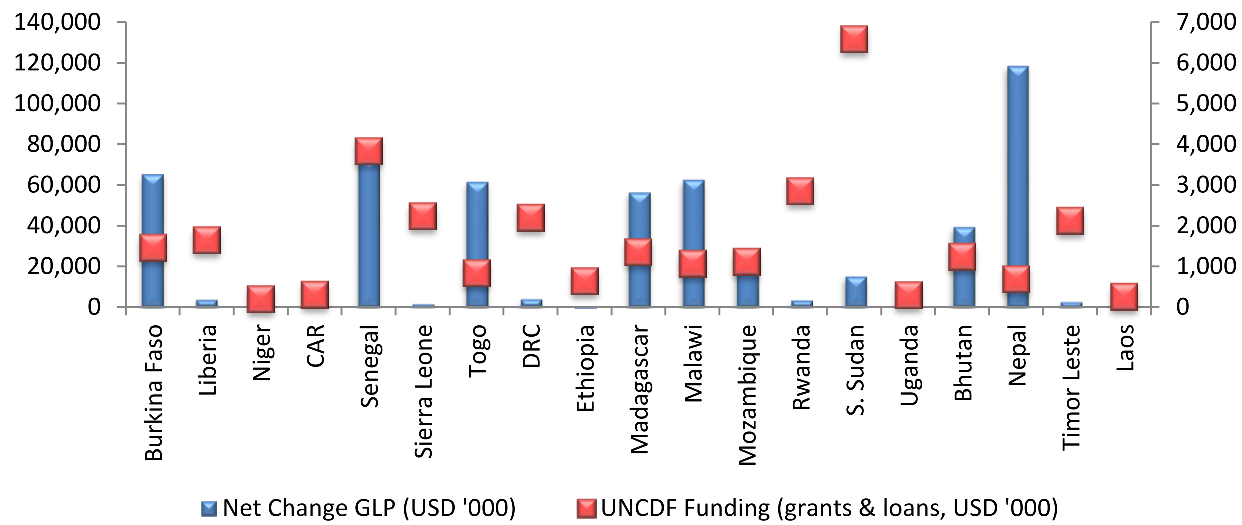
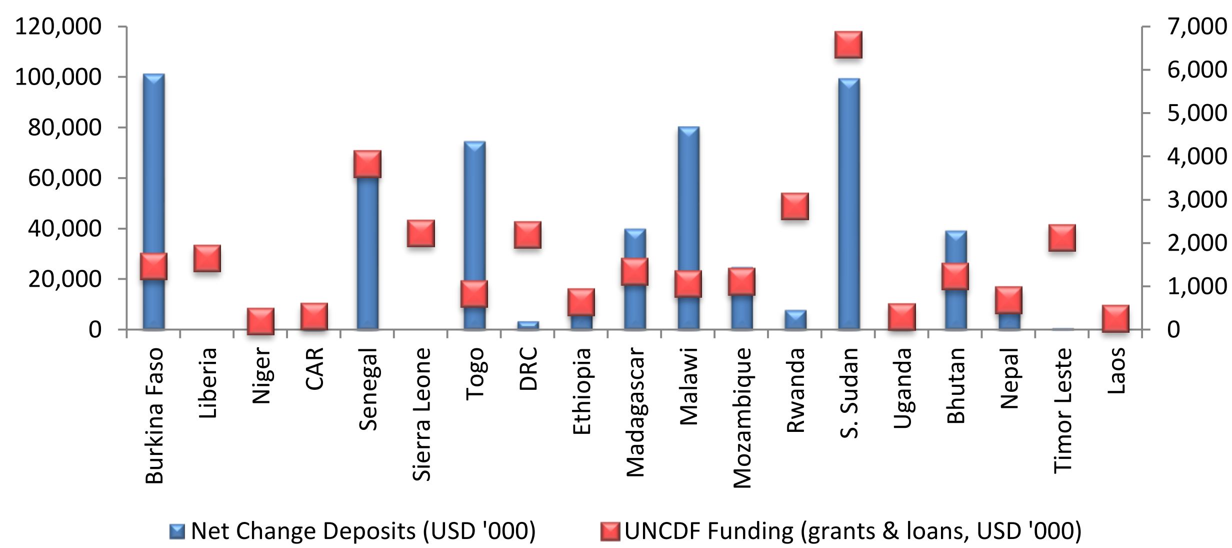


Figure 16: Return on Outreach: Net Change in Deposits vs. Current UNCDF Funding Received (Grants and Loans) (USD '000)



The leverage measure inferred but did not estimate direct contribution of UNCDF funding to the FSP outreach achieved (impact). It is easier to monitor change and thus to estimate attribution[112] for targeted programmes that specifically induce FSPs to enter into under-served areas such as Madagascar and Nepal, and/or to introduce new products (DRC and YouthStart). The causal chain from outreach to impact in these programmes was tighter, increasing the plausibility of attribution although the outreach results in absolute terms (and hence the leverage) of these interventions was much more modest.

However, the FSPs that had contributed most to the outreach leverage as measured were large, expansive institutions at the start of UNCDF funding, and had continued to expand with funding from UNCDF and for many of them, also from several other sources. For the largest FSPs, the funding amount provided by UNCDF

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[112] See DCED: Attribution: Measuring attributable change (2012), op.cit.

to their operations was insubstantial compared to their assets and portfolios, and hence the likelihood that these FSPs would have produced the same outreach results without UNCDF funding over the period since their baselines was found to be high. As measured, the indicators for UNCDF impact (and results) 'took credit' for all net change in outreach produced by the funded FSPs without establishing likely links between the outreach achieved and UNCDF's programme input.[113]

UNCDF's partnership strategy has been built into the structure of CSP ICs (and to a lesser degree of GTIs) which indirectly acknowledged the contributions of all IC funders to the results achieved by investees – but it did not acknowledge non-IC funders or other factors contributing to the observed change. In line with the DCED Standards for measuring programme achievements,[114] UNCDF could consider developing a system for better estimating attributable change in key indicators, based on:

- Clearer documentation of the intended value added of UNCDF's input in investment decisions and PBAs;
- A requirement for investees to disclose funding (amount and purpose) from all other sources at the time of investment (to be analysed during due diligence/selection) as well as annually;
- Annual IC reviews of contributions from all sources by investee compared to the outcomes achieved within the national/market context to estimate its contribution to total change.

3.4.1.4. Client Satisfaction

Table 14: Client drop-out rates reported as at 30 June 2011

By region (n=61)	*Average Drop-Out Rate*
Asia	8.9%
East/Southern Africa	14.3%
West Africa	6.5%
By Institutional type:	
MDIs/comm. Banks	7.4%
NGOs	13.2%
Member-owned FSPs	9.9%

In general, clients expressed satisfaction with their FSPs. A comprehensive review of client satisfaction was beyond the scope of the PR. Across the ten client focus group discussions held in five countries various issues were raised specific to the FSP, often portraying demand for and impatience with product development/new services (DRC, South Sudan) especially among more well-endowed clients, but also confirming a high level of loyalty (Liberia).

Assuming a link between continued use and relative satisfaction with/need for the services, the PR reviewed the ability of FSPs to retain clients. Only 61 FSPs (66%) were able to report on client drop-out rates, and in no PBA did the PR team find a target for this indicator which spans quality of services and client satisfaction (social performance). The CSP in Senegal had, however, started monitoring retention rates from 2011. Drop-out rates were highest among the seemingly less poor clientele in East/Southern Africa and among NGO FSPs (see Table 14). Among the FSPs that did report on client retention, drop-out rates were in most cases not high, indicating that FSPs which tracked client retention might also be more focused on client satisfaction in general.

3.4.2 Sustainable Growth in Target Markets

Key Question 14: Extent to which UNCDF funding has helped FSPs achieve sustainable growth in underserved markets/market segments?	**Acceptable (score: 2.9 of 5)**
Elements/indicators	
4.2.1. UNCDF-funded FSPs were concentrated in underserved markets/segments	Acceptable
Investments opened new market segments/resulted in innovation	Acceptable
4.2.2. FSP growth was accompanied by asset quality to ensure sustainability	Poor
UNCDF-funded FSPs had improved OSS over period of funding to <100%	Good

[113] Good practice guidelines on impact measurements state that "programmes may not deserve exclusive credit for producing changes without reporting other contributors to change and outlining the total financial value of each contributor", see DCED: Attribution, op.cit., p. 2.

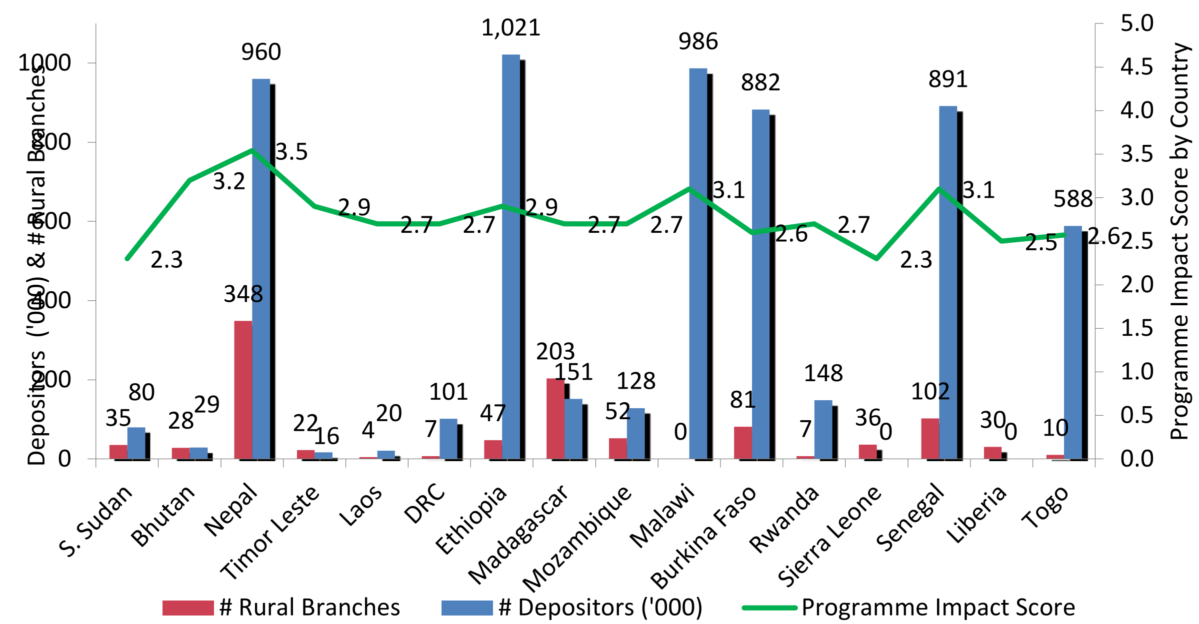
[114] See the Universal Standard 4: "Attributable Change is Estimated.", DCED (2010), op.cit.

3.4.2.1. Concentration in Underserved Markets

UNCDF's risk-balanced country portfolio included many countries with high access gap for savings services (see 3.1.1.2), indicative of **under-served markets/market segments**. Outreach to rural clients as a proxy for reaching underserved segments within the countries was not measured by a corporate score card indicator and was rarely used as key indicator or included in disbursement milestones. In Bhutan, Nepal and Madagascar, the focus on rural outreach was strong, and to a lesser extent this was also the case in Sierra Leone, Malawi and Senegal, indicating that **CSPs in the more mature and better served countries were directing their support more to underserved regions and populations** (see section 3.2.1.2).

Figure 17 presents an indication of the outreach to underserved (rural) areas and general outreach (# depositors) in UNCDF supported countries. For portfolio countries in Africa for which data existing, these were listed in the graph in descending order by access gap.[115]

Figure 17: Program Impact Score, # Savers and # Rural Branches by Country, ordered by Descending Access Gap for Africa



Note: Does not include Niger, CAR, Uganda. Access Gap information not available for S. Sudan - Laos in the graph

The more targeted approach of the GTIs should facilitate better impact measurement on outreach to specific under-served market segments. Like for the majority of CSPs, however, UNCDF had not developed a very clear system for estimating the older GTI ML's contribution to the change in key indicators. **Initial ML investments were concentrated in under-served and conflict-affected countries to a much higher degree than more recent investments. The TSP-led interventions had or were likely to contribute significantly to the savings focus of the GTI, but this was the case for only two of the six greenfield investments.** The aggregate contribution to outcomes of the ML portfolio was to a large extent ensured by the strong performance of Equity Bank South Sudan, even if its contribution to the objective of outreach to poor people was not strong (see section 3.4.1.2). It is likely that EBL's subsidiaries will eventually contribute significant numbers of low-income savers to the ML portfolio, but as at 30 June 2011 in South Sudan and 31 Dec 2011 in

[115] Measures absolute gap between total clients and the population living under the poverty line. While this is by no means a precise estimate, it provides a guide to the magnitude of market gaps. MIX Market: Mapping Africa Financial Inclusion – Results Review and Next Steps, September 2011, Chart 3. See also: http://www.themix.org/publications/mix-microfinance-world/2011/09/africa-financial-inclusion/results#ixzz1s6Xfr18L
Access gap data for South Sudan and Asian portfolio countries could not be found.

Rwanda, this did not yet appear to have been achieved.[116] In addition to the commendable inclusion in ML PBAs of an indicator of depth of outreach, the estimation and documentation of ML's contribution to this likely change could be further strengthened. By contrast, it was found **likely that the new YouthStart with its targeted PBAs and reporting requirements will be able to better document its likely impact on youth financial services in future** (see also section 3.2.1.1.).

3.4.2.2. Asset Quality and Sustainability

Two-thirds of the FSP portfolio had increased their operational sustainability and **the aggregate portfolio OSS level exceeded 100%, but the growth in outreach for almost half of the portfolio was not accompanied by asset quality (PaR) levels that would ensure sustainability**, and overall, asset quality had deteriorated since baseline (see Sections 3.2.1.1 and 3.5).

3.4.3 Catalytic Funding and Leverage

Key Question 15: Extent to which UNCDF funding leverages increased resources for FSPs beyond initial investments?	**Acceptable (score: 2.7 of 5)**
Elements/indicators 4.3.1. UNCDF-investments resulted in catalytic FSP co-financing from other sources Extent of change (increase) in funding leverage	 Acceptable Poor

3.4.3.1. Funding Leverage

UNCDF tracked the catalytic impact of its programmes by their ability to fundraise for programme implementation using a *funding leverage* indicator, measuring the ratio of UNCDF core funds to total programme resources raised by total amount and per region. The target set for 2011 was 4 to 1.

Of the total prodoc value (ATLAS budget), UNCDF had pledged to fund 23% of the total budgeted costs of the CSPs (see Figure 18). A total of 47% was pledged by other agencies, of which 66% was from non-UN sources, representing a **'soft' funding impact achievement of 2.1 to 1 for all funds raised, down from 3.8 to 1 in 2010[117] and a 'harder' impact achievement of 1.4 to 1 for non-UN funds raised relative to UNCDF core funding**, down from 3.8 to 1 in 2010 and relatively far from the target set for the year. UNCDF had raised funds for FSPs and its programmes, and the leverage for committed funding of USD 50 million against UNCDF's own commitment of USD 24 million as at June 2011 represented half of the target for 2011.

Funding leverage on actual disbursements for the period 2008-2011 was lower (see Figure 19). Of the total budget (annual budgets combined) of USD 25.5 million since 2008, the 14 CSPs had expensed 66% as at end 2011. Of this total expenditure, 62% was from UNCDF core funds, thus expenditure from other sources was 38% resulting in a leverage of 0.4 to 1.

A majority of CSPs remaining under-funded compared to their budgets, confirming the difficult funding situation of UNCDF. UNCDF's catalytic function had been more successful in Africa than in Asia with the exception of Timor-Leste. Nepal did not succeed in raising non-UN funds for the CSP, resulting in meso- and macro-level activities being dropped and relatively small retail grants being provided. These had, however, generated outcome returns in excess of their value due to the very targeted focus on expansion to under-served areas.

[116] See also Annex 2, Box 1. Equity Bank South Sudan appeared to have dramatically increased the number of micro-depositors from June 2011-May 2012 with the value of micro-deposits having increased to 9% of the total deposits.
[117] UNCDF: Annual Report 2010, p. 24.

Figure 18: CSP funding leverage by $ amount committed

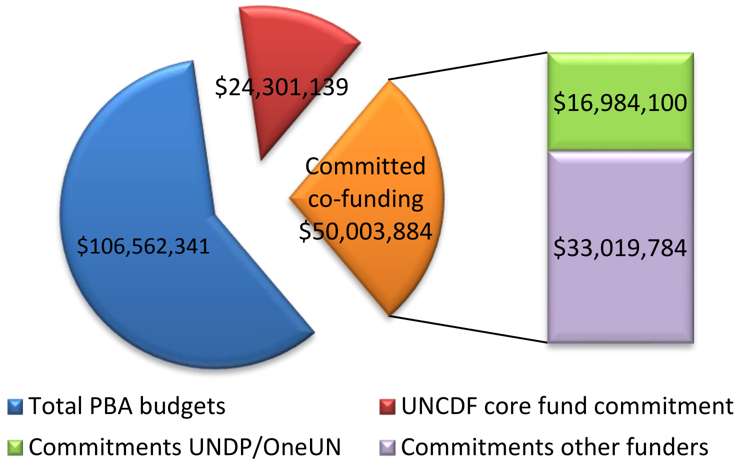
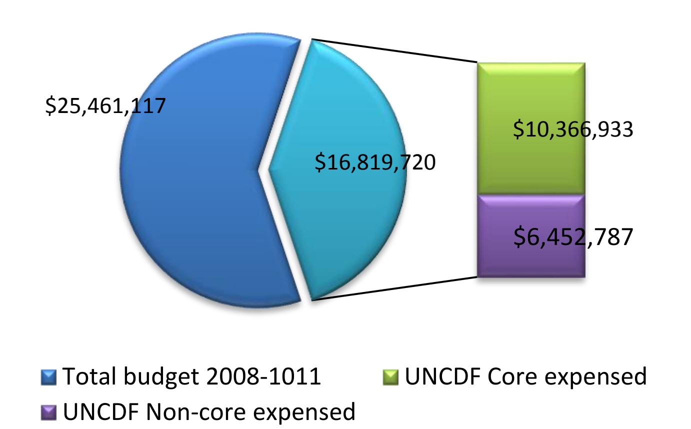


Figure 19: Total budget for CSPs and amount expensed by funding source USD



All UNCDF CTAs had been tasked to "engage donors at country levels to raise more noncore resources, either (and ideally) under cost-sharing (managed by UNCDF for a fee) or under a parallel funding modality (a donor joining the country IC and harmonizing the use of its funding within its modus operandi".[118] Few CSPs had, however, been able successfully to raise funds in 2011.[119]

In several markets, the FIF/IC structure itself had negatively impacted the otherwise commendable efforts of UNCDF to "punch above its weight"[120], and in crowded funder markets, where several other funders also had much deeper pockets than UNCDF, the IC structure had almost become detrimental to UNCDF's ability to constructively engage with other funders, even if a high degree of funding leverage was secured in Senegal. This was also reflected in the PR survey in the divergent perceptions of internal and external stakeholders on funder coordination and UNCDF's catalytic effect. 65% of internal stakeholders agreed that positive impact had been achieved in funder coordination (see Figure 20 below, A24d), whereas only 36% of IF co-funders concurred and 16% disagreed (B20d). While three quarters (78%) of UNCDF staff found UNCDF funding to attract or increase the comfort level of other investors (Figure 9, A23), this catalytic effect was recognized by half (52%) of co-funders (Figure 20, B17), and one third (36%) of investees agreed that "UNCDF funding was instrumental in securing additional funding from other sources (catalytic effect)" while 17% disagreed (D30).

3.4.4 Industry Development, Women's Empowerment and the Environment

Key Question 16: Extent to which programmes have had positive impact on industry and policy level in country?	**Acceptable (score: 2.7 of 5)**
Elements/indicators	
4.4.1. Key stakeholders at meso and macro-level perceived UNCDF-funded initiatives to have had positive impact	Good
Programmes have fostered governmental commitment towards pursuing the MDGs	Acceptable
Knowledge generation has had positive impact at sector level/among stakeholders	Poor (see 3.3.2.3 and 3.5)

118 FIPA Business Plan 2010-13, p. 5.
119 FIPA management confirmed that the 2011 corporate target was met at the end of the year, largely due to the success in resource mobilization for GTIs, whereas CSPs were uneven in their ability to mobilize resources at country level.
120 FIPA Business Plan 2010-13.

3.4.4.1. Counterpart Perceptions of Impact at Meso- and Macro-levels

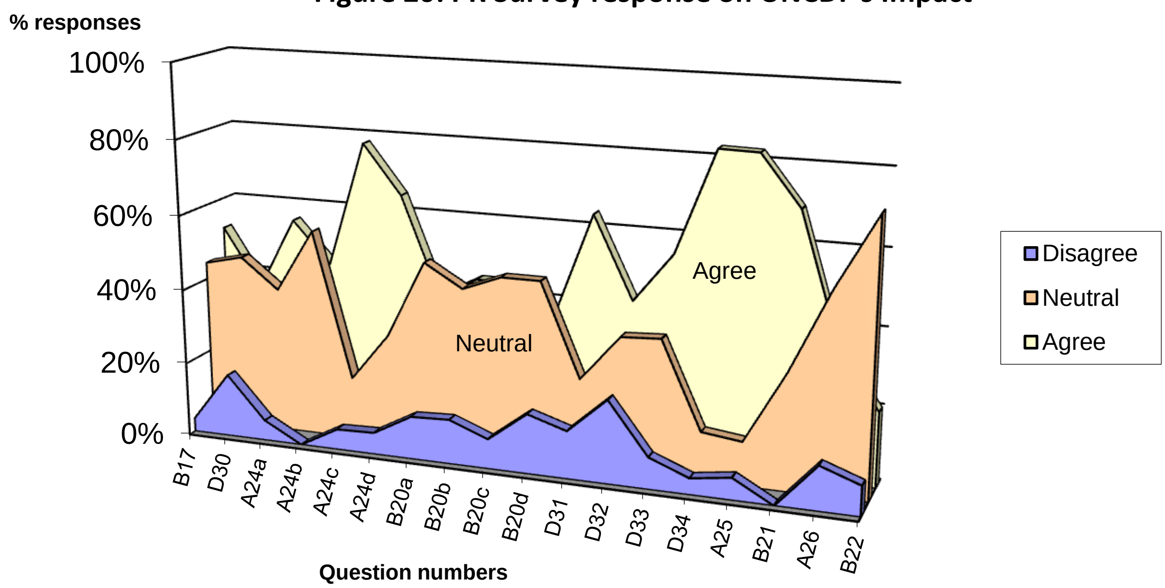
Respondents to the PR survey perceived impact (contribution of UNCDF's efforts to results attained) of programmes to be relatively weaker than the other four main DAC evaluation criteria, rating it with an average of 52% agreeing, 39% being neutral and 9% disagreeing with statements related to impact.

