Ex post evaluation – MIFSSA II

Sector: Formal sector financial intermediaries (2403000)
Programme/Project: Further development of microfinance initiatives for Sub-Saharan Africa (MIFSSA II), BMZ Nos.: 2009 36 591 (Inv.)*, 2010 36 656 (Inv.)
Implementing agency: Various funds, holdings and microfinance institutions under MIFSSA II

Ex post evaluation report: 2016

<table>
<thead>
<tr>
<th></th>
<th>Project A (Planned)</th>
<th>Project A (Actual)</th>
<th>Project B (Planned)</th>
<th>Project B (Actual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment costs (total) EUR million</td>
<td>11.0</td>
<td>11.0</td>
<td>24.7</td>
<td>24.7</td>
</tr>
<tr>
<td>Counterpart contribution EUR million</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Funding EUR million</td>
<td>11.0</td>
<td>11.0</td>
<td>24.7</td>
<td>24.7</td>
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<tr>
<td>of which BMZ budget funds EUR million</td>
<td>11.0</td>
<td>11.0</td>
<td>24.7</td>
<td>24.7</td>
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*) Random sample 2015

Summary: As part of Financial Cooperation, the Federal Republic of Germany supports the regional approach entitled “Microfinance initiatives for Sub-Saharan Africa” MIFSSA II. By investing in microfinance networks, funds and local microfinance institutions, German FC supports needs-oriented financial services for micro, small and medium-sized enterprises (MSMEs) in 11 Sub-Saharan African countries so far. Additionally, funds for complementary measures were provided for individual regional networks.

Objectives: The module objectives of both FC measures analysed were (1) the sustainable and efficient expansion of diverse financial services for the target group, and thereby (2) an improvement in the access to such services. Under development objectives, German FC was (1) to make an effective contribution to financial inclusion in the African countries in which financial institutions are supported and (2) to deepen the financial sector in general.

Target group: The target group was the end customers, i.e. MSMEs of the formal and informal sector in urban and rural areas of the target region of Sub-Saharan Africa, whose demand for loans and other financial services could only be met to a very inadequate extent, if at all. Selected Pan-African microfinance institutions (MFI) were used as intermediaries to achieve the objectives. These were chosen based on defined minimum criteria.

Overall rating: 2 (for both tranches)

Rationale: As part of MIFSSA II, a range of transnational capital participations was initiated and quasi-equity loans to African microfinance institutions and networks awarded, which strengthened the risk-bearing capacity of the institutions concerned. The approach largely enabled financing in local currency, thus making the exchange rate risk manageable. It was also possible to work together mainly with African agencies and build particularly on existing African structures, which reinforced the ownership of partner countries. Professional governance structures were observed overall at the African MFI subsidiaries visited; although still in development in many cases, they are based on efficiency and sustainability. There is a broader range of quality financial products available. Various institutions can still improve their share of non-performing loans and cost/income ratios.
Overall rating: 2 (for both tranches)

Despite the astonishing developments that many MFIs have made in recent years, there are still significant bottlenecks: often not enough risk-bearing capital is provided, and the international donor community and private investors frequently provide funds in hard currency rather than in local currency. The project has been able to make important contributions in these areas with participations in particular, thanks above all to the fact that subordinated loans can still be converted into participations through the conversion option. In addition, funds were issued predominantly in local currency, with the result that either the Federal Government or the funds involved bears the exchange rate risk and has the capacity to do so.

The overall rating applies to both tranches, since shares from each tranche were invested in the same institutions, and the investment in one of the holding companies under review constitutes a very large portion of tranche 2. MIFSSA II is a regional financial sector support programme in Sub-Saharan Africa (SSA). By investing in regional microfinance networks (funds and holdings) as well as local microfinance institutions, German FC supports the expansion of a sustainable and efficient range of needs-oriented financial services for micro, small and medium-sized enterprises (MSMEs) in Sub-Saharan Africa.

Demand for funds from the MIFSSA II (BMZ No. 2011 36 605) complementary measure – which were originally allocated to tranches 1 and 2 – was rather subdued during the implementation phase, with the result that it could not be considered in this report. However, we consider the two tranches suitable for evaluation even when the human resources development measures are excluded. The support requirements for the projects chosen within the framework of the open programme were lower than specified during the design phase. Since the complementary measure grants for the remaining MIFSSA II tranches are still available, these will continue to be used for other projects using a measured approach. In the planning for future phases, complementary measure are already being examined to a lesser extent in order to be able to make full use of the grants over the entire project. The training measure “Greenfielding Access Bank Rwanda” (BMZ No. 1930 03 902), which is also assigned to tranche 2, is not yet ready for evaluation, since on the one hand, the measures have not yet been completed and on the other hand, the target horizon has not yet been reached (five years after founding in early 2014). This will be reported on at a later date.

Overall context

MIFSSA II was conceived as an open project, which is carried out in successive tranches. With the help of FC trust funds, various capital participations and quasi-equity loans to local financial institutions and regional networks (microfinance institutions) were made or awarded according to agreed selection criteria.

The objectives and indicators of both tranches are identical and tranche 2 is partly based on the anticipated appraisal under tranche 1. MIFSSA II operates in 11 countries. The two target countries of Tanzania and Ghana were visited as part of the evaluation. The focus of the report is therefore on the samples visited, but without neglecting the other institutions and funds supported.