That said, **national external stakeholders assessed UNCDF's impact positively with 61% agreeing that "overall, the UNCDF-funded initiatives have had a positive impact in my country"**. 40% of IF funders on average agreed that "UNCDF-managed/co-funded projects/programmes have had a positive impact to date" and 12% disagreed (Figure 20, B20). Specifically, co-funders agreed the most (44%) that positive impact had been generated at meso-level (B20b) and macro-level (B20c). Internal UNCDF stakeholders assessed UNCDF's impact to be moderate to high, especially at macro-level, with 78% agreeing that "UNCDF-funded/managed projects/programmes have had a positive impact to date at macro-level (A24c).

There is little doubt that **UNCDF's programmes continue to have a relatively high impact on the promotion of IF at macro-level, especially in countries where it was 'first mover' or sole sector funder.** Convening and consulting with stakeholders around the development of a national IF policy or strategy, developing action plans and supporting the implementation of such plans had been – and remained in some countries – an important step towards achieving expanded inclusive finance. In general, the support provided had been well appreciated by stakeholders and had left legacies of adopted strategies/policies and legislation, more coherent regulation, better equipped and trained supervision structures, and better informed national policy makers in many countries. Based on the positive response from the majority of national stakeholders, it was deemed likely that UNCDF's programmes had fostered increased commitment to good practice microfinance in many countries.

The impact and value of the core approach to macro-level support within UNCDF's standard sector development programmes had, however, diminished in countries where national legislatory, regulatory and supervisory agenda and capacities had increased, and other funders with a broader financial sector reform agenda and deeper pockets had arrived.

Figure 20: PR Survey response on UNCDF's Impact



At **meso-level, impact was found to be weaker** both in terms of perceived contributions to industry strengthening and the leverage of private sector resources. However, investees confirmed the value proposition of demonstration effect at sector-level, with 55% of survey respondents agreeing that "We can document sector-level changes in response to UNCDF investments (copycat products/services, increased competition, improved performance etc.)" (D33). In the recently introduced focus area of client protection, however, efforts to enhance awareness through workshops and trainings had been conducted in several countries during 2011, and were likely to generate impact. All PBAs signed since January 2011 included a paragraph to encourage the FSP to sign up to the Smart Campaign and work to operationalize the CPP principles in service delivery and monitoring. **The focus on CPP had not yet translated into actual targets or indicators in the standard reporting template for FSPs, and monitoring should be improved** to better document changes over time**.**

Against 56% of internal stakeholders (A24a), a smaller 38% of IF co-funders agreed that impact had been achieved at retail-level (B20a). In sharp contrast to the data submitted, only 42% of investees could agree that "The value of our deposits has increased since the first UNCDF investment" and 22% disagreed (D32). Impact on loan book growth was assessed as better, with 64% agreeing that "the value of our portfolio has increased since the first UNCDF investment", and 13% disagreeing (D31).

Key Question 17: Extent to which programmes have impacted women's economic or social empowerment?	**Acceptable (score: 2.9 of 5)**
Elements/indicators	
4.4.2. PBA requirement of 50% women clients has been met by programmes	Very good
4.4.3. Services/products/delivery mechanisms have specifically promoted women's economic/social empowerment?	Acceptable
% female sr. managers/BoD members of UNCDF-funded FSPs has increased over period of funding	Poor
This impact has been monitored and reported to UNCDF	Poor
4.4.4. % UNCDF female staff, PMs and IC representatives has increased since 2008	Acceptable

3.4.4.2. Percentage Women in Programmes

The PBA requirement of 50% women clients had been met. The FSPs under review served 68% women among their borrowers, well above the 63% among the MIX market MFI peer group in UNCDF countries, and 61% among their depositors.

UNCDF targeted women clients partly by investing in FSPs that already focus heavily on female clients, and for this reason, the **average net change in FSP women clients since baseline had been minimal** (2%)**.** 26 of the 93 FSPs reviewed had 100% women clients at baseline. As at 30 June 2011, 23 of these (25% of the sample) still did. For a quarter of the portfolio, therefore, no change could be measured by the indicator as defined, and their contribution to impact would be measured only as a counterweight to the lower percentage of women served by other FSPs at country-level. In Nepal, where 89% of the FSP portfolio served women exclusively, the indicator was not found to be meaningful, and from a gender mainstreaming perspective, the question of access to IF by men might even be asked. If it is UNCDF's intent to effect *change* in women's economic empowerment, the relatively static measure used (number of female clients) might not be sufficient to capture impact. But this is by no means a given: A high 82% of internal UNCDF stakeholders agreed that "UNCDF-managed/co-funded programmes pay sufficient attention to women's economic and social empowerment" (A25 in Figure 20), generally corroborated by 62% of co-funders also agreeing to this statement (B21).

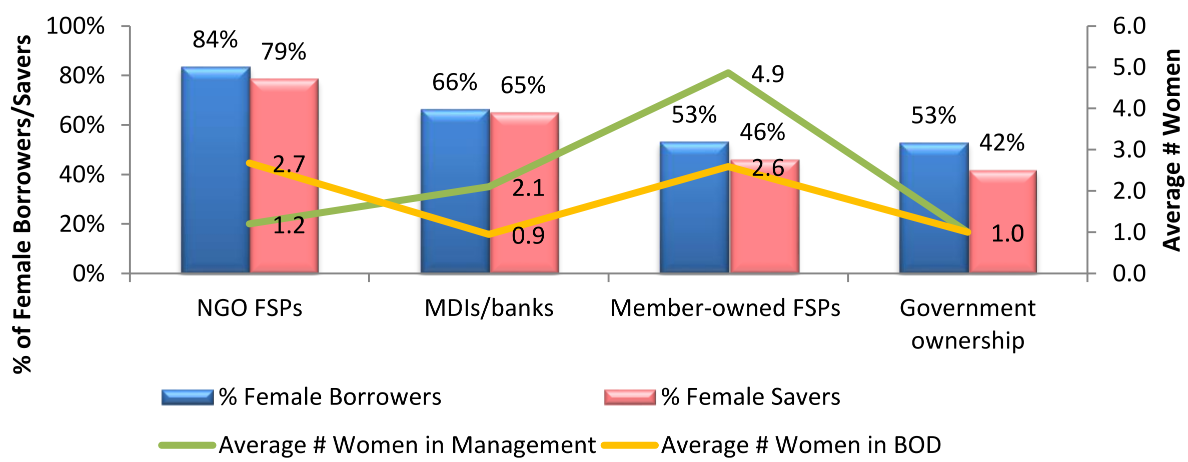
3.4.4.3. Specific Promotion of Women's Social and Economic Empowerment

The only CSP in which a significant change in the number of women clients (borrowers) could be associated with UNCDF support was PASMIF **in DRC**, where **the piloting of the Credit and Savings with Education (CEE+) methodology during PASMIF I had substantially augmented the outreach to women** (aggregate positive net change of 21%).

With a hypothesis that more women in FSP management and governance bodies could result in more women-focused products and methodologies, the PR investigated this indicator. As at June 2011, the 69 FSPs

(74% of the sample of which 39% were NGO FSPs) that were able to report gender-disaggregated staff in decision-making positions had 1.8 women in the Boards and 2.1 women in senior management on average. There were no significant associations between more female clients and more women in leadership positions in the FSPs, and on average, the FSPs that exclusively served women had as few women in leadership as other FSPs. But interestingly, member-owned FSPs (credit unions, cooperatives) had a higher number of women in leadership positions than other institutional types, despite their relatively lower percentage of women among clients (see Figure 21).

Figure 21: Indicators for gender focus by institution type, June 2011



The indicator of increased access by women clients to financial services remained important, particularly in cultural settings with higher gender inequality (e.g. West Africa). If UNCDF would wish to increase its focus on gender mainstreaming, however, it is possible that an additional PBA indicator and/or a standardized heading in future narrative reporting templates could focus the attention of FSPs on better representation of both sexes in leadership and thus produce evidence of more direct impact on change in women's economic and social empowerment.

3.4.4.4. Gender Balance in UNCDF/FIPA

Based on limited data, the PR found an **acceptable increase of women as a % of total staff at UNCDF country and programme level, higher for the GTIs** (both led by women) than for CSPs, and higher in Asia, taking into consideration CTAs and counterparts in SCs and ICs, than in West Africa.

Key Question 18: Extent to which programmes have had positive impact on environmental challenges in country?	**Poor (score: 1.3 of 5)**
Elements/indicators	
4.4.5. UNCDF and FSP financial/non-financial services/products, delivery mechanisms or operational systems have specifically promoted good environmental practices	Poor
This impact has been monitored and reported to UNCDF	Exceptionally poor
SEMS considerations have been incorporated in selection/M&E/PBA systems	Poor
UNCDF has contributed to new environmental protection knowledge in IF	Poor

3.4.4.5. Specific Promotion of Good Environmental Practices

The CSP in Mozambique had commendably entered a partnership with UNDP to support a "Transition to Climate Resilient Livelihoods" project, by broadening its FIF funding criteria to include FSPs that were interested in providing financial services to communities at risk from climate change in coastal zones of the country. One FSP in Timor Leste had introduced loans for solar panels. BDBL in Bhutan participated in the ADB-funded Rural Renewable Energy Project to help finance the introduction of biogas stoves among rural households. Other CSPs might have made similar efforts, but no documentation for this could be found, and existing efforts did not seem to have been consolidated in lessons learned or knowledge generation products. As UNCDF had no environmental protection indicators in its reporting format, no FSPs reported on any activities within this area that they might have undertaken, which left UNCDF with a very weak environmental portfolio profile.

The apparent almost complete lack of attention to this aspect of the UNCDF objective and good corporate practice in general stood in sharp contrast to the relatively high emphasis that many other funders, including CSP co-funders, give to environment, health and safety issues in general, and social and environmental performance in particular. The internal stakeholder respondents to the PR survey conceded that environmental sustainability might not be the highest priority, with only 35% agreeing that "UNCDF-managed/funded projects/programmes pay sufficient attention to environmental protection" (A26 in Figure 20) and 12% disagreeing. 20% of co-funders corroborated this (B22). With the launch of the new GTI CleanStart, UNCDF would have a vehicle to better integrate the aspect of environmental sustainability in its programming.

On a wider note, all funded partners could be required to introduce and report on a basic Social and Environmental Management/Monitoring System (SEMS), confirming that national labour standards and environmental regulations are respected. Such a SEMS linked to PBAs could also include a caution against money-laundering practices, and other aspects of general good governance and adherence to national legislation for financial service provision. Based on standard KfW requirements, the absolute 'best in class' example of a basic set of reporting requirements directing the attention of FSPs to aspects of social and environmental protection was found in the agreements signed between the autonomous FPM in DRC and its FSP partners. This could be used as a basis on which to standardize such requirements across the UNCDF portfolio.

3.4.5 Conclusions on Impact

Overall, UNCDF's investments in microfinance were scored to have (likely) achieved an **acceptable level of impact at 2.8 of 5.** If impact on environmental challenges was omitted, UNCDF's score would actually decrease to 2.7 due to efforts credited to Timor Leste and Bhutan for environmentally friendly products.

Funded FSPs had generated very good results at retail level, increasing outreach and thus contributing to improved access to financial services and by inference to MDG1. Outreach had increased primarily in under-served markets/market segments, and also to UNCDF's core market of poor people as indicated by relatively low average balances of loans and deposits in most countries. Since baseline, the FSPs had increased their aggregate loan portfolio value by 17 times the value of UNCDF's core investment, and compared to the level reported for end 2010, the value of their savings deposits had almost doubled to 19 times the UNCDF investment amount, thus also strengthening their access to sustainable private capital for growth. However, with the notable exception of rural outreach, the likelihood that many FSPs would have produced the same results without UNCDF funding was found to be high. Like for effectiveness (results), UNCDF's measures of impact did not indicate the likely links between the FSP performance and programme interventions and/or acknowledge the possible contributions to results by non-IC funders or other factors.

Stakeholders generally confirmed that UNCDF's programmes continue to have a relatively high impact on the promotion of IF at macro-level, especially in countries where it was 'first mover' or sole sector funder but this was much less evident in mature markets where other funders were present. The need to adjust the standard FIF/IC model was also evidenced by the decreasing funding leverage of CSPs and by the survey responses on UNCDF's catalytic funding function, which was rated much lower by external than by internal respondents. While some impact at meso-level was noted by stakeholders, it was found to be weaker both in terms of measurable contributions to industry strengthening and the leverage of private sector resources. In the new UNCDF focus area of client protection, however, efforts were found likely to generate future impact against the corporate advocacy target.

UNCDF has consistency and successfully targeted women clients, but impact on the more complex issue of women's empowerment and on environmental protection in particular was not well tracked. Rather than cross-cutting issues appended to sustainability considerations, it has become good practice among IF funders to require and compile measures on social performance indicators to measure socio-economic impact. UNCDF should consider adding (at least a subset) of these indicators[121] to its FSP selection, performance monitoring and reporting framework to ensure better documentation of social and environmental protection impact in line with the commitment to promote responsible finance and client protection.

Clearer indicators and more specific reporting built into the performance monitoring systems of CSPs and GTIs would facilitate better estimation of attributable impact, as PBAs focusing on rural outreach demonstrated (see Section 3.2). In 2010, UNCDF has pledged to strengthen indicators at meso- and macro level. With its strong M&E systems and existing ICs, UNCDF has the foundation for piloting a system to better estimate attributable change in key indicators of financial sector development programmes in general, and YouthStart and potentially CleanStart could become pioneers in documentation of impact on the specific focus areas of the GTIs. This would be a major innovative contribution to the global microfinance agenda.

3.5 Programme Sustainability

Main Question 5: Are UNCDF's investments in microfinance leading to sustainable provision of financial services for the intended clients?

Sustainability is concerned with measuring whether the benefits of programmes are likely to continue after the UNCDF funding has been withdrawn. It has become good evaluation practice to review whether programmes are sustainable, both in financial/economic and environmental terms. Environmental issues were addressed in Section 3.4 above. In this section, we focus on the programmes' contribution to ensuring that funded partners were becoming sustainable, and on the exit strategies of UNCDF.

3.5.1. Retail Level Sustainability

Key Question 19: Extent to which there has been an overall positive trend towards sustainability of programme results at FSP level?	**Good (score: 3.2 of 5)**
Elements/indicators	
5.1.1. Sustainability targets have been met by investees	Very good
All UNCDF-funded FSPs have increased financial sustainability (OSS> 110%, positive RoA) over period of funding (by age) and trends are positive	Good
5.1.2. % deposit value/loan portfolio value has increased during funding period	Very Good
5.1.3. FSP managements have been localized by Jun 2011 (managerial sustainability)	Good
5.1.4.Technical sustainability has been attained by UNCDF-funded FSPs (e.g. MIS)	Acceptable

3.5.1.1. Sustainability at Retail Level

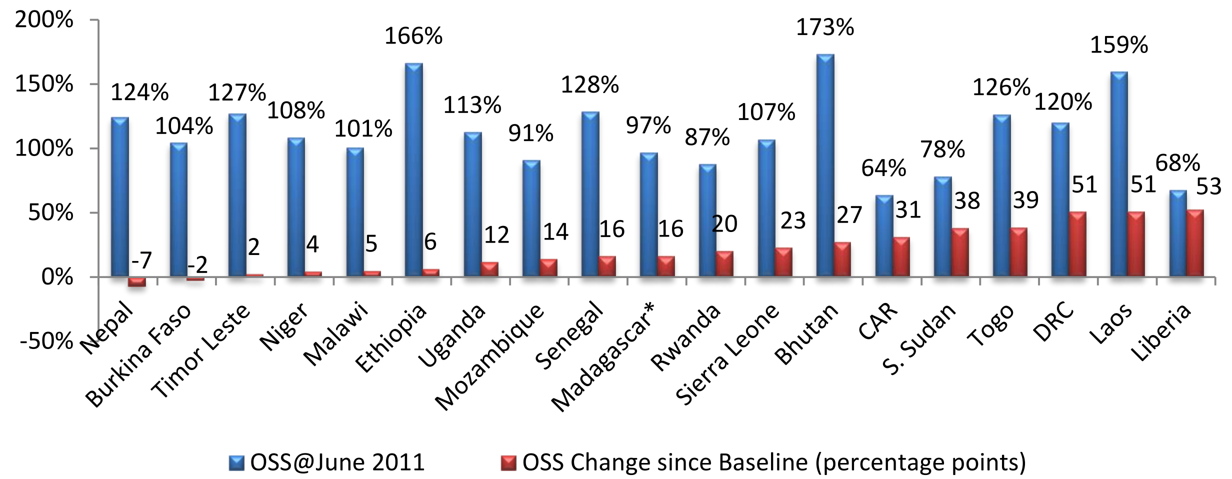
The UNCDF portfolio of FSPs on aggregate showed good progress towards sustainability as measured by the operational self-sufficiency ratio (OSS).[122] Given UNCDF's focus on sustainability it was surprising that sustainability targets (OSS) were not set (in PBAs) for all investees (no FSP targets were set in Lao PDR, for example). 80 of the 93 portfolio FSPs under review had OSS targets. **Against the overall targeted level of OSS of 107.6%, the FSPs had performed well, achieving 116.4% on average**. Targets were most consistently

[121] In October 2012, the Social Performance Task Force has published Universal Standards for Social Performance Management. See Micol Pistelli: Advances in measuring social performance – why does it matter? Foromic 2009. The process of developing the indicators was coordinated by the international multi-stakeholder Social Performance Task Force (SPTF), representing the whole microfinance industry (MFIs, networks, raters, supporting agencies, donors and investors).

[122] International good practices calls for inclusion of the financial self-sufficiency ratio and/or RoA as indicators of sustainability. UNCDF indicated concerns about capacities to report these more complex ratios correctly and hence only OSS was included in the PR data collection.

exceeded in Asia (excluding Lao PDR) at a level of 126%; West African FSPs attained 104.2% of their targets, whereas East/Southern Africa attained 91.3% of their targets.[123]

Figure 22: FSP OSS levels (06/2011) and Change from baseline by Country



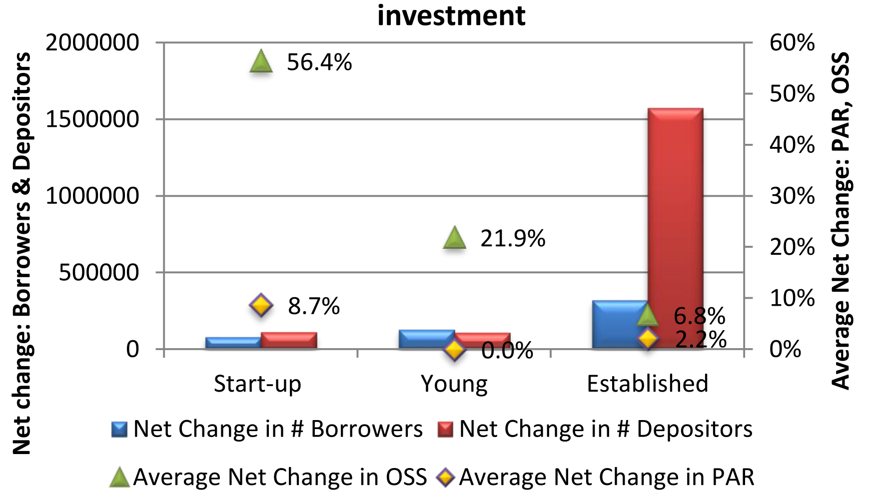
*Outlier excluded.

Against an overall average of 101.7% at baseline, **the average OSS for the portfolio had increased by 16% as at June 2011** (23% including ACEP), and **change was positive in all three regions.** OSS had increased the most in West Africa (23.4%) against 19% in East/Southern Africa (34.8% with ACEP), and 10.7% in the Asian portfolio which included more NGOs (Nepal) and smaller institutions (Lao PDR) than Africa (see Figure 22). OSS was above 110% on average in West Africa and Asia, and had reached 104% in East/Southern Africa (excluding ACEP), but the overall average spanned uneven performance within the regions. Of the 93 FSP under review, 31 (33%) of FSP had *not* increased their OSS since baseline. Conversely, **67% of the UNCDF portfolio was on track and likely to develop into sustainable institutions, as measured by net change in OSS alone.** Investees were the most confident among survey respondents about retail level sustainability (See Figure 25). 82% of investees agreed that "UNCDF-managed/co-funded programmes lead to greater sustainability of FSPs" (Figure 25, D36a). 67% of internal stakeholders (A28a) concurred whereas a smaller 38% of co-funders agreed (B24a).

However, increase in OSS (revenue covering operational costs) does not guarantee sustainability, and FSPs should be able to report on stronger profitability ratios (financial self-sufficiency (FSS) and/or Return of Assets). Sustainability is influenced by growth and asset quality, etc., and should increase with FSP maturity.

In Figure 23, the portfolio is presented by age category at the time of UNCDF involvement with indicators of growth (net change

Figure 23: Ave. net change in OSS, PAR30 and outreach since baseline by age of FSPs at start of FIPA investment



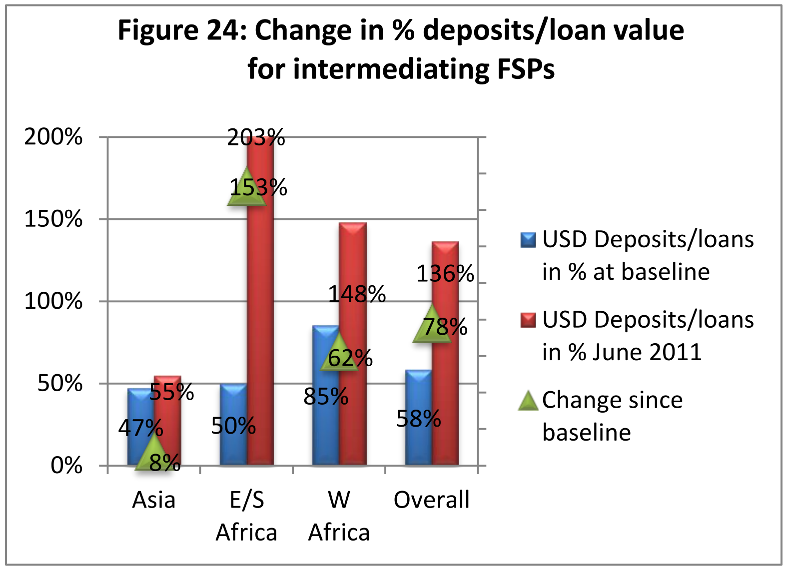
[123] The OSS for Equity Bank Rwanda as at end Dec 2011 is included in this overall figure, but the outlier ACEP in Madagascar is omitted. If included, this would increase the E/S African average OSS to 122% and 105.5% of target.

in borrowers and depositors) and quality (PAR30 and OSS). The oldest FSPs had contributed the highest growth, but at the expense of cost efficiency: their net change in OSS ratio was the lowest among the three categories (see also Annex 2.3 on efficiency[124]). As could be expected, the younger FSPs had contributed relatively less growth (though still positive) but had increased their sustainability levels contributing to this UNCDF outcome to a much larger extent.

In terms of asset quality, there had been no improvement on aggregate (negative change in PaR30) since baseline. Especially start-ups had increased their PAR30 by 8.6%. The absolute level of PaR30 remained relatively high, at an average of 9.3% across the portfolio. The very high levels of PAR30 in some FSPs jeopardized their sustainability to an extent that they would be unlikely to retain sustainable levels of operations, and should be monitored very closely, and possibly supported with short-term 'trouble-shooting' TA.

3.5.1.2. Increase in Savings Mobilization

More funded FSPs had increased their ability to more sustainably finance operations by accessing domestic savings. The number of funded FSPs that were mobilizing savings had increased from 74 at baseline to 82 (88% of portfolio) by June 2011. These portfolio FSPs had also grown their deposits dramatically over time. At baseline, the 74 FSPs that reported both loans and savings had mobilized savings at a value of only 58.3% of their loan book. By June 2011, this value had increased by a very significant 78% to 136.3%, against the MIX Market peer group average of 96% (see Figure 24).



3.5.1.3. Managerial Sustainability

Very little hard data was available with which to assess managerial sustainability of FSPs in terms of transfer from foreign to national leadership ("localization"). The vast majority of UNCDF's portfolio FSPs was indigenous institutions led by nationals, and **only the greenfields had significant expatriate management resources. All of these had PBA targets for localization of management, and most (except for BRAC) were on track.**

3.5.1.4. Technical Sustainability

The **performance data** received from FSPs (via CTAs/PMs) appeared of **relatively good quality** overall, but a third of the FSP datasheets required clarification or corrections, indicating some weaknesses in FSP performance data recording and reporting. The challenges perceived in reporting FSS and found in the reporting of Operational Expense Ratio also pointed to financial analysis capacity issues. Several CSP progress reports listed MIS limitations among their FSPs as major challenges for performance reporting, and funding for MIS improvements were included in the prodocs and PBAs of a majority of CSPs.

[124] The data pointed to a potential link between grant funding of large, established FSPs and a decreased focus on cost efficiency (higher costs, lower OSS) which it could be relevant to monitor more closely.

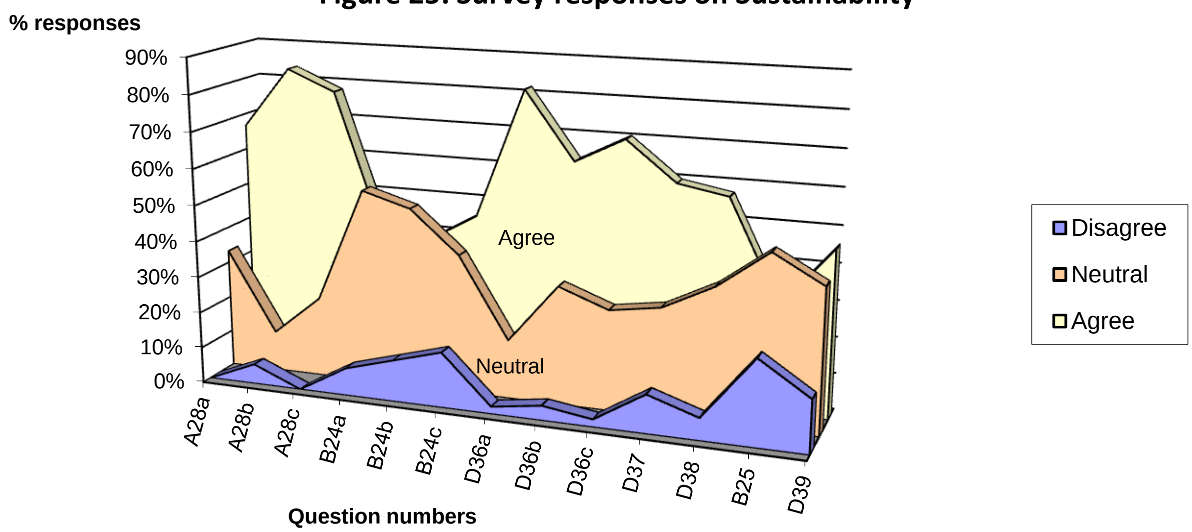
3.5.2. Sustainability of Programme Results

Key Question 20: Extent to which there has been an overall positive trend towards sustainability of programme results at meso/ macro levels?	**Acceptable (score: 2.7 of 5)**
Elements/indicators	
5.2.1. National SSOs/ counterparts 'own' (independently manage) meso and macro level initiatives funded by UNCDF	Good
Business or strategic plans document continuation of meso/macro initiatives beyond expected period of UNCDF-funding	Acceptable
5.2.2. Programmes are actively monitored to corroborate performance trends.	Poor

3.5.2.1. Sustainability at Macro and Meso-levels

The monitoring framework (indicators, targets and reporting) **for meso- and macro level activities did not permit a quantitative analysis of sustainability**, and would require significant strengthening for this to be possible in future. However, respondents to the PR survey were in general optimistic about the sustainability of programme results, as illustrated in Figure 25. 58% of all respondents agreed, 34% were neutral and 8% disagreed with the survey statements related to sustainability. The strong demand-drive of most UNCDF grants provided at meso- and macro level and conversely, the limited scale of intervention at meso-level indicated that **counterparts in general 'owned' funded initiatives**. In several countries, counterparts advanced payments for UNCDF initiatives (see Section 3.3.1.2), which would seem to confirm strong ownership.

Figure 25: Survey responses on Sustainability



An average of 76% of UNCDF internal respondents, 72% of investees but a smaller 41% of co-funders perceived UNCDF managed/funded programmes to lead to greater sustainability. In terms of the sustainability of new products and services introduced, UNCDF internal stakeholders were the most enthusiastic with 83% fully agreeing (A28b) against 63% of investees (D36b) and 38% of co-funders, with 12% disagreeing (B24b). Three fourth (78%) of UNCDF-internal respondents also perceived knowledge transfer to local stakeholders to lead to greater sustainability (A28c), and 70% of investees agreed (D36c). Knowledge transfer was rated highest in terms of UNCDF factors leading to sustainability among co-funders, but less than half of co-funders (46%) agreed to the statement and 15% disagreed (B24c).

Sustainable macro-level grant funding requires clear commitment from counterparts to create lasting improvements, but the results in terms of sustainability had been mixed as e.g. PASNAM-I's experience in Togo demonstrated. This was partly due to results (outputs) being formulated in shorter-term action plans which followed the (annual) funding cycles rather than in longer-term business or strategic plans with measurable outcomes of sustainable policy implementation and sector development. In several countries, UNCDF had supported coordination forums at national level which appeared independently managed, and the linkages to and continued support to such broader industry coordination platforms may increase sustainability.

From a qualitative perspective, the sustainability of meso-level associations supported by CSPs (and MicroLead) appeared most promising where the institutions were already relatively strong, if under-funded, at the time of UNCDF involvement. To enhance sustainability results, partner selection criteria could be strengthened and documentation of sustainability could be improved with clearer indicators for expected outcomes. Greater use, also by CSPs, of TA as a support instrument might also increase the sustainability results at meso-level.

3.5.2.2. Programme Monitoring

UNCDF has a long-standing record of comprehensive evaluations of country programmes and regional initiatives, and a robust performance monitoring system. **It did not appear**, however, **that UNCDF used the information contained in reporting formats, audits and MIX market reports for deeper analysis (corroboration) of portfolio performance and trends**. PBAs were monitored in a tracking tool which provided an outlook on future funding of the FSPs based on current performance but the challenges encountered during the PR compilation of CSP progress reports suggested that these reports were not compiled centrally and processed for purposes of aggregate monitoring, as well as lessons learned and knowledge sharing within UNCDF (see also Section 3.3.2).

3.5.3. Exit Strategies

Key Question 21: Do programmes have a clear and workable exit strategy for UNCDF?	**Acceptable (score: 2.7 of 5)**
Elements/indicators	
5.3.1. Appropriate mechanisms have been put in place to grow private sector financing to reduce dependency on UNCDF funding	Acceptable
5.3.2. Phasing out of sector support/thematic programme has been incorporated in annual work plans	Acceptable
Mechanisms included handing-over/succession planning and phase-out of interventions	Poor

3.5.3.1. Reduction of Donor Dependency

Many **FSPs had significantly increased their ability to mobilize (private sector) savings** as a means to fund their loan portfolios more sustainably (see section 3.5.1), and on average 72% of investees responding to the PR found that UNCDF programmes led to greater sustainability, particularly for FSPs (see Figure 25, D36a). **UNCDF had not, however, succeeded in attracting private sector funders to its CSP funding mechanisms for FSPs**. Funding leverage had been achieved, but most successfully by GTIs, and only the GTIs had attracted funding from (private sector) foundations, the CSPs having been funded exclusively by public funds. Only 36% of investees found UNCDF to have been instrumental in securing (any) additional funding (see Figure 20). As mentioned earlier, UNCDF did not appear to require disclosure of funding by investees. Introducing this requirement could provide UNCDF with documentation for possible additional growth in private sector financing of investees, while also better documenting the catalytic effect ('convening power') at retail and meso level that about half (52%) of IF co-funders found UNCDF to have (see Section 3.4.4.1).

Meso-level funding was not to a large extent leveraging private sector engagement by service providers, which could be an avenue to increased sustainability of results. While UNCDF inherently worked closely with government, a broader approach to involve private sector actors in IF sector development could be considered. A first step could be to ensure that the sector diagnostic exercises planned under MAP include, attract and engage national private sector actors.

3.5.3.2. Documentation of Exit Strategies

The CMP 2010-2013 states that UNCDF's "ultimate impact comes when its programmes and ideas are taken to scale by partners".[125]

UNCDF's microfinance strategy for donor support to private, financial sector institutions lists the principle that support will be "Time Bound: Donor subsidy will be limited in duration. The time frame should be determined by a business plan that leads to a sustainable/profitable provision of the service".[126] With the exception of BRAC, the UNCDF investments generally met these criteria, and targets for sustainability (OSS) were incorporated in 86% of PBAs. In the PR survey, 83% of investees reassuringly confirmed that "We have a clear plan for the continuation of activities after the UNCDF funding has ended" (Figure 25, D34), and 60% agreed that "We have a clear succession plan in place for external experts/managers", whereas 11% did not.

For CSPs, the Operational Guidelines for UNCDF as an Investor state that the "exit strategy of donors—including UNCDF—arises when the fund is legally formalized, regardless of intentions to make it sustainable. This exit strategy should be documented and validated by all donors prior to formalizing the fund. Various exit options are possible:

- The transfer of functions performed by the fund (refinancing or capacity building) to other stakeholders (banks, private service providers) should be given priority consideration. In particular, in mature enough markets, the role of training or institutional support can be entrusted to existing private service providers;
- Maintaining an autonomous entity is another option, especially in immature markets".

Outside of these general observations on sustainability and limited involvement, the PR found no policy, strategies or operational guidelines defining when and how UNCDF would withdraw from CSPs.[127] **The PR thus did not find that UNCDF had a policy for clear and workable exit strategies for its CSPs.**

Only one of the 16 CSPs reviewed had a clear and potentially workable exit strategy outlined in its prodoc (Togo), which detailed a phased handing-over of programme activities and responsibilities to national entities during the last half of PASNAM II, i.e. mid 2011- mid 2013. The CTA's progress report as at end 2011 made no mention of achievements related to the phasing out, so the PR team was unable to assess the implementation, but the strategy outlined in the prodoc could well serve as a basis for a FIPA-wide policy. The prodoc for MITAF II in Sierra Leone also included an outline for exit to be elaborated by the TSP in year 3 of the programme, and while not mentioned in the prodoc, the work plan for FIMA in Malawi included winding up activities from early 2012, commendably including relocating the PMU outside of government and developing a communication strategy.[128]

Respondents to the PR survey were also less sure about UNCDF's exit strategies. 57% of investees agreed that "UNCDF has a clear and workable exit strategy from its investments" (Figure 25, D38), linked to 46% confirming that "the UNCDF exit strategy from the investment has been developed with/communicated to us" to which 15% disagreed (D39). One third (29%) of co-funders agreed that "UNCDF has a clear and workable strategy for phasing-out grants [subsidies] to its investees" with the highest overall percentage of 24% disagreeing (B25).

[125] UNCDF Corporate Management Plan 2010-2013

[126] Quoted from N. Assouline and C. Poursat: Operational Guidelines for UNCDF as an Investor, June 2010.

[127] UNCDF's "little proactive stance on exits" was also observed by the Evaluation of BIFSA I.

[128] CTA's Annual Progress Report, FIMA Malawi, December 2011.

The standard CSP funding modality of a FIF guided by an IC was not found to be sustainable as designed, but it might remain valid for a limited time period in UNCDF's core markets of immature industries with few funders. However, the exit strategy from these structures should be clearly articulated in the prodocs and agreed by all counterparts and co-funders.

Two CSPs (Sierra Leone and DRC[129]) had supported the establishment of national legal entities as potentially more sustainable structures which funders in more mature markets would prefer, to which some programme activities (retail and to some extent meso-level funding) had been handed over. The protracted process of developing a framework for the two entities demonstrated legal, procedural, and capacity constraints within UNCDF (and UNDP) to change from the internal project fund modality to a more typical investor-role and it was not evident that UNCDF had comparative advantages for fund management. More work was needed to develop a new framework within which UNCDF can add value to co-funders, also to enhance its resource mobilization.

3.5.4. Conclusions on Sustainability

With an overall score of 2.9, the PR found that **UNCDF's investments in microfinance to an acceptable degree led to sustainable provision of financial services** for the intended clients.

The FSP portfolio showed a positive trend and on aggregate, sustainability at retail level had increased. Two-thirds of FSPs, particularly the younger institutions, had improved their operational cost coverage (OSS) ratios. More FSPs mobilized savings in June 2011 than at baseline, and on aggregate their mobilization of domestic capital through savings (including current and to a limited extent compulsory savings) exceeded their loan books by 36% which increased the likelihood that clients would be served in future. Overall, partner institutions at meso-level appeared to 'own' the initiatives funded by UNCDF and a large majority of all investees confirmed that they had developed plans for continuation of activities after the end of UNCDF funding, but the effects of the relatively limited meso-level interventions on sector strengthening were mixed.

At macro-level, UNCDF funding agreements were typically designed around shorter-term (annual) action plans and as a consequence, longer-term monitoring of sustainability was limited. Sustainability results were mixed, dependent in part on programme-external factors including the extent to which counterparts had the capacity, interest and resources to function as a national champion for the IF agenda in the longer term. UNCDF staff were in general more confident that sustainability was being attained than co-funders.

UNCDF lacked a clear and workable strategy for disengagement from its support, and only two of 16 CSP prodocs outlined exit strategies. Building on the principles outlined in the Investor Guideline and inspired by the few CSP design documents which have taken the question of disengagement into consideration, UNCDF should develop a policy for its phasing out of programmes, especially in 'Tier 1' LDCs.

[129] The CSP in South Sudan was also established as a more autonomous structure, but had not been supported with the long-term technical assistance pledged by UNCDF in the prodoc, and its sustainability at the time of review was not deemed promising.

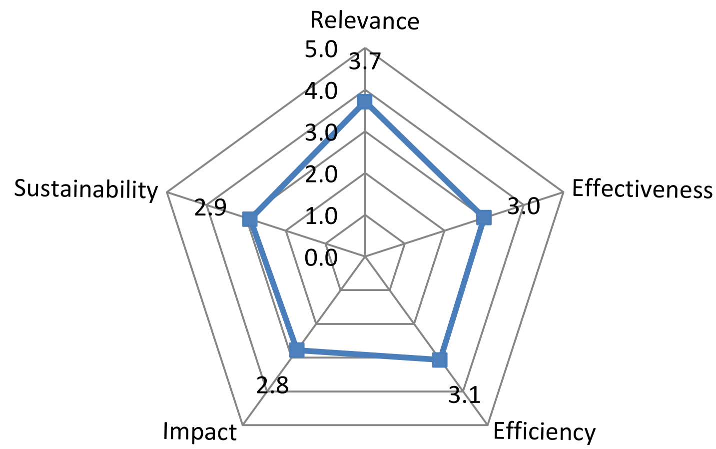
3.6 Overall Conclusions and Lessons Learned

UNCDF was scored at 3.1 of 5 reflecting overall "good" performance against the main DAC Evaluation criteria.

Relevance

UNCDF scored the highest mark (3.7) on Main Question 1, Strategic Relevance (see Figure 26). The majority of UNCDF investments were in low-income economies with poorly developed financial sectors, where UNCDF funding to promote inclusive finance continues to be important, and the portfolio was well aligned with the current UNCDF results framework. The alignment of CSPs to national and country-level UN policy frameworks was very strong, and with a few exceptions, the GTIs had invested in countries with large market gaps. The risk-balanced portfolio did not, however, reflect a strong focus on 'young and promising' Tier 2 and 3 FSPs, and clearer FSP selection criteria emphasizing UNCDF's comparative advantage of risk taking could be developed. UNCDF's value added was not clearly articulated and its comparative advantages of strong country-level expertise, focus on innovations, and synergy/integration between its two approaches should be strengthened to increase relevance.

Figure 26: Overall FIPA scores



- Through CSPs, UNCDF had contributed to improving the national policy and strategic frameworks for inclusive finance in a number of countries. With the evolution of macro level capacities and agenda in many countries, however, the prescriptive focus on national IF strategy design and adoption was becoming less relevant. The CSPs had only to a limited extent been successful in achieving increased capacity at sector level, in part due to the instruments and limited funding available. UNCDF's capacities to identify more innovative intervention niches and adequately address evolving IF policy and industry development issues should be strengthened, as might be in the offing with the implementation of the new MAP diagnostic tool. The standard UNCDF CSP model of retail investment management designed for its core markets of less developed 'frontier' countries had remained valid as an initial development intervention in such environments, but had significantly limited UNCDF's ability to constructively engage with other funders and attract additional funding in more mature markets and needs to be redesigned if UNCDF intends to stay in these markets.
- MicroLead's value proposition of supporting the expansion of Southern-based FSPs with documented experience into under-served LDC markets to generate market-leadership and demonstration effect was sound. ML investments were relevant for most of the markets selected, even if the focus on savings had been diluted with the selection of FSPs that had been unable to mobilize (voluntary) savings to date. The ML portfolio also demonstrated the importance of strong due diligence on capacity and willingness to adapt to new markets, and/or a need for a more phased approach to funding. This lesson – which was assumed generated by MicroLead, even if this was not well documented – had been fully absorbed and implemented by the younger GTI Youth Start (YS).
- YouthStart (YS) was too new to fully assess, but its selection of investees that were generally well-known (and in some instances funded) by CSPs increased its potential for additionality to the CSPs. The clear thematic emphasis of youth financial services was stronger than MicroLead's focus on savings and

aligned well with the objective to 'push frontiers'. Excellent knowledge management efforts were addressing the lesson learned that macro-level inputs should be included also in GTI designs. The design of YS with two phases was broadly lauded by FSPs that noted the rarity of funders contributing to research and development costs, and it also enabled under-performing FSPs to deselect themselves after Phase I, before larger grants were disbursed.

Effectiveness

UNCDF was scored at 3.0 or "good" on Main Question 2, Effectiveness. Overall, the UNCDF FSP portfolio was performing well, having increased outreach significantly, especially of savings services. On aggregate, portfolio quality had deteriorated, but sustainability levels were positive and increasing. UNCDF's objective of serving at least 50% women had been met, and significant increase in rural outreach was reported. Direct UNCDF contribution to results was indicated where programmes specifically targeted rural expansion, new products directed at women, and new delivery mechanisms (e.g. electronic banking), and YS' potential contribution to future YFS change was found to be high. Innovations along with financial depth, productivity and efficiency levels should be targeted and monitored more closely as indicators of institutional change at retail level.

As is generally the case, good partner *selection* had been the most important determinant of effectiveness and overall, the risk-balanced UNCDF portfolio appeared to have been selected to ensure contributions to UNCDF's broad range of intended results. Further clarification and upfront prioritization among the many UNCDF objectives and targets for each investment and programme would facilitate the identification of the most effective partner(s) to accomplish the set goals, and due diligence in the partner selection process could in some programmes be strengthened. In the existing partnerships, the contribution of UNCDF's programmatic support to the performance of counterparts was weakly documented. The targets and result measures used, especially for meso- and macro level support, should be updated and adjusted to better capture the results and systemic changes sought by UNCDF, as also pledged by the agency in 2010. A redefinition of UNCDF's value added at macro-level, increased focus on the multiplier effect of targeted TA and use of BDS providers at meso-level (including through GTIs), and a revision of the unintendedly self-imposing indicator for measuring results in terms of funder coordination could increase effectiveness (and documentation of impact).

Efficiency

Within the challenging framework of UNDP's administrative implementation structure UNCDF had allocated resources to deliver outputs relatively efficiently (score of 3.1 or "good" on Main Question 3). The overall quality of UNCDF's portfolio management (Main Question 7) was scored at 3.0 of 5 or "good" (see Annex 3), highest at 3.6 for the four countries in which YouthStart was scorable, 2.9 on average for CSPs and 2.7 for MicroLead.

GTIs had been efficiently implemented, but delays in CSP programme implementation had in some countries had high opportunity costs, even if CSPs had delivered more output on aggregate for the investment inputs received.

UNCDF had strong and institutionalized systems and tools for portfolio management, but there were weaknesses in measurements of value addition and results, and of cost tracking. As funding shortfalls remained a challenge within UNCDF, tracking over time of estimated and actual costs against results at retail (country) and programme (regional and global portfolio) levels could help identify key drivers for programme cost effectiveness as input to UNCDF's strategic decision making on the optimal portfolio composition to balance its objectives of taking risks and getting results.

The PBA system had worked well to incentivize FSP partners and staff to focus on UNCDF targets, and was well appreciated among stakeholders. It could be better adapted for meso- and macro level interventions, and should be implemented for loans. With the notable exception of YouthStart, knowledge management and information sharing could be improved, and the transition needed from project administration to more professional investment management will require redesign and capacity building.

Impact

Most stakeholders perceived UNCDF's investments to generate positive impact on the overall development objectives. The *outreach leverage* in the portfolio was high, funded FSPs having significantly increased outreach primarily in under-served markets/market segments. Like for outcome results, however, and with the notable exception of rural outreach, the leverage measure did not capture the contribution of UNCDF support to these excellent achievements (score of 2.8 on Main Question 4). The *funding leverage* as measured by UNCDF had attained half of the annual target set for 2011 when CSPs were considered, although the significant resource mobilization by GTIs would have ensured attainment of the full corporate target for the year.

UNCDF's systems for performance monitoring at retail level were stronger than for the sector development approach as a whole, but UNCDF's programmes continue to have a relatively high impact on the promotion of IF at macro-level in less developed markets. Impact at meso-level was weaker, but UNCDF might well generate future impact against the corporate advocacy target for client protection. UNCDF has consistency and successfully targeted women clients, but impact on the more complex issue of women's empowerment and on environmental protection in particular was not well tracked.

To increase documentation of UNCDF's likely impact in general, and in particular its contribution to systemic change at macro- and meso levels, on women's economic empowerment and environmental sustainability (MDG3 and 7), value added should be articulated more clearly, indicators should be revisited, and reporting should be systematized and aggregated. UNCDF would be well placed to pioneer a system for estimating the contribution of support to outcomes and objectives (attributable change) of financial sector development programmes by incorporating (elements of) the DCED standards for results measurements for private sector development programmes in its CSP results monitoring frameworks.[130]

Sustainability

The trends towards sustainability were positive at retail level where UNCDF strategically focused most of its efforts. Within UNCDF's core country sector development approach, results at meso- and macro level were uneven and influenced by external factors, and sustainability was less measurable. Most investees 'owned' funded projects and were confident activities would continue after funding ended, whereas co-funders were less convinced about sustainability (score of 2.9 on Main Question 5). The consistent use of PBAs at macro- and meso-level with measurable targets, declining amounts of subsidy (gradually increasing co-financing), and clear requirements for knowledge retention and transfer of responsibilities could improve (documentation of) sustainability.

The standard FIF/IC model was not designed with sustainability in mind and clearer disengagement/exit strategies should be included in the prodocs for the validation of all funders at inception. UNCDF's experimentation with alternative investment management structures (in DRC and Sierra Leone and to an extent in South Sudan) was a good step, but significant knowledge and perception gaps remained for both UNCDF and UNDP in the adaptation to participation in investment funds. Elaborating a strategy for how UNCDF can more constructively participate in registered funds managed by third parties would seem a better option than the Trust Fund idea being explored in Malawi, and may well pay off in better overall leverage of CSP funding for FSPs and IF in general.

[130] See DCED: The DCED Standard for Measuring Achievements in Private Sector Development, Ver. V, Jan 2010.

4. Recommendations for Improving the UNCDF Strategy for Support to Inclusive Finance

4.1. Overall (Strategic) Recommendations

4.1.1. Strengthen Articulation of Value Added at Programme Level

UNCDF is a relatively small funder with a balanced risk profile of countries and investees. The unique comparative advantages of the agency should be clarified in the selection (analysis) of market gaps to be reflected in programme design (WHAT to support), in the selection of counterparts and investees (WHY support) and in the types of investment and instruments used (HOW to support).

In higher-risk LDCs with weaker financial infrastructure, UNCDF can capitalize on its comparative advantage as ‘first mover’. With less competition, UNCDF could select a risk-balanced portfolio of retail-level partners, while carefully selecting counterparts at industry and policy level that could be supported with relevant instruments (funding and TA) to deliver on a narrower range of specific outcomes. The FIF/IC structure could be retained for a limited time period (i.e. with an articulated exit strategy) with UNCDF taking on a role as ‘liaison agent’ for smaller or non-resident IF funders (including private sector investors) without UNCDF’s in-country technical expertise. Such a model might apply to countries such as Bhutan, Chad, Lesotho, Comores, CAR, and (sub-regions of) countries having recently transitioned from humanitarian to development aid.

In more mature markets, the approach and standard model needs to be adjusted to clearly demonstrate UNCDFs value added. If no comparative advantages can be identified, UNCDF might consider phasing out of the relatively few portfolio country markets which have matured and are served by other funders, and instead focus on poorer LDCs with higher access gaps. Through GTIs targeting specific market segments, however, UNCDF could maintain a presence in more mature markets, as exemplified by YouthStart investments in Senegal and Uganda.

4.1.2 Redefine UNCDF interventions at Macro-Level

If CSPs remain in markets where national strategies and legislation are in place, and the regulatory agenda has broadened, UNCDF should use the MAP or similar diagnostics to redefine a limited range of ‘innovative’ policy topics (niches) that CSPs could address (with commensurate strengthening of technical capacity at the level of PMUs). Such niches could be developed from UNCDF’s recent focus on client protection or other regulatory reform agendas that are increasingly important to national stakeholders, including financial education/literary, where UNCDF’s partnership with UNDP – and a revival of links to FIPA’s sister practice area Local Development - could present strong comparative advantages, e.g. for addressing:

- Remaining barriers to expanded market penetration of financial services (e.g. inclusive service provisions and communication (rural-urban market information chains, Government-to-People services, etc.);
- The inclusion of specifically vulnerable communities (e.g. financial services to address climate change/environmental challenges through the GTI CleanStart);
- A clearer contribution to women’s economic empowerment, as may be in the offing with the concept developed in 2011 for an Access for Women’s Empowerment (AWE) Facility.[131]

To strengthen impact at macro-level, increased use of TA within the CSPs for these specialized topics would be necessary, and should be designed to transfer expert knowledge to national partners and CSP staff to ensure that UNCDF’s key comparative advantage of technical expertise at field level remains a value added as the IF policy agenda evolves in UNCDF’s countries. The value added of synergy between UNCDF’s CSPs and GTIs could also be better utilised, as the global identification of expertise, prototypes, and experiences would strengthen UNCDF’s value proposition to national policy makers. UNCDF could exploit its comparative advantage of risk willingness to recognize and support smaller, but promising institutions and/or

[131] See UNCDF Annual Report 2011, p. 21-22.

innovations/approaches (pilots) that can be taken to scale by policy makers to pave the way for broader initiatives promoting the expansion of inclusive finance (e.g. delivery of basic services in remote rural areas via nascent local governments, or delivery of financial services in remote rural areas via mobile banking). This process could be supported by the policy advisor recruited by UNCDF in 2010.

4.1.3. Strengthen the Private Sector Support Principle at Meso-Level

Clearer objectives and targets, more focused partner selection, and monitoring of performance against the outcomes defined in the UNCDF IF results framework would strengthen UNCDF's value added and serve to better document UNCDF's contribution to impact at meso-level.

CSPs might to a larger extent articulate the UNCDF principle of Private Sector Support by identifying and linking financial business development service (BDS) providers to the national IF industry and funded FSPs, and/or funding research by and capacity building of these BDS providers (TA with requirements for knowledge transfer and training of trainers). TA availed through GTIs could be better exploited through increased linkages, two-way communication with national stakeholders (as done in Ethiopia), and closer contacts to CSPs so that services provided to specific FSP investees might benefit the IF sectors more widely, especially through enhanced knowledge generation, dissemination, and publication of results and lessons learned. A clearer focus on supply-side support for commercially viable financial business services (essentially supporting the MSMEs that serve FSPs) could increase impact in terms of crowding-in of emerging businesses to sustainably replace externally funded project support in the longer run, and increase sector inclusiveness through multiplier effects at national levels.

4.1.4 Redesign the Retail level Investment Management Structure

UNCDF needs to redesign the financing model for its CSP retail (and meso) investments to improve funding leverage and to enable UNCDF to more constructively participate in the setting-up and governance of more viable investment fund structures, typically led by TSPs or other funders, especially in more mature markets.

- The current legal (UNDP) prohibition against investing in separate legal entities (e.g. existing Investment Funds) needs to be resolved. If UNCDF cannot be granted permission to invest equity into national entities, grants (donated equity) to such entities should be considered at par with the permitted grant investments in commercial banks and other private enterprises, and representation as a 'minority stakeholder' on the governing bodies should be permitted (as accomplished in ML);
- In order to meet its financial leverage mandate, UNCDF could expand its comparative advantage of technical expertise to become an 'agent' or 'honest broker' in existing Investment Funds. In this role, UNCDF could be the liaison (agent) for smaller, more passive (typically bi-lateral) funders with interest in and funds for IF, but without the in-country expertise and resources for oversight and representation;
- In the 'broker' role, UNCDF could focus particularly on investments in 2nd and 3rd Tier FSPs and under-served market segments and/or innovation agendas that are not being adequately addressed by other stakeholders. In the due diligence process and through careful selection of instruments, UNCDF should diligently observe its principle of "Market Failures as a Prerequisite", to avoid distorting local supply markets;
- This would require a clear strategy for knowledge management/marketing, a reworking of the financial model, policy guidance and training of staff and SC/IC counterparts for the new role as investment manager, and the relinquishing of the 'IC ownership' as new programmes are designed based on the MAP diagnostic process.

4.1.5. Increase the Synergy/Integration of CSPs and GTIs

For the strong comparative UNCDF advantage of the global initiatives' access to a global pool of expertise and market leaders to be fully exploited, their linkages with CSPs should be strengthened. This would require a two-way communication of needs (from national stakeholders via CSPs to GTIs) and proposed responses to these needs (from GTIs).

With its in-country technical capacity but limited financing, UNCDF would be well positioned to act as a *'liaison agent for innovation'* between global research, development, and piloting efforts (GTIs) and national IF sectors looking for innovation (CSPs). The IC and SC structures or broader forums of national stakeholders could serve as anchorage hubs for this process, ensuring that national demands, market gaps, opportunities and feasibility assessments for new products are communicated effectively to GTIs, while UNCDF could facilitate communication and linkages between the global development hubs and national IF sectors and generate new public knowledge on lessons learned, increasing its own relevance, visibility and value added in the process.

To strengthen integration between the two UNCDF IF programme types, for example, CSPs could assist national stakeholders in developing a list of prioritized agendas/projects and prospective partners or market gaps within their respective focus areas. Relevant projects could be incorporated in the global RFAs of GTIs to 'source' expertise. Conversely, the endorsement/review of selected GTI investments by national stakeholders would increase their buy-in and support, ensuring better monitoring and visibility at country level.

4.1.6. Fine-tune Measurements to better document Results and Impact

Corporate targets have been established for macro-, meso- and retail level outcomes. The clarification of UNCDF's value added (see 4.1.1.) should be followed by a review to adjust (and perhaps reduce the number of) these targets. The indicators for measuring outputs, outcomes and contribution to objectives of each programme could be refined and standardized to ease performance reporting and portfolio monitoring, and in turn ensure better documentation of UNCDF contributions to results and impact. A revised indicator should include consideration of UNCDF's objective of increasing access to finance for *poor* people, e.g. by incorporating a social performance measurement;

- The unintendedly self-imposing indicator for *funder coordination (*"the extent to which donors support the UNCDF financial systems approach") should be revised*.* A revision of the indicator for *funding leverage* should seek to estimate programme contribution (CSPs and GTIs) to all sector funding catalyzed and acknowledge non-IC and especially private sector contributions;
- The outcome indicator of *outreach leverage* should be refined to focus more clearly on the added value of UNCDF interventions. Contributions from other sources to the FSP outreach and the total financial value of these contributions versus the input from UNCDF (or CSP ICs as partnerships) should be sought documented to estimate *attributable* change,[132] and thus clarify the causal links between total observed change in FSP outreach and programme-specific interventions (funding);[133]
- The indicators for the corporate targets related to advocacy for client protection and knowledge management recently introduced should be refined and systematically integrated into the performance reporting and monitoring systems to facilitate better documentation of likely impact;
- UNCDF should require FSPs to disclose all funding received. This would provide UNCDF with an indicator of the relative funding need among potential FSP partners to facilitate selection, and could document the ability of FSPs to secure funding from alternative sources to help avoid any unintentional displacement of private sector capital;
- The PBA templates and reporting formats would benefit from revisions to better accommodate the 'innovations agenda' of UNCDF. Templates should be more flexible to enable programmes to select among a broader range of key indicators and set targets and milestones to reflect specific results, especially at meso- and macro-level). Pre-determining a set of key indicators would maintain the standardization needed for reporting on outcome indicators to facilitate aggregate analysis of portfolio performance;
- To enable better strategic use of the data compiled from investees and programmes, UNCDF should consider developing a system and acquiring the necessary performance monitoring software to generate, track and analyze multi-country trends across types of investments, programmes, and regions. In

[132] As per the Universal Standard 4: Attributable Change is Estimated. DCED (2010), op.cit.

[133] Based on its strong results monitoring systems, UNCDF might consider piloting a system for better estimation of attributable impact in financial sector programmes (CSPs), e.g. in line with DCED Standard for Measuring Achievements in Private Sector Development, Standard 4 – 7.

addition, performance against targets and baselines should be tracked to generate performance benchmarks for the portfolio and monitor the target setting for FSPs, which was found of varying quality.

4.2. Operational Recommendations

The strategic recommendations in Section 4.1 gave rise to a number of more operational recommendations for improvement to the management of UNCDF programmes. These are provided below.

4.2.1 Programme Governance, Policy Development and KM

1. It would be appropriate – as planned for in the YouthStart prodoc – to establish a GTI advisory/supervisory committee including UNCDF-external stakeholders with expertise in the relevant product development areas (one core committee with changing external experts or one for each GTI) to support and guide the GTI PMs during design and balance any donor disbursement pressures.

2. The UNCDF Policy Advisor has been charged with developing guidelines on Client Protection Principles and draft national strategy papers for Senegal and Liberia. A more operational guidance note on national CPP strategies could clarify how UNCDF's CSPs (and GTIs) could contribute more directly to the client protection agenda through outputs, reporting, publications and monitoring (see also 4.3.4 below).

3. To lead by practice, it would be appropriate for UNCDF itself to monitor and report on its internal management efforts to promote gender mainstreaming. Reporting on gender-disaggregated staff at operational and corporate level would send a stronger signal about UNCDF's contributions to MDG3.

4. The understanding of innovative product development could be broadened to exploit opportunities for better attention to the environmental protection mandate of UNCDF, as may be in the offing with the new GTI, CleanStart, but could be expanded to all CSPs. A KM staff is being recruited for CleanStart, and it might be relevant to expand the mandate for this project to assist in developing a broader policy and operational guide for UNCDF in the area of environmentally sustainable operations.
    - Like the LD practice area has done, FIPA could consider conducting an internal "Inclusive Finance and Social & Environmental Performance Review[134] of existing efforts and gaps as a basis on which to develop policy guidance for FIPA demonstrating its stated intent to promote MDG7 on environmental sustainability. This could feasibly be headed up by CleanStart.

5. As suggested with the new targets set at corporate level for knowledge management, a more active and sustained interaction with all IF funders at country level is needed. Field-based staff might need guidance on (and authority to) participate more actively in sector and donor forums and how to represent UNCDF from a policy and strategic perspective, especially as a non-shareholding investor in national Investment Funds:
    - In general, the recommended transition from 'project administration' to 'investment management' appeared unfamiliar to many PMUs, and should be addressed with relevant training and exposure as a follow-up to the 'investment guidance note' produced in 2010. Where UNCDF deploys staff to CSPs in highly politicized environments – or where macro-level activities are core to the CSP – such skill sets could be better reflected in the CTA/CRA TOR and job descriptions, and reinforced with training;
    - UNCDF should consider requiring a standardized summary of annual work plans and annual reports of CSPs to be published on UNCDF's webpage to augment visibility and coordination efforts;
    - All CSPs could also be asked to produce and submit at least one annual case study on lessons learned, including learning from GTI-CSP synergetic interventions, for publication by UNCDF. These

[134] See UNCDF: Local Governance and Climate Change, December 2010. This review aimed to identify and articulate what has (or has not) been done by local governments (LGs) in addressing climate change, and to define approaches to towards greater local government involvement in this issue. A similar review for FIPA on social and environmental issues would be pertinent.

case studies could be compiled and published in an annual document to augment UNCDF's contribution to learning for the global microfinance industry.

6. As a matter of priority, UNCDF should develop a Policy Guidance on Disengagement Strategies, and ensure that a heading be included in the template for programme documents to guide prodoc designers to articulate UNCDFs exit strategy. In this way, disengagement would be agreed by all counterparts and co-funders at the start. The policy might consider prioritizing the disengagement from countries, where regulatory reforms, industry maturity and the arrival of other IF funders has created the conditions where "programmes and ideas can be taken to scale by partners" and UNCDF can thus withdraw with its ultimate impact achieved, and focus its efforts on markets where its key comparative advantages can be fully exploited.

4.2.2 Efficient Time and Resource Allocations

7. To reduce the long delay between prodoc approval and CTA arrival, a 'cut-off' date should be established (e.g. at approval by the IC or the HQPAC) for it being unlikely that a programme would be rejected, at which time the recruitment process for CTAs or CRAs should be started to run simultaneously with the local appraisal procedure. Such a 'go-ahead' could be documented by an initial (written) vetting of the draft prodoc by the key (signatory) national authority and UNDP, based on which the IC or PAC could authorize UNCDF to proceed with recruitment 'pending final approval' as is often done by other agencies. This might result in a more time-efficient start-up process.

8. Policy guidance could prescribe that programme launches do not take place until the CTA and PMU teams are in place.

9. Given the many and persistent challenges found in recruitment, procurement, and disbursement within PMUs operating under UNDP POPP rules, it would seem appropriate to establish an Inter-Agency Task Force to seek operational solutions to the constraints. This Task Force could review, among other issues:
   - The feasibility of providing further delegation of financial approval authority to CTAs contingent on completion of relevant training;
   - An imprest account mechanism combined with increased financial authority for the CTA. UNCDF could consider proposing an imprest account management system for CTA-led PMUs with quarterly (if not semi-annual) disbursements being transferred from UNDP country offices based on accountabilities demonstrating use of funds, as is known from most other development agencies;
   - Cross-agency training opportunities for (especially new) CTAs and PMU staff in the complex operational procedures and systems of UNDP, and review/feedback mechanisms to capture opportunities for improvements;
   - A revision of the 'budget execution' indicator used in staff appraisals to take into account delays or changes in ASL disbursements;
   - The issue of country-level representation of UNCDF as a non-resident agency. It may be relevant to consider formally empowering (qualified) UNCDF CTAs to represent the agency at country level.

4.2.3 Improved Selection and Due Diligence

10. Good investee selection remained a key determinant for effective performance of FSPs, and by extension, of UNCDF programmes. Selection (WHO to fund) could be better justified against UNCDF core outcomes, objectives and value addition. In a clarification of selection and appraisal criteria, the following issues should be addressed:
    - Operational guidance on selection (due diligence) including analysis of the FSPs' current position in their supply market (market share, assets), current financial depth, current efficiency/productivity levels, governance, growth potential, and capacity to expand to under-served areas/segments;
    - Business plan appraisal tools to detect 'high value added' indicators, such as projections for rural expansion, new product/service development, financial depth by product, etc.;

- Ranking tools for potential investees, based on age, asset size, savings license, and disclosure of funding from other sources. The 'cost to client' estimate should be standard in the selection of all FSPs.

4.3.4. Improvements to PBAs, Reporting and Monitoring Systems

11. The standard Grant PBA template was not well adapted to activities involving new products/services, or to activities at meso- and macro levels, and there was no PBA template for debt finance. While the time and efforts involved in getting templates approved by the Legal Department are well appreciated, the performance management system of UNCDF would greatly benefit from a larger set of (editable) templates adjusted to its core intervention areas.
    - The PFIP PBAs had been adjusted to the mobile money activities supported, and a PBA in Rwanda was adjusted to better accommodate SSO activities, and these might serve as the basis on which templates could be developed for support to 'innovations', meso- and macro level investments;
    - The debt finance instrument is unique to UNCDF/FIPA, but for it to contribute to UNCDF's value added, clearer policies, procedures, PBA templates and monitoring systems must be developed as a matter of urgency.[135]

12. The PBAs would be stronger instruments to incentivize the performance of grantees, if key indicators clearly reflected the most desirable (value adding) outcomes for UNCDF (innovations, under-served market expansion, client protection, etc.) and if progress towards the key indicators were clearly included in the disbursement milestones. Changes in cost efficiency and staff productivity ratios may be early indicators of changes in operational systems, structures, processes and products that only later result in changes in profitability and portfolio quality, and could thus be incorporated as 'interim measures of progress' in the milestones.

13. The commendable inclusion of encouragement to join the SmartCampaign on Client Protection in the PBAs since 2011 should be strengthened with related indicators for reporting, and (soft) targets. Adding (at least a subset) of the MIX/CGAP social performance indicators into the reporting and monitoring framework of UNCDF would enhance its ability to document social performance in line with the commitment to promote responsible finance and client protection.

14. The PBAs would work more efficiently to incentivize performance, if positive sanctions were included. Positive sanctions include rewards for performance in excess of selected targets, e.g. targets relating specifically to desired behavior, such as lower loans and savings balances (indicating deeper reach), outreach to specific target groups (previously unbanked, rural populations, women, youth, communities at risk from climate change/environmental degradation), and/or introduction of relevant new products or services.

15. In the process of negotiating and finalizing PBAs with investees, the following issues should thus be considered:
    - Documented justification of funding instrument (grant, loan, TA, guarantee) based on an assessment of risks of market distortion and crowding-out, investee needs, returns on investment ('cost-to-client' ratio), and alternative funding options, especially for 'Tier 1' FSPs and greenfields, but also for meso-level SSOs;
    - As part of this process, requiring co-financing by investees for specific 'projects' could increase buy-in and attention to targets;
    - 'Positive sanctions' (rewards for 'over-performance') should be included in the PBA system. One way of generating direct financial incentives for investees to 'over-perform' would be to (partially) waive required co-financing for investees that exceed performance targets in specific indicators. Several other reward systems are used in the industry which UNCDF could explore;

[135] In June 2012, FIPA recruited consulting assistance to develop a long overdue loan management system and database.

- Reporting requirements and as relevant a 'soft' target for the development of a social and environmental performance monitoring system (SEMS) confirming that national labour standards and environmental regulations are respected, and reporting on related indicators should be included;
- In addition, it would be appropriate for PBAs to include a caution against money-laundering practices, and other aspects of general good governance and adherence to national legislation for financial service provision, as done e.g. by FPM in the DRC.

16. In the monitoring system, UNCDF value added indicators could be included in 'key performance indicators' and progress towards targets added to 'disbursement conditions' in the PBAs signed with investees. For FSPs, this could include, e.g.:
    - Expansion of Rural Outreach (net change in rural branches, number of rural clients by product);
    - Outreach achieved by the introduction of new products/services specifically targeting under-served areas/segments, including products specifically designed for previously un-banked and/or women clients;
    - Efficiency indicators (OER[136], loan officer/staff productivity, cost per client by product);
    - Indicators of increasing financial depth (ALB/GNI and ASB/GNI disaggregated by product);
    - Indicators of increased gender equality in leadership positions (net change in number of women in senior management and on governing boards).

17. For meso- and macro-level investees, key performance indicators should be refined to measure progress against the outcomes set in UNCDF's CMP and business plan, and disbursement conditions should be linked to documented progress, e.g.:
    Macro-level (Outcome A: National policy environment improved for client protection):
    - # new policy initiatives (guidelines, regulations, reporting frameworks, publications) implemented;
    - Increase in # FSPs that publish financing options, costs (interest rates, embedded costs) to clients;
    - Increase in # FSPs that operate client complaint systems (or report to centralized consumer protection entities);
    - Increase in # FSPs that report to secure credit reference bureau/information exchange services;
    - % of all UNCDF clients by country who are served by FSPs that have adopted the practices listed above.

    Meso-level (Outcome B: sector-wide initiatives/activities at country level addressing client protection):
    - Increase in # FSPs adopting SmartCampaign Consumer Protection Principles (CPP);
    - Increase in # FSPs adopting/integrating the Universal Standards for Social Performance Management;[137]
    - CPPs incorporated in industry Code of Conduct and performance reporting systems;
    - Increase in # FSPs reporting on social performance to MIX Market (via national association/SSO);
    - Increase in # FSPs included in financial/social performance industry reports published (by SSO).

18. For the reporting formats and in UNCDF's monitoring of investee progress, it is recommended that:
    - UNCDF clarifies which formula FSPs should use for the reporting of OER. OER/average total assets is recommended to avoid disfavouring smaller FSPs; FSPs that provide smaller loans; and FSPs that primarily offer savings or other services;
    - The FSS ratio and/or RoA should (gradually) replace OSS as the key measure of sustainability;
    - Relevant prudential indicators (for FSPs: liquidity, capital adequacy, asset growth ratios, etc.) should be included to enable ongoing risk assessment for investments;
    - Investees should be required to disclose all external funding (IC and non-IC) to enable monitoring of UNCDF's 'catalytic effect' of attracting capital;

[136] Average total assets would be a more appropriate denominator for financial intermediaries when calculating the operating expense ratio (OER) than the currently used average gross loan portfolio.
[137] See: SPTF: Universal Standards for Social Performance Management, October 2012

- A standardized narrative reporting format be reinstated for investees, e.g. derived from the template used by YouthStart. Template headings should direct attention to the areas UNCDF would wish to compile information on, and could include:
  - Progress on client protection activities;
  - Progress on promoting women's economic empowerment/gender mainstreaming;
  - Progress on the establishment of a SEMS and social/environmental performance monitoring;
  - Progress on new product/service development; and
  - Progress in accessing external funding (equity, debt finance, grants) by source (public/private)
  - Plan for sustainable continuation after UNCDF funding period.

19. To better understand the social and environmental performance of FSPs, UNCDF could expand the external ratings that several CSPs are funding for their FSPs to also include social ratings, which most of the international MFI rating companies are now offering, or SPM audits as developed by *MFTransparency*.

20. UNCDF should develop a standardized annual reporting format for CSPs (and GTIs at country-level), which could include headings such as:
    - Update of programme results chains, including systemic (meso/macro level) changes expected, consultation with stakeholders, risks of displacement;
    - Progress against established indicators of change from baseline;
    - Justification for revisions needed to prodocs, work plans, targets, etc. (e.g. due to changes in ASL);
    - Clear estimations of *attributable* (direct and indirect) change for key indicators including contributions (financial and non-financial value) from other sources;
    - Qualitative and quantitative results against targets and allocated costs, also for systemic change, e.g. by 'level' of CSPs, and for targets set for measuring the performance of the IC/SC structure of CSPs, where relevant.

21. UNCDF should make better strategic use of the data compiled from investees and programmes. The information contained in reporting formats and country level analysis provided by CTAs in CSP progress reports along with audits and MIX market reports if aggregated, can be used to perform a deeper analysis of portfolio performance and trends within all regions (by ROs) and across regions/programmes against (revised) corporate targets (by HQ) as input for learning and strategic programming. According to the MIX Market, this practice has been implemented for the UNCDF/FIPA retail portfolio as of fall 2012.[138]
    - A policy should be developed for the internal analytical performance monitoring process to ensure the aggregation of country- and investment level data.
    - UNCDF might need to invest in one or several dedicated performance monitoring software(s) able to generate, track and analyze multi-country trends across types of investments, programmes, regions, and indicators. In addition, a function enabling the tracking of performance against targets and baselines would enable UNCDF to generate performance benchmarks for its portfolio and monitor the target setting by programmes for investees, which was found of varying quality.
    - The internal portfolio performance 'self-assessment' exercise planned by UNCDF may function as a pilot project for the development of a more standardized and on-going portfolio-wide review and analysis process.

[138] Email from MIX Market COO Mr. B. Stephens, January 2013.

Annexes

Annex 1: Methodology and Sources of Data

Annex 2: Scoring of underlying Performance of Funded FSPs

Annex 3: Scoring of UNCDF/FIPA's Project Cycle Management Quality

Annex 1: Methodology, Sample Size and Sources of Data

The Evaluation methodology developed for the Portfolio Review was based on UNCDF's standard evaluation approach of assessing evidence of project and programme performance against the intervention logic/development hypotheses underlying the programme. The portfolio review assessed and scored the performance of the UNCDF portfolio at three levels:

- The underlying performance of retail FSPs supported by UNCDF/FIPA;
- The quality of UNCDF/FIPA's management input (project cycle management and value added); and
- The resulting performance of UNCDF/FIPA's country sector (CSP) and thematic (GTI) programmes based on detailed analysis of a representative programme sample.

Programme Sample Size

As at end 2011, UNCDF had IF investments in a total of 28 countries. Seven of these countries were served by the regional Pacific Financial Inclusion Programme (PFIP) and MicroLead's investment in the regional pacific Westpac Bank started in only September 2011. Both focused largely on the expansion of 'mobile money' by mobile network operators (MNOs) rendering reporting of FSP performance difficult in the formats approved for the PR and they were therefore not included in the PR.[139] Of the remaining 21 countries, the very new or very small country programmes in Comores and Lesotho were omitted from the PR as agreed by UNCDF. Under the country programmes in Niger and the Central African Republic (CAR), only three FSP investments were reported. These investments were scored as FSPs, but the country programmes were not assessed. UNCDF had no country sector programmes in Bhutan, Ethiopia, or Uganda, but significant GTI investments. MicroLead was scored by the PR in Bhutan and Ethiopia, and YouthStart was scored in Ethiopia and Uganda as input to the overall programme scoring of these GTIs. Only the remaining 14 country sector programmes were analyzed in detail and scored for programme performance and portfolio management quality. Thus, the PR included:

- A review of the *relevance* of the UNCDF country portfolio, including 19 of 28 (68%) countries with investments; and
- An assessment of programme performance and management quality in 14 of 18 (78%) country sector programmes, and two additional countries with significant GTI investments.
- Of the countries included in the review, the PR team visited seven, or 37%.

Sources of Data and Scoring Tools

A large body of documentation on the policy and procedural background for UNCDF programming, programme and investment design, implementation, and performance was accessed during the desk review stage of the PR. This data was complemented by a) a data input template distributed via CTAs and PMs to all current FSP investees and b) field visits to seven countries selected to ensure representativeness of the portfolio. During the field visits, internal and external stakeholders; investees and their clients where possible; and co-funders were interviewed to gather insights on programming, performance, and challenges. In addition, an electronic survey was disseminated to 465 stakeholders, of whom 126 replied, providing further observations and recommendations. Further, 12 key internal and external stakeholders were interviewed either in person during visits to the UNCDF headquarters in New York and two of the three regional offices (Johannesburg and Bangkok) or by telephone. Finally, the PR team was invited to attend the UNCDF/FIPA annual meetings of all staff and CTAs in October 2011 and October 2012 respectively to gain further perspectives on the design, performance and results of programmes.

Findings from all these data sources were translated into a standardized form to provide a quantifiable way to analyze programme performance. Three scoring tools were developed:

- A Programme Scoring Matrix for Country Sector Programmes/Thematic Programmes at country-level;
- An FSP Scoring Matrix (linked to the FSP data input tool);

[139] No completed FSP datasheets were received from the two programmes, as discussed in the Interim Report on Findings from Desk Review and Field Validation Visits of 20 February 2012, approved by UNCDF.

➢ A Scoring Matrix for UNCDF Project Cycle Management and Value Added.

Programme Scoring

In the Programme Scoring Matrix, the overall PR Main Evaluation Questions were tied to the standard DAC/UN evaluation criteria. Key Questions were developed in line with the UNCDF results framework and the PR TOR, and Sub-questions ("verification items" or indicators) were designed to address the aspects necessary to respond to each Key Question. The Matrix thus sought to provide scoreable evidence of performance at different levels of programming linking back to the underlying development results chain.

The scoring helped establish the relevance of UNCDF programming inputs without which the underlying development logic would be difficult to serve (and from an evaluative perspective, yield findings at other levels of the results chain). Efficiency and effectiveness questions were developed to provide evidence of the extent to which UNCDF input (funding, implementation systems, and activities) combined to achieve intended results (outputs and outcomes at the three levels of intervention in FI sector development) and to explore how effective and efficient the UNCDF management had been in supporting desired results. To the extent possible, impact questions provided indications of whether outcomes were likely to deliver the expected development impacts. Finally, sustainability questions sought to estimate the degree to which UNCDF programming would provide lasting contributions to the overarching UNCDF goals as specified in corporate targets. The presentation of results in the Synthesis report was kept at the level of Key Questions, as summarized in Table 1.1.

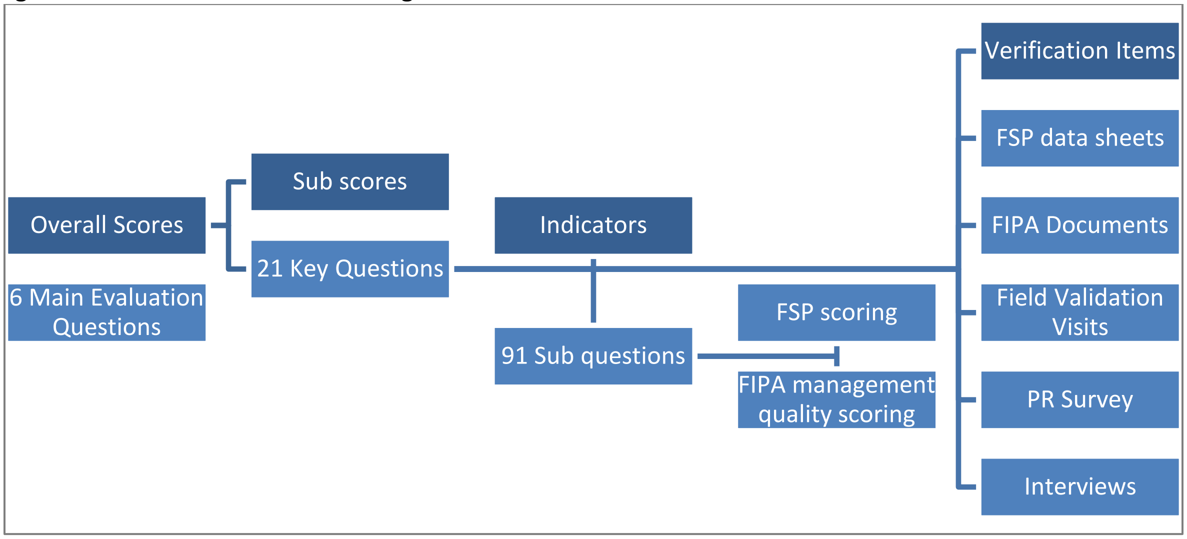
Scores were less intended to indicate how "good" a programme or FSP was, but rather to demonstrate its level of performance against the intended objectives, results (outcomes), and outputs.

In order to calculate the overall UNCDF score, the PR broke down the analysis of UNCDF as illustrated in Figure 1.1.

Table 1.1: Summary of Programme Areas Assessed and Scored

Main Evaluation Questions	*Key questions*
A. Are UNCDF's microfinance sector programmes and GTIs strategically relevant given its mandate, instruments and comparative advantages?	A1: Aligned with UNCDF's mandate A2: Integrated in national strategies A3: Coordinated with partners A4: How appropriate were they?
B. Are UNCDF's investments in microfinance effective in terms of achieving their intended results?	B1: Achieving retail outcomes B2: Achieving meso-level outcomes B3: Achieving macro-level outcomes B4: Supporting systems changes B5: Contributing to coordination/funding
C. To which extent have programme outputs attained to date been commensurate with the input of resources and time allocated?	C1: Sufficient funds/time to deliver outputs C2: Sufficient management arrangements C3: Efficient incentive system (PBA)
D. To which extent have the UNCDF programme investments contributed to MDGs (likely impact)?	D1: Improved access to finance for the poor D2: Sustainable growth in underserved markets D3: Leveraged increased resources D4: industry and policy level impact D5: Impact on women's empowerment D6: Impact on environmental sustainability
E. To which extent are UNCDF's MF investments leading to sustainable provision of financial services for the intended clients?	E1: Positive trend towards retail sustainability E2: Sustainability at meso/macro level E3: Clear and workable exit strategy

Figure 1.1: Structure of the PR scoring



The overall PR scoring methodology used a "roll-up calculation" scoring system:

1. Findings from the verification items (Sub questions) were compiled by country and programme.
2. The FSP input data was scored in the FSP scoring matrix (see below).
3. The Management Quality scoring tool was completed (see below).
4. The programmes were scored on a scale from zero (0) to five (5) on 91 sub questions (indicators/elements), of which 15 related directly to FSP performance and 16 related directly to management quality, incorporating scores from these tools. Because all subquestions in the programme scoring matrix were formulated to assess "the extent to which…", the grading system differentiated between percentage extent of performance on each subquestion on the spectrum of 0 – 100% (see Figure 1.2).
5. The score on each Key question was the sum of the scores on its sub questions. Each sub question was given equal weight as it addressed a specific "necessary and adequate" aspect of the – often complex – key questions to generate a comprehensive response.
6. Numeric Key question scores were divided by the maximum possible scores attainable (less any "not applicable/available" sub scores) to arrive at a percentage score, which was adjusted to the non-linear scoring scale[140] used for in the Programme Scoring Matrix (see Figure 1.2).

Figure 1.2: Scoring scale used

0: Exceptionally poor	1: Unacceptable	2: Acceptable	3: Good	4. Very good	5: Exceptionally effective
>10% extent	11-20% extent	21-50% extent	51-75% extent	76-90% extent	<91% extent

7. Key questions were analyzed and checked for consistency before they were averaged to arrive at aggregate scores for countries (average score for all programmes in one country); regions; and/or programme types as relevant for the presentation of data in the Synthesis Report.
8. The overall UNCDF scores on each Main Evaluation Question (DAC criterion) were calculated as the simple average of the Key question scores pertaining to each criterion.

A summary of the resulting programme scores by country are presented in Table 1.2.

[140] As presented in Figure 1.2, the scoring scale did not distribute scores equally across the 100% total percentage extent to which a verification item was achieved. A linear scoring scale would have allocated 16.67% to each scoring category, but the PR adjusted this scale to allow for larger ranges of performance to slot into score categories 2-4 (acceptable – very good).

Table 1.2: Summary of Programme scores by country

Main Question	Key Qestion Scores "extent to which":	Bhutan	Lao PDR*	Nepal	Timor L.*	Asia	DRC*	Ethiopia*	Madagascar	Malawi*	Mozambique	Rwanda*	S Sudan*	E/S Africa	Burkina F	Liberia*	Senegal	Sierra L*	Togo	W Africa	Overall	Overall score
RELEVANCE	**Overall Relevance score**	**3.8**	**3.7**	**4.1**	**4.1**	**3.9**	**3.5**	**3.8**	**4.0**	**4.0**	**3.7**	**3.8**	**3.0**	**3.7**	**3.6**	**3.1**	**4.0**	**3.4**	**3.4**	**3.5**	**3.7**	**Good**
	A1: Programmes objectives have been aligned with UNCDF's broader mandate, IF strategy and results chain.	3.4	3.1	4.2	3.6	3.5	3.7	3.6	3.1	3.4	3.1	3.4	3.2	3.3	2.9	3.2	3.4	3.6	3.2	3.2	3.3	
	A2. Programmes are effectively integrated into the national development strategy and UN planning and results frameworks at country level?	4.0	4.5	4.3	4.5	4.5	3.8	4.2	4.7	4.5	4.0	4.2	4.0	4.4	4.0	3.8	4.7	4.3	4.0	4.4	4.4	
	A3. Programmes are aligned & coordinated with the strategies of other donors/ partners/government in the IF sector and UNCDF's value added is clear?	3.3	3.2	3.3	3.2	3.3	2.9	3.3	3.3	3.7	3.3	3.7	2.6	3.2	3.7	2.6	4.0	3.7	2.8	3.2	3.2	
	A4. Programme investments have been appropriate to the country/sector/ FSPs?	4.2	4.1	3.7	4.2	4.0	3.6	4.0	4.3	4.3	4.0	3.9	2.9	3.5	3.7	3.2	3.9	2.9	3.7	3.4	3.6	
EFFECTIVE-	**Overall Effectiveness score**	**3.8**	**3.0**	**3.6**	**3.7**	**3.5**	**2.8**	**3.5**	**3.4**	**3.4**	**3.0**	**3.3**	**2.5**	**3.0**	**2.7**	**2.6**	**3.4**	**2.4**	**2.8**	**2.7**	**3.0**	**Good**
NESS	B1. Programmes are achieving their specific objectives and results (outcomes) at retail	4.1	2.9	4.6	3.0	3.5	3.0	3.7	3.2	3.4	3.7	3.1	2.4	2.9	3.7	2.4	3.2	2.4	2.8	2.8	3.0	
	B2. Programmes are achieving their specific objectives and results (outcomes) at financial sector (meso) level?	3.0	2.9	2.9	2.5	2.9	2.6	2.9	3.7	3.1	3.7	2.8	2.2	3.0	2.2	2.3	3.0	2.3	2.9	2.6	2.8	
	B3. Programmes are achieving their specific objectives and results (outcomes) at policy level.	3.7	2.7	2.5	2.7	2.8	2.4	2.3	3.7	3.1	2.8	3.0	2.2	2.9	2.4	2.5	3.1	2.1	2.7	2.7	2.8	
	B4. Programmes have supported significant changes in systems and processes in counterpart organisations?	4.1	3.0	4.3	4.3	4.3	2.8	4.3	3.0	3.7	2.7	3.4	2.3	2.9	2.9	2.4	3.7	2.4	3.7	2.8	3.3	
	B5. Programmes have contributed to better coordination and funding availability in the financial sector?	4.3	2.8	4.0	2.6	3.3	2.3	3.7	3.2	2.1	2.5	2.4	2.2	2.8	2.5	2.2	4.6	2.0	2.5	2.7	3.0	

EFFICIENCY	**Overall Efficiency Score**	**3.8**	**2.9**	**3.2**	**3.1**	**3.3**	**3.2**	**3.8**	**3.0**	**3.8**	**3.2**	**3.6**	**2.4**	**3.2**	**3.6**	**2.5**	**3.7**	**2.4**	**2.8**	**2.9**	**3.1**	**Good**
	C1. Amount and duration of investments been sufficient to deliver outputs/outcomes within reasonable time period?	4.3	2.9	3.7	2.6	3.4	2.7	3.2	2.9	3.4	3.2	3.2	1.7	2.9	4.1	2.7	3.7	2.4	2.9	3.0	3.0	
	C2. Institutional and implementation arrangements are sufficient to generate expected outputs and outcomes?	3.5	2.9	2.7	3.3	3.0	3.5	4.1	3.0	4.0	3.2	4.0	2.4	3.4	3.5	2.4	3.7	2.4	2.7	2.8	3.0	
	C3. UNCDF's incentive systems have been efficient in attaining programme output and outcomes?	3.7	3.2	4.6	3.7	3.8	3.1	3.7	3.0	3.2	3.2	3.1	2.6	3.1	3.2	2.7	3.7	2.1	3.2	2.8	3.2	
IMPACT	**Overall impact score**	**3.2**	**2.7**	**3.5**	**2.9**	**3.0**	**2.7**	**2.9**	**2.7**	**3.1**	**2.7**	**2.7**	**2.3**	**2.7**	**2.6**	**2.5**	**3.1**	**2.3**	**2.6**	**2.6**	**2.8**	**Acceptable**
	D1. Programmes have contributed to improved access to financial services for low-income people?	3.0	2.5	4.3	4.0	3.5	3.4	3.3	3.0	4.0	2.7	3.0	2.7	3.1	2.7	3.0	3.7	2.8	3.7	3.1	3.2	
	D2. UNCDF funding has helped FSPs achieve sustainable growth in underserved markets/segments?	4.0	2.9	4.2	3.5	3.7	2.7	3.2	2.7	2.9	2.9	2.9	2.3	2.8	3.1	2.3	3.1	2.1	2.6	2.6	2.9	
	D3. UNCDF funding has leveraged increased resources for FSPs beyond initial investments?	4.3	2.3	2.7	2.7	2.8	2.2	2.3	3.7	3.0	2.7	2.7	2.0	2.6	2.7	2.0	4.3	2.0	3.0	2.7	2.7	
	D4. Programmes have had positive impact on industry and policy level in country?	2.0	2.6	4.1	2.0	2.8	2.2	2.6	2.7	3.7	2.7	2.7	2.0	2.7	2.2	2.3	3.7	2.0	2.9	2.7	2.7	
	D5. Programmes have impacted women's economic or social empowerment?	2.3	2.9	3.0	2.9	2.8	3.2	2.9	3.0	3.3	3.0	2.8	2.5	2.9	2.5	3.5	3.3	2.8	2.7	2.9	2.9	
	D6. Programmes have had positive impact on environmental challenges in country?	3.7	1.5	2.0	2.0	2.3	0.0	2.3	0.0	1.5	1.0	0.3	0.0	0.8	0.0	0.5	0.0	0.0	0.0	0.1	1.3	
SUSTAIN-	**Overall Sustainability score**	**4.2**	**2.9**	**2.7**	**4.0**	**3.4**	**3.4**	**3.6**	**2.7**	**3.1**	**2.3**	**3.0**	**2.4**	**2.8**	**2.6**	**2.3**	**2.8**	**2.6**	**3.0**	**2.7**	**2.9**	**Acceptable**
ABILITY	E1. There has been an overall positive trend towards sustainability of programme	4.7	2.8	3.9	4.6	4.2	3.8	4.1	2.8	2.9	2.3	3.0	2.3	2.9	2.9	2.1	3.1	2.4	3.1	2.7	3.1	
	E2. There has been an overall positive trend towards sustainability of programme results at meso/ macro levels?	na	3.0	2.0	1.0	2.2	2.0	na	3.0	3.7	3.7	2.0	1.5	3.0	1.0	2.2	3.7	2.2	2.0	2.5	2.7	
	E3. Programmes have a clear and workable exit strategy for UNCDF?	2.9	2.7	2.0	2.9	2.6	2.8	2.9	2.2	3.4	2.0	2.9	2.4	2.6	2.7	2.4	2.0	2.9	4.1	2.7	2.7	

* Each programme (ML, YS and CSP) were scored separately at country-level. The scores presented here are the consolidated scores for all programmes in the country.

FSP Sample Size

UNCDF reported to have a total of 107 active investments in FSPs and SSOs under its country and thematic programmes in 28 countries as at end 2011.[141] By 15 February 2012, the PR team had received 111 data sheets representing these investments (datasheets for three FSP was submitted by both programmes funding them), which constituted an excellent 100% response rate, thanks to the intense follow-up efforts of UNCDF staff during the PR exercise. Upon analysis of this data, the PR reduced the total universe of scorable FSPs to 93 institutions (87% of total reported portfolio), five of which were funded by both a CSP and a GTI. The breakdown is presented in Table 1.3.

Table 1.3: Universe of scorable FSPs for which FSP data sheets were submitted by 15 February 2012

Region	*East/Southern Africa*	*West Africa*	*Asia*	*Total*
FSPs funded by CSP	27	24	21	72
FSPs funded by ML	9[142]	2	18	29
FSPs funded by YS	7	3	0	10
Total received:	**43**	**29**	**39**	**111**
Corrections made:				
Duplicates deleted:	-1	-3	-1	-5
SSOs omitted:	-4	0	-1	-5
Old/new/errors omitted:	0	0	-8	-8
Total FSPs scored:	**38**	**26**	**29**	**93**

FSP Data Collection

The FSP Data Input and Scoring Matrix provided the basis for an analysis of the underlying performance of retail financial institutions being funded by UNCDF. It was designed with three components:

1) 11 FSP profile questions (country, industry maturity, UNCDF programme and IC affiliation, age, legal and governance type, and funding received). The profile characteristics enabled descriptive analysis of the UNCDF portfolio (related to relevance) and comparative analysis of profile characteristics and performance across the portfolio (related to effectiveness, efficiency and sustainability);
2) Data input on 29 standard microfinance ratios structured in six performance categories: Portfolio Outreach and Size, Portfolio Quality, Profitability and Efficiency, Productivity, Leverage and Social Performance. Data points included PBA targets for 2010 (and June 2011 where determined); and performance at baseline, end 2010, and 30 June 2011;
3) An assessment by CTAs/PMs of key results achieved, main constraints faced and product/service innovations introduced by the FSP with UNCDF assistance, which informed programme questions on UNCDF inputs and contribution by UNCDF to FSP performance.

The FSP data input sheets were sent via UNCDF to CTAs, RTAs and PMs with an initial response deadline of January 16, 2012, later extended to February 24, 2012. The PR team performed a quality check on all data and 31 data sheets were returned to CTAs for clarifications and revisions. Data was verified where possible using UNCDF's FIOL database, the UN ATLAS budget management system, CTA programme progress reports, and FSP reports to the MIX Market. Complementary data on performance targets were sourced from PBAs, or older Grant or Loan Agreements between UNCDF and FSPs, and data was verified in the field where possible.

It had been foreseen that the PR would receive assistance from the MIX Market to triangulate and cleanse data by regression analyses to check for data set anomalies (e.g., systemic errors, outliers, etc.), and to enable an analysis of market-related associations on specific indicators for the total universe of FSPs in LDCs reporting to the MIX. However, the larger, internal process of migrating UNCDF FIOL data to the MIX Market took more time than anticipated and precluded this option.
Instead, the PR team obtained a forward copy of the 2011 MIX data on standard indicators for all MFIs in UNCDF countries having reported to the MIX market. In addition, the PR team accessed the MIX Market database directly and

[141] It is noted that 6 loans and grants provided to small FSPs in South Sudan under the SSMDF funded by UNCDF under a PBA in 2010 were not included in this listing. As no data was available, these investments could not be rated.
[142] This included Equity Bank Rwanda, for which the PBA was signed in October 2011, but which was requested included in the ML MTE analysis.

extracted data for the total of 169 MFIs in the 19 UNCDF countries under review having reporting annual 2011 figures. This data was analysed by performance indicator, country and region to develop comparison references ("benchmarks") for the reported performance of UNCDF-funded FSPs. 70 UNCDF-funded FSPs were included in the benchmark figures.

FSP scoring

The FSP scoring tool linked to the input matrix was designed to score reported FSP performance against targets set by UNCDF to provide consolidated documentation of the underlying performance of retail FSPs (as a standard portfolio review would) and to inform the review of overall performance of the UNCDF portfolio. The tool scored FSP performance on the basis of net change in key PBA variables against baseline data to determine the extent to which PBA targets had been met. However, for many indicators in the data sheet, no PBA targets were set/reported, and thus in the analysis, the PR incorporated a more general assessment of performance against annual targets and generally accepted international microfinance benchmarks for the indicators in the data input matrix (e.g. PaR at 5%, positive trend for OSS to 100% after 3-5 years, etc.).

The six performance categories were weighted to ensure high relative importance of outreach as per UNCDFs results measurement system while maintaining the basic principle that portfolio quality indicators should be weighted at par or higher than outreach alone. The weighting used for the scoring of FSP performance was thus: Portfolio Outreach and Size (25%), Portfolio Quality (25%), Profitability and Efficiency (30%), and Social Performance (20%). Productivity and Leverage was not weighted.

FSP were scored on a scale of zero to five on the six performance categories with the scoring guidance presented in Table 1.4.

Table 1.4: FSP scoring scale and guidance

0. Exceptionally poor	1. Unacceptable	2. Acceptable	3. Good	4. Very good	5. Exceptionally Effective
Did not meet any targets and/or minimal change from baseline.	Met some targets, but performance on key indicators of PAR and OSS exceptionally low. Not likely to meet future targets.	Met some targets. Performance on key indicators of PAR and OSS show some potential. Possible to meet targets in the future.	Met most targets. Clear indication of improvement in performance since baseline.	Met all targets. Significant changes on majority of indicators from baseline. Performance is on par with country benchmarks or clearly explainable when short of benchmarks.	Met all targets. Major changes on majority of indicators from baseline. Performance is stronger on most indicators than country benchmarks or explainable when short of benchmark.

The weighted score for each of the six performance areas was calculated and averaged to an overall score per FSP. In countries with several FSPs, all FSP scores were then averaged to an aggregate FSP performance score by country; an aggregate score for each of the six performance areas by country; and an aggregate score by programme (GTIs and CSPs) by country (See Annex 2 for results of scoring).

The PR Team benefited from the helpful assistance of independent consultants having recently completed CSP evaluations in Nepal and Burkina Faso to independently score FSPs and programmes in these countries.

Management Quality Scoring

The Management Quality scoring matrix aligned closely with the structure of the Programme scoring matrix, structured with 5 Main Evaluation questions, 13 key questions, and 71 sub-questions, enabling analysis of the specific value-added contribution of UNCDF management to programme performance. Questions focused in particular on synergy between CSPs and GTIs and on project cycle management to inform the Programme scoring (see Table 1.5).

Management quality sub-questions assessed management support/influence independently of FSP performance, and scored the extent to which management aspects had contributed to achieving outcomes and outputs regardless of FSP performance, because a well-managed (highly scored) programme might include investments that present performance challenges due to externalities, and conversely, FSPs might be performing well in spite of weak UNCDF management.

Table 1.5: Management Quality Key Questions directly incorporated in Programme Scoring (sample)

Main Evaluation Question	*Key Questions*
A. Are UNCDF's microfinance sector programmes and GTIs strategically relevant?	A.2. Degree to which UNCDF's value added is clear?
B. Are UNCDF's investments in microfinance effective?	B1. To which degree are institutional and implementation arrangements appropriately designed for the successful achievement of programme objectives/outcomes?
C. How efficiently have the programmes been managed?	C1. To which degree has UNCDF management of investments been transparent, flexible and timely?
	C3. To which degree has UNCDF's monitoring systems (PBA, financial/ narrative reporting) been efficient?
D. To what extent has UNCDF inputs contributed to generating intended impact?	D.1. Degree to which internal UNCDF management arrangements have affected likely impact of programmes?
	D.2. Degree to which UNCDF input was instrumental in securing additional funding from other sources (catalytic effect)?
	D.3. Degree to which % of UNCDF female staff, programme managers, and IC representatives has increased since 2008?
	D.4. Degree to which SEMS/CPP considerations have been incorporated into FSP selection procedures and M&E/PBA systems?
	D.5. Degree to which UNCDF has contributed to new knowledge in microfinance?
E. Extent to which UNCDF input contributes to sustainable provision of financial services?	E.1. Degree to which programmes are actively monitored to corroborate performance trends?
	E.2. Degree to which exit strategies have been developed and communicated to affected counterparts?

The Management Quality scoring matrix was initially structured to follow the five DAC/UN criteria and scoring was completed in that format. Based on input from the Advisory Committee, however, the scoring of management quality was aggregated to focus on value-added, and the subquestions in the matrix were rearranged to present the scores by the three criteria of: i) financial value-added, ii) non-financial value-added, and iii) project cycle management quality, consistent with the management evaluation guidelines of the Evaluation Cooperation Group (ECG).[143] UNCDF value-added was rated on these three criteria on a scale of significance from 0 – 4, with 0 indicating no contribution of management aspects to the question evaluated, 1 indicating a low value added and 4 indicating a high value added of UNCDF's management input (see Figure 1.3).

[143] See https://wpqr1.adb.org/LotusQuickr/ecg/Main.nsf/$defaultview/45B0857F94A1CD1B48257731002A0637/$File/ECG%20Good%20Practice%20Standards%20for%20CSPEs_Final_20Nov08_WEB.pdf?OpenElement The Evaluation Cooperation Group (ECG) was established by the heads of evaluation in multilateral development banks in 1996 to harmonize performance indicators, evaluation methodologies and approaches. As a permanent observer to the ECG, the UN is represented by the Director of UNDP's Evaluation Unit and/or the Chair of the United Nations Evaluation Group (UNEG). The ECG is an observer to the OECD/DAC Network on Development Evaluation.

Because all subquestions in the matrix were formulated to assess "the degree to which…", the grading scale differentiated between percentage extent of performance on each subquestion on the spectrum of 0 – 100%.

Figure 1.3: Scoring scale for Management Quality

0. None	1. Low	2.Moderate	3. Significant	4.High
>10 % Degree	11-40 % Degree	41 - 60% Degree	61-80% Degree	>80% Degree

A "roll-up" calculation methodology identical to that for Programme scores (see above) was used. To enable direct comparison of scores, the aggregate management quality scores were adjusted for presentation in the Synthesis report from the 0-4 scale to the 0-5 scale used for programme performance. See results of the scoring in Annex 3.

Other Sources of Input Data

In addition to the scoring matrices, the PR applied a number of other quantitative and qualitative investigative/evaluative tools to inform the findings and scoring of the UNCDF programmes. These included guides for structured interviews during field validation visits, an electronic stakeholder questionnaire and a guide for client focus group discussions.

Interview Guides

On-site interviews were confidential and guided by a list of questions customized for five key stakeholders. The interview guides were comprised of questions meant to elicit information on programme/FSP performance and achievements as well as to gauge perceptions on the quality and value added of UNCDF management. The guides incorporated sub questions from both the programme and the management quality scoring matrices to augment the validation of scorings as well as to provide input for the non-scorable questions raised in the PR TOR. Guides were developed and used during the seven field visits for:

1. UNCDF Internal Stakeholders (corporate managers, programme managers, RTAs, CTAs, and other relevant PMU staff);
2. Resident co-funders (e.g., UNDP, IC members, Foundations, etc.). This guide was adapted to telephonic interviews with key co-funders following the field visits;
3. External Stakeholders (e.g., Government/central bank representatives, policy level actors, industry associations, etc.);
4. Senior Managers of UNCDF Investee (TSPs, FSPs, SSOs, MNOs); and
5. Middle Managers and front line staff of investees.

Client Focus Group Discussion Guide

In addition, a Focus Group Discussion guideline was developed to help standardize the team's limited interaction with clients during the field validation visits. Clients were selected for Focus Group discussions by their FSPs following a random stratified selection methodology requested by the PR team in introductory letters sent via CTAs to FSPs. Client were informed of the confidentiality of the discussions and sessions were conducted in neutral locations without the presence of FSP or UNCDF staff.

Electronic Survey

A survey was designed for stakeholders in countries not selected for field visits with the objective of gaining further insight on programme and management performance, strengths and weaknesses and to solicit recommendations for UNCDF. The survey questionnaire was abridged from but corresponded to the questions in the scoring matrices, and was disseminated directly from the PR team via the tool SurveyMonkey in English and French to a total of 465 stakeholders and 126 responses were received (27% response rate) by 15 March 2012. Stakeholders contacts was obtained from CTAs, RTAs, PMs and UNCDF corporate managers. The questions in the survey were customized to the following groups of stakeholders:

A. Internal Stakeholders (Corporate managers, Programme managers, RTAs, CTA, and relevant PMU staff);

B. Funders and Co-Funders (UNCDF, Gates Foundations, The MasterCard Foundation, IC members, co-investors);
C. External Stakeholders (Government/central bank representatives, policy level actors, non-funded industry associations and retail level entities); and
D. Investees (TSPs, FSPs, SSOs, MNOs having received funding from UNCDF).

UNCDF and FIPA documentation

In addition to the tools developed, the PR reviewed a vast body of documentation obtained directly from the UNCDF external website, from UNCDF head office, regional offices, programmes and CTAs, and from the segments of the UNCDF intranet to which the PR Team was given access. In particular, the PR reviewed policies, procedural manuals, policy guidance notes and documents pertaining to the structured results-based management, financial management, and results measuring system in place at UNCDF, including earlier programme evaluations. In addition, documentation related to programme and investment design, implementation and monitoring was reviewed in detail, including CSP and GTI project documents (prodocs), minutes of LPAC and IC meetings and Back-to-Office reports, progress reports and recent external evaluation reports provided by UNCDF. The UNCDF-internal status and prognosis documents made by CTAs for current investments based on performance to date (the "PBA tracking sheets") was also reviewed, along with PBAs and grant and loan agreements. UNCDF staff assisted the PR team in extracting financial data from the budget management system ATLAS; and primary data was triangulated where possible with data captured by UNCDF's performance monitoring database FIOL.

Output Data (analysis) Tools

A number of analytical frameworks and tools were developed to systematize, analyze and present the input data in the reports submitted. The key tools comprised:

- An aggregate scoring tool for all FSPs by country. A template of this tool was submitted to UNCDF with a scoring guide as an input to the UNCDF self-assessment exercise;
- A framework tool to analyze profile characteristics and performance data of FSPs (items 12-41 in the FSP data input sheet, combined with data from MIX reports and FIOL, ATLAS and UNCDF loan data). This tool enabled the team to compile, compare and analyze associations in the dataset and design graphic presentations of results;
- An aggregate scoring tool for country programme performance by sub-, key and Main questions (DAC criteria);
- An aggregate scoring tool for management quality by sub-, key- and main questions structured both by DAC and ECG criteria.

All templates and matrices developed for the PR have been submitted to UNCDF with interim reports during the assignment. Because of the large amounts of data included in all the tools developed for the PR, these are not included in this report but have been submitted separately to UNCDF as input to further or future portfolio analyses.

Annex 2: Scoring of Underlying Performance of Funded FSPs

As discussed in Annex 1, the PR scored the performance of the FSPs as at 30 June 2011 (unless otherwise stated) against targets set in PBAs with UNCDF on six performance areas:

- Outreach and size (# borrowers/savers, value portfolio/savings, number branches and value of assets);
- Portfolio (asset) quality (Portfolio at Risk (30 days), write-off ratio and risk coverage ratio);
- Profitability and cost-efficiency (operational self-sufficiency, operational expense ratio, % deposits-to-loans, % portfolio-to-assets, and cost per client);
- Productivity (number and placement of staff (head office/branches), loan officer caseload, depositors/total staff, and personnel allocation ratio);
- Social Performance (average loan and savings balances, % female borrowers/savers, number women in management and governing structure, and client retention ratio); and
- Leverage of UNCDF funding (net change of value of portfolio and deposits from baseline to 30 June 2011 divided by the total funding amount received by UNCDF).

Table 2.1: Aggregate scores for FSPs by Region and UNCDF programme

Aggregate weighted scores - all FSPs by country:		*FSP Scores by Programme (of max. 5):*		
		FSPs in CSPs	*ML FSPs*	*YS FSPs*
Asia				
Timor Leste	3.6	3.6	3.7	-
Nepal	3.2	3.2	-	-
Bhutan	2.6	-	2.6	-
Laos	1.9	-	1.9	-
Subtotal for Region	**2.8**	**3.4**	**2.7**	**-**
East/Southern Africa				
Uganda	3.2	-	-	3.2
Ethiopia	3.0	-	3.2	2.9
Rwanda	2.9	3.5	2.1	3.1
DRC	2.6	2.5	2.2	3.3
Malawi	2.4	2.4	-	2.3
Madagascar	2.2	2.2	-	-
Mozambique	2.1	2.1	-	-
South Sudan	1.6	-	1.6	-
Subtotal for Region	**2.5**	**2.5**	**2.3**	**2.9**
West Africa				
Senegal	2.7	2.6	-	2.7
Burkina Faso	2.6	2.6	-	3.1
CAR	2.5	2.5	-	-
Niger	2.2	2.2	-	-
Togo	2.1	2.1	-	-
Sierra Leone	1.7	1.6	2.0	-
Liberia	1.4	1.0	1.8	-
Subtotal for Region	**2.1**	**2.1**	**1.9**	**2.9**
Overall Average	**2.4**	**2.4**	**2.3**	**2.9**

Where PBA targets were not available, performance was assessed based on changes in the indicators from baseline, and related to standard microfinance benchmarks for good performance (e.g. PaR30 of maximum 5%, OSS surpassing 100% within a time frame of 3-5 years, etc.). A comparative "benchmark" for performance in quantitative indicators was created from the mining of annual 2011 data reported to the MIX Market database by 169 MFIs in the 19 UNCDF countries under review. 70 of these MFIs were UNCDF-funded.

The performance of each FSP was scored on a scale from 0 (exceptionally poor) to 5 (exceptionally effective), as per Annex 1, Figure 1.2.

Overall, the portfolio of 93 FSPs across 19 countries in UNCDF's three regions was scored to an average aggregate of **2.4 of 5 or at 48% of the 100% scale, insignificantly below the median of performance**, as per Table 2.1.

On aggregate, the FSPs in Asia scored higher at 2.8 on average, against the average aggregate scores of 2.5 for East/Southern Africa and 2.1 for West Africa. The FSPs selected for the GTI YouthStart in 2010 scored the highest in terms of aggregate performance (2.9). This could not (yet) be attributed to YouthStart, but confirmed the intent of the GTI to select existing, strong FSPs to pilot financial services specifically for youth. On average, the FSPs in the MicroLead portfolio were scored insignificantly below the CSP portfolios.

Overall Performance Trends and Findings

1. Outreach and Size

Overall, the portfolio was performing well in terms of outreach and growth since baseline, having expanded the provision of services to depositors by 38% to 6.44 million and to borrowers by 21% to 3 million new clients.

The 528,600 net new borrowers of FSPs had increased the aggregate loan book by 531.5 million (47%) to USD 1.66 billion. The growth in lending since baseline had been strongest in West Africa, and largely carried by the established FSPs, but Nepal had also contributed significantly. East/Southern Africa had the largest number of borrowers at baseline. The increase since baseline in aggregate loan portfolio far exceeded the increase in borrowers, resulting in an increased average loan balance, indicating that the FSPs were serving a higher-income clientele. This was not surprising as almost half of the funded FSPs in this region were typically more commercially oriented, deposit-taking microfinance banks.

The net addition of 1.7 million depositors had augmented the savings liabilities of FPSs by USD 587.2 million in deposits since baseline (an increase of 63%), for a total deposit volume mobilized[144] of USD 1.5 billion. This reported figure was lower by 15% than the total deposit volume captured by UNCDF's performance monitoring database (FIOL) for the same FSPs as at June 2011 of USD 1.76 billion, of which USD 1.67 billion (95%) were registered as voluntary deposits.

Growth in outreach had been highest among the FSPs in West Africa (an aggregate of 45% over baseline for savers and 64% over borrower baseline). Not many of them had, however, reached the growth targets in their PBAs on which variable the scoring was primarily done. The East/Southern African portfolio demonstrated good growth of savings outreach (38% above baseline), but had added only 6% to its baseline of borrowers. Asian FSPs had added a more balanced 27% savers and 25% borrowers to their baseline portfolio. The main contributors to the growth in deposit outreach were the large, established FSPs in Burkina Faso (RCPB), Togo (WAGES, FUCEC), Malawi (OIBM) and Ethiopia (ASCI), which together produced 1.2 million additional depositors, or 66% of the total increase in the UNCDF portfolio.

Of the 93 FSPs reviewed, a total of 57 (61%) were more than 5 years old at the time of UNCDF investment. As at 30 June 2011, the average size by assets of the UNCDF-funded FSPs was USD 25.7 million; slightly smaller than the MIX Market peer group in UNCDF countries which averaged USD 27 million. UNCDF FSPs had a branch structure averaging 25 branches/outlets of which 11 were rural (16 on average for the 65 FSPs that reported rural branches) against the average of 19 offices of their peer group, indicating slightly better accessibility for clients.

UNCDF FSPs had an average gross loan portfolio of USD 17.87 million and 32,624 borrowers per FSP as at 30 June 2011, and thus larger credit operations than the MIX market peer group average of 22,766 borrowers, also evident from a loan portfolio to asset ratio of 66.5%, slightly above the peer group average of 63%. In terms of savings mobilization, the 82 FSPs among the 93 reviewed that were mobilizing deposits held an average of USD 18.54 million in deposits for 78,527 depositors, serving significantly more savers than their peer group, which averaged 58,782 savers holding USD 15.7 million in savings. In terms of age and size, the UNCDF objective of funding young and promising (Tier 2 and 3) FSPs in its LDCs was thus not very much in evidence in the risk-balanced portfolio composition.

UNCDF's dilemma would be that the investees that least aligned with the risk-objective of supporting 2nd and 3rd Tier FSPs in the least developed markets, appeared to be the largest contributors to the corporate targets as they are currently formulated, in particular on outreach. However, as demonstrated by the (recently contracted) portfolio in Lao PDR and in Nepal, UNCDF had been able to achieve high levels of outcomes in countries and with FSPs that better meet the risk-taking objective. Further analysis also indicated that while the largest FSPs funded have contributed the most to outreach in absolute terms, their growth potential, and hence contribution to outcomes (net new clients) decreased over time in comparison to smaller FSPs (by asset size), whether due to market saturation, increased competition or a possible upper limit for economies of scale, e.g. in terms of governance, as FSPs grow very large. Thus, UNCDF might

[144] The PR team would have preferred to analyse data on 'voluntary savers' only, as reflected in the standard FIPA portfolio performance reporting templates incorporated in most PBAs, but the data reported from the FSPs was not robust enough to reflect a break-down of savers, hence the reported depositor figure reflected all types of depositors (including savers with compulsory, term, and current savings accounts).

not have reason to fear that aligning its portfolio better with the FSP risk objective and thus increasing relevance would cause effectiveness as currently measured to be compromised.

The UNCDF portfolio FSPs scored 2.7 of 5 on the criteria of outreach and size, not quite reaching the category of 'good'. Scores averaged at country-level ranged from 3.5 "good" to 1.5 "unacceptable", and several country programme portfolios attained scores of 4.0 "very good". Asian FSPs scored slightly better at 2.9 than East/Southern Africa at 2.7 with West Africa scoring lowest for achieving outreach targets at 2.5, although their absolute outreach was the highest of the three regions.

2. Asset Quality

The portfolio quality was mixed, with the aggregate PaR30 ratio remaining high at 9.3% (see Table 2.2). The NBFI/bank subgroup FSPs had performed best at an average PaR30 of 3.8%. NGOs had an average PAR30 of 8.9%, and the member-owned cooperatives prevalent in West Africa reported an average PaR30 of 15.4%. On average, the ratio had increased 2.2% from baseline, with the Asian FSPs having the lowest increase (0.8%) and the West Africa portfolio with the highest level of PaR at baseline also registering the highest increase (deterioration by 4.9%) since baseline.

Table 2.2: Asset Quality of UNCDF funded FSPs

UNCDF FSPs by region and programmes	PaR30 baseline	PaR30 Jun-11	Write Off ratio	Risk coverage*
Average for Asia	6.72%	7.52%	0.11%	255.50%
Ave. East/Southern Africa	6.45%	7.86%	0.51%	61.48%
Ave. West Africa	8.89%	13.48%	5.31%	41.32%
Average for CSP FSPs	6.83%	7.95%	2.18%	138.88%
Average ML FSPs**	10.11%	15.65%	0.22%	62.25%
Average YS FSPs	4.53%	4.10%	0.07%	86.85%
Average for portfolio	**7.40%**	**9.32%**	**1.98%**	**119.43%**
Benchmarks (2011):				
MIX Market peer group		7.75%	3.6%	351%
* Three outliers (with risk coverage >1000%) in Nepal excluded				

The West African portfolio had been marred by persistently high PaR rates despite significant write-offs among some of the older and larger member-owned cooperative structures. The high PaR rates (but no reported write-offs) of the two BRAC greenfields in Sierra Leone and Liberia also impacted the overall PaR ratio for the ML portfolio. The average risk coverage ratio in Asia was high due to extremely high reported risk coverage ratios in the Nepali portfolio, which were not immediately explicable, given the generally low PAR ratios.

Portfolio quality (and growth) can be linked to the appropriateness and adaptation of products and services to client needs. While it was beyond the scope of the PR to analyse the product range of the FSPs in detail, the product and service innovations listed by FSPs (or by CTAs/RTAs) as having been supported by UNCDF provided an indication of the type of interventions that might have contributed to increase in outreach, as presented in Table 2.3.

The UNCDF portfolio FSPs scored an aggregate 2.2 of 5 for portfolio quality or "acceptable", but the variance was very high from 3.7 (Nepal) to 0.5 (Liberia). The Asian and East/Southern African portfolios scored higher at an aggregate 2.6 than West Africa at 1.5 as a result of severe portfolio quality challenges in Liberia, Togo and Niger in particular.

Table 2.3 : Summary of products and services listed as 'new innovations' by FSPs reviewed			
From FSPs in:	*Asia*	*East/Southern Africa*	*West Africa*
Loan products :	Group lending for cooperatives /farmers	Group lending SME lending	VSLA-type lending to *tontines* Credit to women-owned MEs
	Self-Employment loans linked to skills training programmes	Credit and savings with education (CEE+)	Loans for livestock fattening, improved seeds, grain storage
	Foreign Employment loans for migrant workers issued to the mother/wife. Repayments from remittances	Agricultural and rural credit	Loans for cross border trade
	Loans for house construction	Business loan for youth advertised in *kebeles/*schools	"Going back to school" loans Loans for civil service retirees
	Motherhood loans to finance pregnancy and maternity costs from savings	Home re/construction loans	Loans for vegetable gardening
	Wholesale group loans to community based groups/ SHGs (piloting)	Medium term small home construction loans secured by rent hypothecation	Loans for rice farming and rice value chain financing;
		Loans to nationals with foreign passports	*Douguéré* weekly market loans
Savings products	Pro Education current and fixed accounts	Savings for mortgage bonds	
	"Easy Savings" short term (daily) savings product	Group savings accounts (internal or with VSLAs)	Savings with education
	Senior Citizen Fixed Deposit, Steady Income (savings plan)	Savings at schools, kebeles, door to door and branches	Savings accounts for *Tontines*
	Staff Salary Savings	Gender disaggregated savings accounts for youth.	Project Savings (PEP)
	Marriage/Festival Savings for celebrations against which lumpsums can be borrowed	Savings with education (CAE) for poor women	
	Motherhood Savings: long term fixed deposits against which loans can be issued	Multicurrency Deposit accounts	
Other products/ services	Points of Service (POS) sales	Electronic wallets; Internet Banking and POS	Agent banking
	Credit life insurance	ATM Debit Cards	Remittances
	SMS Banking	Mobile banking (design)	
		Financial Education (piloting)	
		Entrepreneurship and Financial Education as integrated model	
		Credit life and funeral insurance	
		Domestic/int'l money transfers	

3. Profitability and Cost-Efficiency

Commensurate with the age of the portfolio, progress towards sustainability as measured by operational self-sufficiency ratio (OSS) had been good. Aggregate OSS as at June 2011 was 116.4% (123.5% including the outlier ACEP in Madagascar which reported an OSS of 777%) and exceeded the 101% average OSS of the comparative MIX Market peer group of MFIs in UNCDF countries. The average OSS was highest in Asia at 136%, followed by West Africa at 112%, and East/Southern Africa at 104.3% (122% with ACEP).

Overall net change in OSS since baseline was 16.1 percentage points (22.6% including ACEP), and change was positive in all three regions and in all countries except Nepal at -7.2% and Burkina Faso at -2.4%. OSS levels had increased the most in West Africa (23.4%) against 19% in East/Southern Africa (34.8% with ACEP), and 10.7% in the Asian portfolio which included more NGOs. NGO FSPs reported an average change in OSS from baseline of 12.7%, with the two partially state-owned FSPs reporting the strongest increase (28%) along with MDIs at 18.1%, against the 16.5% increase reported by member-owned FSP since baseline.

The OSS growth paths demonstrated by the UNCDF FSPs compared well with MIX Market benchmarks for the same types of institutions:

- The OSS ratio was highest among established FSPs at an average of 123.4% that exceeded the global MIX Market OSS benchmark of 117% for mature FSPs. The increase in their OSS since baseline (a UNCDF outcome measure) had however been the weakest at 9.5%. As OSS growth tapers off with increasing levels of profitability, this could indicate that the established FSPs funded were already relatively well able to cover their operational cost at start of UNCDF funding;
- As would be expected, start-ups and young institutions, especially in the NBFI/bank subgroup of FSPs, had contributed most to the increase in OSS. The start-up FSPs had increased OSS by an average of 56.4% to an average OSS level of 92.8% as at June 2011 against the global MIX market peer group average of 116%, and thus had some way to go before attaining profitability;
- Young UNCDF FSPs had also increased their OSS by a strong 21.9% on average to a level of 109.4% OSS as at June 2011 (without ACEP) against the 121% average of their MIX Market peer group of young MFIs.

The cost levels per active client of USD 106 on aggregate reflected divergences in national operational cost levels and the age composition within the portfolio. Asian FSPs had the lowest costs and East/Southern Africa the highest, and cost levels decreased with the age of the FSP from USD 183 for start-ups to USD 83 for established FSPs. No comparative benchmark existed (the MIX Market peer group average for cost per *borrower* was USD 202).

The average **reported** operational expense ratio (OER/assets) was high at 38% against the peer group average of 24% with extreme variations from an unsustainable 481% (excluded from the average) to 1-2% for very well capitalized FSPs. While the average for Asian UNCDF FSPs had decreased a little since baseline to 24% and West African FSPs at 23% also was well in line with the MIX benchmark, the average OER level in East/Southern Africa (59%) was high. On aggregate, OER had increased (deteriorated) by 6% on average for all institutional types except FSPs with government ownership; and for all age groups of FSPs (at time of investment). The increase in OER was highest in East/Southern Africa (13%) and among MDIs (17%) and start-ups (14%), the latter to be expected. Significant improvements (decreases) in OER rates would be expected especially among the group of 'young' FSPs, and their OER did increase the least (by 4.8%), but on this indicator, none of the FSP groups demonstrated efficiency gains commensurate with their age or with the MIX benchmarks of 25% or lower (see Table 2.4).

Table 2.4: Operational Expense Ratios of UNCDF funded FSPs

UNCDF FSPs by region and programmes	OER Baseline	OER Jun-11	MIX peer group OER /assets	MIX peer group OER/ GLP
Average for Asia	25.4%	23.7%	11%	17%
Ave. East/Southern Africa	45.2%	58.5%	39%	55%
Ave. West Africa*	20.3%	22.8%	21%	39%
Average for CSP FSPs		33.4%		
Average ML FSPs		37.4%		
Average YS FSPs**		71.1%		
Average for portfolio	**31.6%**	**37.6%**	**>25%**	**31%**

* One outlier (with OER of 355% at baseline and 481% 06/11) in CAR excluded
** FINCA in DRC contributing with a very high OER

Importantly, however, the PR was unable to verify if the requested OER formula (OER over assets) had indeed been used in the reported data. If OER/gross loan portfolio was reported, the cost-efficiency levels of the portfolio were much better in line with the MIX Market peer group (see Table 2.4). It would be pertinent for UNCDF to clarify which formula to use for the reporting of OER, and OER/average total assets would be recommended to avoid disfavouring smaller FSPs; FSPs that provide smaller loans; and FSPs that primarily offer savings or other services.

The biggest contribution by programme to the high OER was from the GTIs (15.2% change). While MicroLead supported greenfields that would be expected to incur high start-up costs, YS did not. However, the group of established FSPs selected by YS also had access to subsidies (grant funding) from many sources in addition to UNCDF. The high OER levels and the increase on OER over time could suggest a link between grant funding and loss of efficiency. UNCDF might wish to include an efficiency indicator in its selection/appraisal process for grantees, and to monitor change by adding an efficiency indicator to the 'key indicators' in the PBAs, especially when funding FSPs that by virtue of their size and performance in general, have easier access to alternative funding.

The UNCDF portfolio FSPs were scored to an "acceptable" level of profitability and efficiency at 2.4 of 5 on aggregate with a variance of country-level scores from 3.5 to 1.3. Asian FSPs again displayed a higher level of performance at an aggregate score of 3.2 for CSP-supported FSPs and 2.8 for MicroLead FSPs, against an aggregate 2.5 score for ML FSPs and 2.3 for CSP-supported FSPs in East/Southern Africa. West Africa trailed slightly on this indicator at an aggregate 2.1, scored to 2.0 for both ML and CSP FSPs. The strength of the FSPs selected for the YS programme was confirmed by their higher score on profitability of 2.8 across Africa.

4. Productivity

Overall, the UNCDF portfolio displayed relatively good performance on productivity measures, but there were variations within the regions and across the programmes. A key differentiator could be the type of products provided, as FSPs providing primarily individual loans and/or 'door-step banking' would be expected to yield lower loan officer caseloads than FSPs providing primarily group lending and requiring clients to bank at their branch. However, the data reviewed did not allow the PR team to analyze the portfolio to this level of detail.

For the savings services, the productivity level measured by depositors over total staff as at June 2011 on aggregate among the 82 FSPs with savings was 280, significantly lower than the average for the MIX market peer group at 364. The ratio has increased by 25 since baseline, indicating some productivity gains, but the variance across the portfolio was very high from -500 (Asusu in Niger having lost a high number of savers through a data cleaning process) to 371 (MEC FEPRODES in Senegal) and 400 (the greenfield Equity Bank Rwanda). MDIs and member-owned FSPs had increased productivity on savings at the same rate of 31, with BDBL in Bhutan demonstrating impact of ML-funded TA on savings productivity with an increase of 52.

Against the MIX peer group average of 356, the loan officer caseload of UNCDF FSPs was 304 on average as at June 2011, up by 3 from 301 on aggregate since baseline. LO caseload as at June 2011 was highest in the West African portfolio dominated by *mutuelles* (421) but the ratio had deteriorated by 27 since baseline indicative of efficiency losses. Asian FSPs has a LO caseload of 270 which was stable since baseline) and for East/Southern African FSPs, the average was 240, up from 212 on aggregate at baseline. The highest net increase in productivity of loan provision was produced by the banks/MDIs followed by member-owned FSPs. The least productivity gains were found among the NGO FSPs that as a rule did not mobilize deposits, reflecting contraction of loan portfolios without commensurate staff retrenchment among several FSPs that were facing significant challenges, including the BRAC subsidiaries supported by MicroLead. Again, the variance was extreme across the portfolio from a negative 500-600 registered by TIMPAC in Togo and CMS in Senegal to a high of 955 by FEPRODES in Senegal.

The average personnel allocation ratio for UNCDF FSPs was an excellent 71.6% against the MIX peer group average of 38.1%. However, Malawi did not report on this ratio, and almost all FSPs in Lao PDR reported 100% of personnel allocated to front line functions, which may have exaggerated the average ratio.

Overall, the UNCDF portfolio scored 2.6 or "acceptable" on productivity. Aggregate country-level scores varied from 3.7 to 1.9, and several country programme portfolios scored 4.0 "very good" also on this variable. Performance was scored highest among the Asian FSPs with an aggregate of 3.0 across the programmes, due in large measure to high scores in Nepal and Timor-Leste. Productivity across the African portfolio was an aggregate of 2.5 – 2.6, with Rwanda topping at 3.7 and West Africa scoring 2.5 against the 2.6 score for East/Southern Africa within the CSP-funded portfolio. ML investees in East/Southern Africa were scored at an aggregate 2.8.

5. Social Performance

Average loan and savings balances provide a rough indication of the income level of clients served, as more affluent clients will in general not be interested in very small loans or keep small savings account balances. The UNCDF FSPs in Asia and West Africa appeared to cater for a lower income clientele than the FSPs in East/Southern Africa, as illustrated by Table 2.5. Compared to their MIX Market peer group (of which they themselves constitute 41%), however, the UNCDF FSPs on aggregate appeared to reach deeper into the market of low-end clients. On balance, many of the UNCDF-funded FSPs did appear to provide credit to low-income people (using ALB as a proxy), but a number of FSPs were clearly expanding into (M)SME-lending, which is more lucrative, if done right, but also carries more risk, or were cross-subsidising products aimed at poorer clients with SME products, as would be typical for MDIs/banks. Monitoring a break-down of the portfolio on loan sizes to micro- and SME clients could provide a clearer picture of the target market segments served by UNCDF FSPs.

Table 2.5: Average loan/savings balances of UNCDF funded FSPs

UNCDF FSPs by region and programmes	$ ALB Baseline	$ ALB Jun-11	$ ASB Baseline	$ ASB Jun-11	ALB/GNI (2010)	ASB/GNI (2010)	MIX peer group ALB 2011	MIX peer group ASB 2011
Average for Asia	351	405	79	132	47%	14.3%	433*	454
Ave. East/Southern Africa	336	739	82	266	156.2%	55.3%	871	383
Ave. West Africa*	663	643	164	184	111.9%	29.8%	616	122
Average for portfolio FSP		**591.8**		**171.5**	**110.5%**	**34.5%**		
Benchmarks (2011):								
MIX Market peer group		842		319	124.7%	37.1%		
* Excluding Bhutan.								

The UNCDF country portfolio was generally in line with the MIX market peer group on average savings balance as a percentage of GNI per capita (ASB/GNI). Asian UNCDF FSPs averaged half of its peer group average of 30%, and West Africa was slightly higher than its peer group average of 25%. East/Southern African FSPs aligned well with their peer group average of 56%.

The average outstanding loan balance by GNI per capita (ALB/GNI) of the UNCDF-funded FSPs was 110.5% overall (increasing to 120.4% if aggregated at country level), well below the average for the MIX Market peer group in UNCDF countries of 125%. However, this average spanned a large variance. The ALB/GNI across UNCDF countries in Asia was 47% (including Bhutan), well below the peer group average of 53%, which would have increased to 84% if Bhutan was included. For West Africa the average was 112% against the regional peer group benchmark of 131%. The ALB/GNI for UNCDF FSPs by country in East/Southern Africa was high at 156% on average against the peer group average of 146%, augmented by the MicroLead greenfields in Rwanda and South Sudan (See Box 1), and NBS Bank in Malawi. In Rwanda, the Equity Bank had only operated 2 months at the time of reporting, and was starting out with salary-guaranteed loans to employees.

96% of FSPs reviewed were able to gender-disaggregate their data to report % women borrowers and savers. On aggregate, the FSPs under review served 68% women among their borrowers or slightly more than their MIX market peer group average of 63%, and 61% among their depositors. 23 of the 93 FSPs under review served women borrowers exclusively as at June 2011, down from 26 at baseline, and the percentage of women served had remained very constant in the portfolio since baseline, albeit the net aggregate change was a positive 2.4%. The largest increase (8%) was registered in East/Southern Africa, due in principal to OIBM in Malawi and CCOM in Mozambique that reported 0% women savers at baseline. This improvement offset declining percentages of women savers reached across West African FSPs (-1.9%). A high but stable percentage of women savers were reached in Asia (+0.5% since baseline).

On average, there were 2.4 women in leadership positions in the 69 FSPs that were able to report on this indicator. The low numbers suggested that an indicator tracking women in leadership might focus the attention of FSPs on better representation of both sexes in management and governance.

Outreach to the poor and women can no longer be considered sufficient measures of social and environmentally sustainable financial service provision. However, these two aspects were the primary measures on which the PR was asked to review the FSP portfolio, and in this respect, the scores are perhaps higher than a more comprehensive assessment of social performance would generate, but the good results on expansion to rural areas (see main report, Section 3.2.1.2) was taken into account in the scores.

Overall, the FSP portfolio scored 2.5 or "acceptable" on 'depth and outreach to women' as indicators of social performance. However, the scores at country-level ranged from 4.0 (Timor Leste and Niger) to 1.7. With a majority of FSPs that exclusively served women and significant rural outreach, the Asian portfolio scored highest at an aggregate 3.0. CSP FSPs scored an average of 2.6 and ML FSPs 2.5. The West African portfolio scored slightly higher (aggregate of 2.5) than East/Southern Africa (aggregate of 2.3), with the GTI portfolio scoring 0.1 point less (2.5) than the CSP FSPs (2.6). The variance among country portfolios within the three regions was high, especially in Asia (from 4.0 – 2.0) and West Africa (from 4.0 – 1.7 for all FSPs). This reflected a marked difference in the ability of FSPs to attract and retain women clients, with especially the smaller FSPs in Sierrra Leone and the old and large cooperative networks in Togo lagging behind.

Box 1: Strong growth and increased pro-poor outreach to higher-end borrowers in South Sudan

Opened in 2009, Equity Bank South Sudan (EBSS) reported to have 2,982 borrowers as at June 30, 2011, the majority offered salary-guaranteed consumer loans. This total had increased to 3,403 loans by September 2011, of which 256 (8%) were classified as microloans (>SSP 10,000) valued at USD 157,947 (1% of total loan book) or USD 617 average loan size. At the time, EBSS estimated that 70% of micro-loans had been given to non-South Sudanese entrepreneurs, as also confirmed during the PR field validation mission in Nov-Dec 2011. According to EBSS, the micro-loan portfolio had grown to 3,943 loans by end May 2012 now held almost exclusively by South Sudanese borrowers, and representing 81% of all loans and 22% of the value of the total loan book. While the micro-loan portfolio had thus increased significantly, the average micro-loan size had also doubled to USD 1,278 since June 2011. Average SME loan values had increased by 35%.

As at June 30, 2011 EBSS reported a total of 42,497 depositors holding SSP 292 million (USD 99 million). By September 2011, the value of deposits had grown to SPP 336 million, of which one third (SSP 111 million) were individual savings. EBSS reported the total deposits to have increased by 50% to SPP 504 million (USD 168 million) by end May 2012, of which 8.8% were micro-deposits (>SPP10,000) held by 69,000 savers (average savings balance of USD 214), representing 93% of total depositors.

Sources: EBSS PR data collection matrix, interviews during field validation mission and EBSS Portfolio Analysis May 2012, received via MicroLead in Oct 2012.

6. Leverage

While not often associated with FSP performance, leveraging local and external capital through initial investments (catalytic capital) is core to the overall programmatic approach of UNCDF. UNCDF has been measuring this leverage at country-level, comparing the outreach (net change in USD value of loan portfolio and savings mobilized) to the funding provided. For the period of 2010-13, the measures were expanded to four indicators of net change in the value of (aggregate) FSP a) loan and b) savings portfolio compared to c) UNCDF core funding and to d) all funding received through sector programmes (core, non-core and parallel). However, only for the net change in aggregate value of FSP savings compared to UNCDF core funding disbursed has the target of 10:1 been set for 2013.[145] The global measure and target is justified by UNCDF as a means to retain its mandate to take risk (and hence also invest in FSPs which may not generate a 10:1 return on outreach).

The PR was asked to compile leverage information at the level of individual FSPs as at June 2011. A point-in-time snapshot of the portfolio could constitute a risk of under-reporting leverage, as funding is normally disbursed up-front to allow FSPs to generate the outreach expected as a result. As FSPs more often than not grow exponentially rather than in a linear way over time, disbursements to greenfields (low baseline) or disbursements to recently started projects of a long duration would also not generate as high a 'return' on outreach at the time of the PR. However, a

[145] CMP Score Card 2010-2013.

‘snapshot’ analysis of leverage at FSP-level may provide indications for future monitoring of the trends towards the leverage target. The PR thus assessed the net change in the net change in value of loan and savings portfolio by FSP from baseline to 30 June 2011 as compared to the UNCDF investment (both loans and grants) provided to the FSP.

Leverage was scored a bit differently than the other performance indicators, as a scoring scale for leverage had to be developed. The PR team took the global UNCDF target as a guideline, and scored FSP ‘return on outreach’ as follows for outreach leverage as at 30 June 2011:

0: Value of net loans/savings generated was less than 1.5 times the UNCDF investment
1: Value 1.5 to 4 times the UNCDF investment
2: Value 4 to 6 times the UNCDF investment
3: Value 6 to 8 times the UNCDF investment
4. Value 8 to 10 times the UNCDF investment
5: Value was more than 10 times the UNCDF investment

On average, the FSPs had received UNCDF funding at a level of USD 332,500, of which an average of USD 270,000 in grant funding had been disbursed as at end 2011. Against this input, the FSPs under review had delivered a net increase in aggregate loan portfolio outstanding of USD 531.5 million and a net increase in deposits mobilized of USD 587.2 million since baseline. On average, each FSP has thus achieved a net increase in loan portfolio of USD 5.7 million, and the 82 FSPs mobilizing savings have achieved a net increase of USD 7.1 million on average since baseline.

The *outreach leverage* measured by UNCDF had been high at an aggregate 17.2 to 1 for expansion of credit services and 19 to 1 for expanded access to savings services for all current funding reported to have been received from UNCDF, decreasing to 4 to 1 for loans and 4.4 to 1 for savings mobilized for all funding reported to have been received. In terms of outreach of credit, the established FSPs in Malawi, Madagascar, Senegal and Togo have produced the largest outreach for the funding received, whereas the FSPs in Liberia and Sierra Leone have not increased outreach commensurate with the funding received. Neither had Timor Leste, but the small finite market there must be taken into account. Due to the recent inclusion of Equity Bank in the portfolio in South Sudan, better leverage has been achieved on deposits than on credit, whereas the excellent leverage on credit in Nepal was tempered by less return on deposit mobilization.

While many FSPs had increased their savings by much more than the UNCDF funding input, it was not clear than the calculation and scoring of this indicator was very meaningful, due to the difficulties of estimating attribution discussed in section 3.4 of the main report. The UNCDF leverage measure inferred a causal link between the UNCDF funding and the outreach achieved by the FSPs which should be interpreted with caution, as exemplified by the high achievement (and hence scores) on leverage for the YouthStart investments to strong FSPs which have grown well since their baseline, but without this growth being in any way attributable to the recent YS grants.

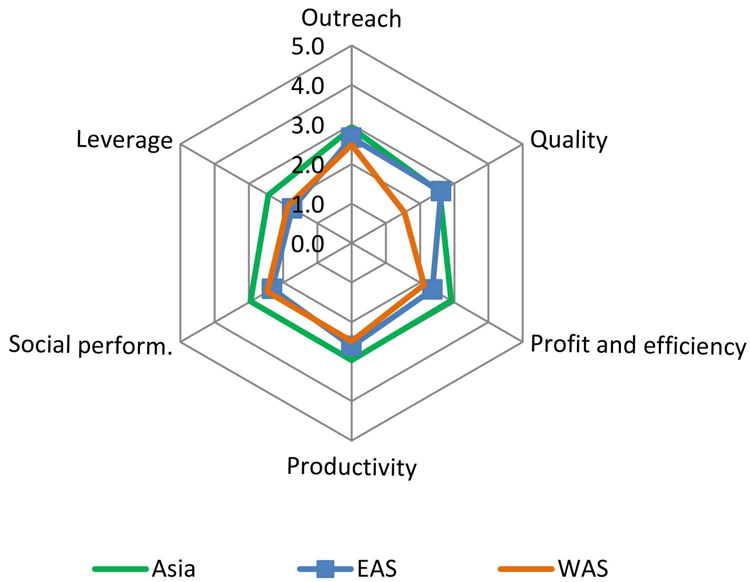
That said, the overall aggregate score for the UNCDF portfolio on leverage was 1.9, just short of “acceptable”, but with a wide variance from 4.0 (Bhutan) to 0.3. The CSP FSPs scored slightly higher at 2.1 overall than MicroLead (1.2) with its portfolio of both very young institutions (greenfields) that had not yet generated ‘outreach returns’ on savings, and of FSPs that were failing. Without any suggestion of attribution, the FSPs selected by YS scored a higher 2.4 indicating a relatively high ‘return on overall outreach’ especially in Senegal, but the indicator cannot tell if this outreach is to the young people targeted by YouthStart.

Conclusions

Analyzing the scores on the six categories of performance indicators (see Figure 2.1) the majority of UNCDF-funded FSPs were well established institutions that were performing well already at the time of UNCDF investments, and had continued to do so. While there was a clear association between good performance and countries with a higher GNI per capita and more mature IF industries, best performance was not necessarily registered in these countries. While the national contexts thus played a role in determining performance levels, the selection of existing FSPs with good growth plans appeared to be the main determinant for good results for UNCDF.

The contribution of UNCDF-specific determinants to good FSP performance was in general very weakly documented. Higher funding levels did not systematically correlate with better performance in the portfolio reviewed, and neither did the length of time UNCDF has been funding FSPs. Several of the FSPs recently funded through the GTI MicroLead have not yet achieved the performance levels expected (as set in targets), and the investments under the GTI YouthStart were so recent, that no links should be established to the performance level of the generally strong FSPs selected. However, on the specific indicator of rural outreach which several country programmes have emphasized, there were counterfactual indications to suggest that UNCDF funding and targets had directly contributed to increased rural outreach.

Figure 2.1: Aggregate FSP scores by region



The quality of the portfolio showed mixed results. PAR levels had deteriorated since baseline, but OSS levels have increased. Cost per client levels were generally good, while reported operational expense ratios had not improved. In general, performance on quality indicators had improved most and to the highest levels among the subgroup of banks/NBFI FSPs that had savings licenses, indicating perhaps that the stronger capital base, governance systems, professionalism and drive for profitability generally associated with this type of institutions produced better results. However, good results had also been attained by deposit mobilizing NGO FSPs e.g. in Nepal at a much lower investment cost.

Distilling "top and bottom performers", there was a high degree of correlation between scores on the 6 performance areas. This indicated that FSPs which performed well on one of the quality indicators (PaR30, OSS, efficiency, productivity and social performance) generally also performed well on the others, and had met their targets on outreach, even if their actual growth and portfolio sizes varied significantly. FSPs in Nepal and Timor Leste scored high most consistently (Timor Leste with the exception of leverage only, where the small portfolio measured by the indicator worked against it), whereas Liberia scored low most consistently.

Given the very significant variance in scores on all of the performance areas, the substantial aggregation of scores to regional level in this synthesis report did not fully illustrate the good progress and performance against PBA targets of many UNCDF FSPs and country-level programmes. The country-level scores provided in earlier reports to UNCDF illustrated more accurately the large variation in performance across UNCDF's risk balanced portfolio. UNCDF generates a significant volume of FSP performance data through its strong M&E systems, but this could be used better in aggregated analyses of trends at programme, regional and global level across the different types of investees supported and funding mechanisms used to inform UNCDF's strategic decision making processes and help determine an 'optimal portfolio composition' which will generate results and meet the pro-poor risk objectives of the agency.

Annex 3: Scoring of UNCDF/FIPA's Project Cycle Management Quality

The PR assessed UNCDF's handling of operations, and hence the quality of support services provided by UNCDF during all project phases. Key areas of review included project quality at entry (design, timeliness, capacity, succession planning), and support to the day-to-day operation of the programmes within the context of the strategies, policies, processes, and procedures that have been established by the governing bodies.

In accordance with the methodology described in Annex 1, the PR scored UNCDF on the quality of its project cycle management as input to the overall programme review. We considered compliance with basic operating principles in terms of governance and management, efficiency in resource allocation, timeliness, and partner satisfaction corroborated by the PR Survey responses. We reviewed governance in terms of the structures of authorization, functions, processes, and organizational practices that had been put in place to ensure effective and transparent implementation. Quality of strategies and programmes 'at entry' were reviewed in terms of country/partner selection, local anchoring, adequate mix of instruments, risk assessment and budgeting, incorporation of past lessons learned, monitoring and evaluation indicators and reporting procedures, based on the key question: How well did UNCDF ensure project quality at entry, satisfactory implementation and monitoring of the programmes?

Documentation on UNCDF's management systems was reviewed to inform the scoring, including the following contextual developments:

- Simultaneously with the Corporate Management Plan (CMP) for 2010-13, UNCDF implemented a 'Project 2010' to address internal institutional operational weaknesses, including knowledge management (resulting in a new intranet platform and the drafting of a KM policy), and the capacities of UNCDF's regional offices, which were strengthened by portfolio analysts to assist CTAs in reporting data to the central data repositories.

- Building on the CMP, FIPA developed a Business Plan for the period of 2010-2013, which further elaborated the strategies and plans for UNCDF in inclusive finance. The CMP and the FIPA Business Plan, organizational Performance Scorecards and annual Action Matrices had been developed to track progress against the strategic objectives and key outcomes. As part of the 'Project 2010', a policy advisor and a knowledge manager was recruited; policy guidelines to clarify FIPA's investment and facilitation roles were developed; and FIPA's technical lead in all UNCDF financial inclusion programmes was strengthened.

- As a 'non-resident' UN agency, UNCDF planning has been integrated into the broader UN programming frameworks. At country-level, UNCDF has therefore focused on positioning itself in the 5-year UN Development Assistance Frameworks (UNDAF) which are formally agreed to by governments, and in particular in the UNDP Country Programme Documents (CPDs) and Country Programme Action Plans (CPAPs). UNCDF visibility in the UNDAFs was seen as important for leverage, as it incorporated UNCDF into the general UNDAF resource mobilization tasks of the UN Resident Representatives/Coordinators. However, with UNCDF being only one of many UN agencies vying for competitive basket funding, this can be a challenging route to take and requires UNCDF to desist from contacting potential resident funders directly[146].

Key Additional Trends and Findings

Most key findings from the review of project cycle management have been incorporated in the main report and will not be repeated here. Suffice it to add the following:

1. At the operational level, UNCDF's management policies, systems and procedures were governed by the UNDP Programmes and Operations Policies and Procedures Manual (POPP) with a few additions and exceptions pertaining specifically to its mandate. The managerial systems were generally comprehensive if not very detailed given their application across UNDP, well documented, and accessible to staff through the UNCDF intranet. A new UNDP Information management system (OIST) had been under development for some time. Complementing the UN-wide

[146] As noted by several CTAs during the 2012 FIPA Annual Retreat.

budget management database ATLAS, the Financial Inclusion Online (FIOL) database for FSP performance reporting was operationalised by UNCDF to compile and to a certain extent aggregate performance of all UNCDF's investees, based on a standardized reporting template. UNCDF was in the process of migrating its performance monitoring database to the MIX Market in 2012 to enhance its portfolio analysis capacity, which would seem an excellent step forward.

Box 2: MicroLead's Investments in BRAC greenfields

MicroLead did not assess its first greenfield intervention according to its established procedures, but inherited it as an earlier FIPA commitment. The decision to support the expansion of the Southern-based FSP BRAC to enter Sierra Leone and Liberia based on its experience in South Sudan (and Uganda) should, however, have been better assessed in terms of the adaptability of the BRAC model to markets significantly different in terms of population density, literacy levels, and (business) culture from its motherland of Bangladesh. The business plans of BRAC clearly documented BRAC's renowned philosophy of 'microfinance paving the way for' its broader poverty alleviation strategy, based on the group as an economic and social unit through which social services can be delivered and empowerment ensue. But group cohesion is not culturally strong in post-conflict environments in Africa, and despite initial strong credit growth in all three markets where ML has supported its entry, BRAC has failed to adapt its model and was facing very significant challenges by mid 2011. Despite it being a core objective of ML support, the BRAC greenfields have not transformed into deposit mobilizing FSPs contributing to MLs objective. Several ML loans are overdue, and grants have been suspended. In hindsight, better due diligence might have cautioned against funding the rapid and wide-flung expansion of BRAC's rigid microfinance model to three African markets within 2 years.

2. The formalization of staff roles and responsibilities in relation to GTIs, and the integration of coordination with the GTIs in work plans, job descriptions, and staff appraisal and incentive systems to ensure efficient support has been a work in progress. Some progress had been made,[147] but the visibility of GTIs was generally low among national stakeholders and the limited interaction between GTI PMs and CTAs in some countries suggested that there was room for further improvement.

3. MicroLead's greenfield portfolio was composed of 6 investments by three very different FSPs: BRAC, Opportunity International-USA, and Equity Bank Limited. BRAC and Equity Bank both established their subsidiaries in advance of the ML investments being approved. The first greenfield supported by ML was inherited as an earlier UNCDF commitment (see Box 2), but none of the three BRAC greenfields had been able to adapt sufficiently to their markets to become successful (sustainable) FSPs, despite strong initial growth, and their financial projections were not found to be realistic. Based on the experience with BRAC in South Sudan, it might have been possible to predict the lesser relevance of a credit-led expansion of the well-funded FSP BRAC to the savings-focused objective of MicroLead.

Despite being inserted in the revised business plan proposal to MicroLead in July 2009, Opportunity International's greenfield in DRC was not an expansion of OI Ghana, but was designed by OI's Africa team; is owned by Opportunity Transformation Investments (OTI), the investment arm of Opportunity International-USA; and is managed from the USA.[148] OI had no prior experience with greenfielding or with working in a Francophone environment, and as the GM of OI DRC laconically noted "I have become a master translator adapting our materials to the DRC". While the investment in OI DRC thus fully reflected the high-risk mandate of ML, it may have been more appropriate and required less start-up adaptation time to invest in a francophone FSP.

The ML investment decision to support the very strong FSP Equity Bank's regional expansion from Kenya to neighboring South Sudan and Rwanda was clearly the least risky, and also the most appropriate in terms of market adaptability. However, the value added of the large up-front grant (EB South Sudan) could have been better articulated to ensure that the new subsidiary took into account ML's core objective of pro-poor savings mobilization in its standard greenfield operations, and/or investments could have been tranched.

4. The new grant PBAs constituted a clear improvement on the previous partner agreements. The PBAs clearly stated the disbursement conditions, and clarified that failure by a partner to meet outlined responsibilities or to attain at least 75% of any one performance target could be considered grounds for the CSP to suspend or discontinue any further grant support. The PBAs allow CSPs to request written explanations on under-performance, but incompliance with the

[147] E.g. a coordination template for estimation of time by ROs/RTAs/CTAs and GTI PMs to GTI-related support developed by the Knowledge Management officer at UNCDF HQ.

[148] As confirmed by both OI in DRC and the OI head office in the USA.

75% ‘minimum’ targets would trigger a discussion regarding the cause of the problem, possible remedies, and implications for funding.

In CSPs, CTAs were responsible for monitoring of PBA compliance for grants (but it appeared less so for loans), based on quarterly reports received from investees. In case of performance problems, CTAs could escalate the task of informing FSPs that their funding was at risk/suspended to the RTM/A, who shared the responsibility for performance monitoring to ensure that the minimum performance standards of PBAs were met prior to release of funding, and had final authority to decide on suspension or termination of funding. The policy guidelines reflected an older system of annual disbursements (in line with UNDP project cycles), which appeared to have been abandoned in most CSPs, but the RTM/As made efforts to participate in ICs when decisions on new disbursements were taken.

5. Across the CSPs, the PR found a high degree of satisfaction with the support provided by regional technical advisors and regional offices. CSPs appeared to rely quite heavily on guidance from the regional offices, and might not always find staff as available to respond to their needs as hoped for. Outside of the annual staff retreats, there appeared to be little opportunity for collegial exchange of experience and support, and an electronic platform established for this purpose could be developed (further) as part of UNCDF’s KM efforts.

6. In countries where the management of YouthStart was scorable, this GTI generally performed very well in terms of managerial input and was scored higher than both CSPs and ML. As stated in the main report, however, these scores were based chiefly on the design, investee selection and start-up of the programme, which articulated UNCDF value added well. It was too early to fully assess YouthStart and the underlying performance of its FSPs, but the PR found it a promising programme, which had incorporated many lessons learned from its older sister programme MicroLead.

7. Overall, **management quality was scored to 3.0 of 5 or “good”.** In Asia, MicroLead management (through TSPs) was scored on par with or slightly higher than CSP management, while CSPs in African countries with ML greenfield investments generally had performed slightly better on managing programmes (see Table 3.1).

While scored independently of FSP performance, management quality scoring did align quite closely with the overall scoring of the Programme, especially on the criterion of Efficiency which was to a large extent informed by management quality findings.

Table 3.1.	**Overall Scores on Management Quality by Country and Programmes** *Scores are adjusted to the percentage performance scoring scale (1) and to the 5-point scale used for Programme Scoring (2) to facilitate comparisons with overall programme scores.*[149]					
CSPs	*Countries*	*Numeric*	*%*	*Points*	*Scale adjust1*	*Scale adjust2*
	Lao PDR	134	45.07%	2.3	2.3	2.8
	Nepal	128	45.93%	2.3	2.3	2.9
	Timor Leste	154	50.78%	2.5	2.5	3.2
	DRC	132	44.14%	2.2	2.2	2.8
	Madagascar	136	49.27%	2.5	2.5	3.1
	Malawi	149	51.64%	2.6	2.6	3.2
	Mozambique	120	44.42%	2.2	2.2	2.8
	Rwanda	153	50.05%	2.5	2.5	3.1
	South Sudan	97	31.04%	1.6	1.7	2.1
	Burkina Faso	126	40.33%	2.0	2.0	2.5
	Liberia	125	41.75%	2.1	2.1	2.6
	Senegal	161	53.09%	2.7	2.7	3.3
	Sierra Leone	145	49.75%	2.5	2.5	3.1
	Togo	151	50.91%	2.5	2.5	3.2
	Average	**137**	**46.30%**	**2.3**	**2.3**	**2.9**
ML	Bhutan	140	52.73%	2.6	2.6	3.3
	Lao PDR	142	50.39%	2.5	2.5	3.1
	Timor Leste	145	50.70%	2.5	2.5	3.2
	DRC	116	39.79%	2.0	2.0	2.5
	Ethiopia	134	48.50%	2.4	2.4	3.0
	Rwanda	119	42.35%	1.7	2.1	2.6
	South Sudan	100	33.95%	1.7	1.8	2.2
	Liberia	106	34.32%	1.7	1.8	2.3
	Sierra Leone	108	37.62%	1.9	1.9	2.4
	Average	**123**	**43.37%**	**2.1**	**2.2**	**2.7**
YS scorable	DRC	159	53.98%	2.7	2.7	3.4
	Ethiopia	156	59.26%	3.0	3.0	3.7
	Malawi	153	55.30%	2.8	2.8	3.5
	Rwanda	169	59.57%	3.0	3.0	3.7
	Burkina Faso	n.a.				
	Senegal	n.a.				
	Average	**159**	**57.03%**	**2.9**	**2.9**	**3.6**
All progs		***135***	***46.91%***	***2.3***	***2.4***	***3.0***

[149] The first scale adjustment of scores is made using a mathematical formula to align scores with the non-linear scoring scale used, as explained in Annex 1, Figure 1.2 and 1.3. The second scale adjustment was made from the scoring scale used for project cycle management which had 5 scores (from 0 to 4 as per Annex 1, Figure 1.3) to the 6 score scale (from 0 to 5 as per Annex 1, Figure 1.2) used for the overall programme scoring in order for scores to be compared for readily.

Additional Perspectives from Stakeholders

The overall assessment by external stakeholders of UNCDF's management of programmes was very positive with 84% of respondents to the PR survey being reasonably satisfied or better (see Table 3.2).

Table 3.2: Level of Satisfaction by External Stakeholders with the *management* of the UNCDF programmes		
Question: How satisfied are you with the management of UNCDF's inclusive finance programmes in your country to date?		
Response options:	*Numerical*	*In %*
Extremely satisfied	3	9%
Very satisfied	7	31%
Reasonably satisfied	19	44%
Not very satisfied	3	16%
Not at all satisfied	0	0%
Total respondents	32	100%
# skipped question	0	0%
Total External stakeholders who took the survey	32	100%
Total External stakeholders who received survey	101	

Through comments provided, the external national stakeholders and counterparts responding to the PR Survey helpfully identified the key areas of strengths and weaknesses of UNCDF management from their perspective which have been summarized in Table 3.3.

The external stakeholders responding to the PR survey also helpfully provided recommendations for management improvements in their comments. These are summarized in Table 3.4 and complement the operational recommendations made in the Synthesis Report, section 4.2.

Table 3.3: External stakeholders' comments on key strengths and weaknesses of UNCDF management					
Key strengths	***# obs***	***%***	***Key weaknesses***	***# obs***	***%***
Policy level interventions, access and alignment to national policies/policy makers, political leverage	14	22%	Limited communication and visibility, working in isolation from key stakeholders	7	12%
Good capacity building and institutional/technical support/TA (linkages to expertise/know-how)	12	19%	Insufficient presence/staff	6	10%
Good technical expertise, responsiveness and competency of staff	9	14%	Limited technical support/follow-up for (smaller/weaker) MFIs, lack of clarity of funding conditions	6	10%
Pro-poor/integrated sector devt strat raising awareness (responsible finance)	8	13%	Inadequately competency/quality of staff affecting implementation	5	9%
Good donor coordination	5	8%	Insufficient scope/focus (geographic, support to new products/market segments)	5	9%
Financial leverage/support/value added	4	6%	Limited/under-developed M&E systems for follow-up	5	9%
Focus on new products/market segments, market-led interventions	4	6%	Delays and slow/bureaucratic procedures	4	7%
Good Monitoring and Evaluation systems	3	5%	Poor design/inadequate market research/selection of partners	4	7%
			Limited financial leverage/ support/value added	4	7%
			Lack of autonomy from government	3	5%
			Limited time span of interventions (sustainability)	2	3%
			Limited respect/appreciation of FSP management/procedures	2	3%
			Weak coordination with donors	1	2%
Subtotal	59		Subtotal	54	
Other	5	8%	Other	4	7%
Total	64	100%	Total	58	100%

Table 3.4: External stakeholders' suggested improvements for managing UNCDF programmes.		
Question: How could UNCDF improve the management of its programmes?		
	# obs	In %
By better and more information sharing, feedback to/from and involvement of national stakeholders (avoiding wasting time on contentless meetings)	7	18%
By improving follow-up, monitoring and evaluation of funded institutions and programmes	4	10%
By introducing performance-based funding/improving the PBA system (stronger penalties, clearer performance indicators)	3	8%
By providing better/more varied TA by staff to FSPs (facing difficulties); by segmenting market and providing more adapted support	3	8%
By ensuring more transparency and better coordination w/ government and following national regulations (NEX/local rather than DEX modality)	3	8%
By providing more resources	2	5%
By recruiting CTAs faster, avoiding gaps and ensuring handing-over between CTAs	2	5%
By a more efficient appraisal process of projects	1	3%
By having project management staff on the ground	1	3%
By expanding its scope (SME finance, other sectors, more programming)	2	5%
By ensuring support is marked-led and non-distortional	1	3%
By following its work plan	1	3%
By lightening implementation procedures	1	3%
By regular assessments of management needs and resources	1	3%
Subtotal	*32*	*82%*
No suggestions - UNCDF is doing well as is	5	12%
Total	**39**	**100%**