Relevance

The implementation of MIFSSA II should significantly contribute to overcoming the lack of access to financial services for SMEs and private individuals in the target region. The lack of access to financial services for large parts of the population is still a key obstacle to economic growth and income security. MSMEs from both the formal and informal sector are of pivotal importance in the countries visited, as they represent the employment opportunities for a large part of the population and can thus help generate widespread economic growth. In addition, the provision of capital was a bottleneck factor for many institutions, as was the burden put on institutions by exchange rate risks and the high share of foreign currency financing.

These bottlenecks are still relevant from an EPE perspective. The selected programme approach is considered appropriate for contributing to problem resolution with regard to the specified target group, the selected financial intermediaries, the chosen support form and the quality of funds (often equity participa-
tions in local currency). Following a successful start-up phase, the shares of MIFSSA II should be taken over as much as possible by local investors.

The objectives of the programme are in line with many country strategies. In Ghana, for example, a financial sector strategy paper and a Ghanaian government national strategic framework for microfinancing have been prepared, both with the same objective. At the same time, the programme concept is in line with the objectives pursued by the German Federal Government, in that capital from the credit market is provided to formerly excluded MSMEs in order to help expand their business by means of new investments and, in principle, to improve their ability to react to external shocks. In terms of developmental policy, this means the populations in the target countries are better protected from sliding into poverty. The programme aimed at pursuing a primary objective of the Millennium Development Goals (poverty reduction) and is thus in line with points 3.1 and 3.4 of the German federal government’s Action Programme 2015, which aim to strengthen economic dynamism and the participation of the poor and to finance further development.

The coordination with other donors provided for in the programme design was suitable for resolving the basic problem.

**Relevance rating: 2 (for both tranches)**

**Effectiveness**

During implementation of the programme, network banks were given access to new capital. This was necessary to effectively meet existing demand, strengthen the capital base of the institutions concerned, and enable these institutions to meet the capital adequacy requirements of their respective central banks. As a result, this support goes far beyond the mere allocation of funding loans. At the same time, smaller and younger microfinance institutions were also supported via MIFSSA II by means of the provision of adequate capital, which forms the basis for future growth. Foreign banks from Western Europe and South Africa are also trying to expand their market position in the SSA region. However, these banks tend to focus on large companies with lucrative earnings potential, which means that the majority of the population is not reached. Commercial investment in networks and financial intermediaries (FI) specialising in MSMEs is still rare. In the vast majority of cases, therefore, investment by MIFSSA II and thus the strengthening of capital have enabled the growth of the networks/FIs, which would not have been possible without MIFSSA II in the given form and at the given time. Other donors with similar objectives are active in the region and invest in the same or similar projects.

The targets for tranches 1-3, updated in March 2014 as part of the 2013 reporting with a target horizon up to 2018, have been reached as follows (2014 vs. 2013). The table contains the summary of the values:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Status PA</th>
<th>Ex post evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of accounts and agreements (credit agreements, savings accounts, insurance policies, leasing, payment transactions).</td>
<td>Increase of 8-10% p.a.</td>
<td>Increase of between 8% and 52%. 11 FIs achieved the target value; no data available for 4 FIs. ► Indicator almost fulfilled</td>
</tr>
<tr>
<td>2. Total volume of financial services demanded (loans, saving deposits, insurance policies, leasing, payment transactions).</td>
<td>Increase of 15-20% p.a.</td>
<td>Increase of between 10% and 193%; one decline in a single case. (3 FIs did not achieve the target value) ► Indicator is considered almost fulfilled</td>
</tr>
</tbody>
</table>

1 At the time of the evaluation, the annual financial statements for 2015 were not yet all available.
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Proportion of loans in arrears in outstanding volume of lending (defaulted payment (PAR &gt; 30 days)) with acceptable impairment for credit losses.</td>
<td>Average proportion of non-performing loans among supported institutions (defaulted payment &gt; 30 days) &lt; 5%.</td>
<td>7 FIs achieved the target value, 3 FIs at between 5% and 8%, 3 FIs at a worrisome 17-20%. Not applicable for two enterprises (payment services without lending).</td>
</tr>
<tr>
<td>4. Cost/Income Ratio as well as ROA and ROE.</td>
<td>80% No target value defined.</td>
<td>7 FIs: values achieved or almost achieved, 1 FI: target value narrowly missed 4 FIs: still in the red, 2 enterprises: not applicable (similar, but income after tax negative).</td>
</tr>
<tr>
<td>5. Share of accounts/agreements with female customers.</td>
<td>roughly 40%.</td>
<td>8 FIs: indicator fulfilled or almost fulfilled, 3 FIs: indicator not fulfilled, 4 FIs: no data.</td>
</tr>
</tbody>
</table>

**Additional indicators for original design concept:**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of MFIs in SSA that have received investments under MIFSSA II.</td>
<td>60 20</td>
</tr>
<tr>
<td>Number of countries in SSA that have received investments under MIFSSA II.</td>
<td>12 12</td>
</tr>
</tbody>
</table>

**Indicators 1 and 2:** The observed growth in the number of customers and the volume of business is indicative of the high market demand for financial services, which could be served by the offerings of the FC programme under MIFSSA II. There is still additional growth potential for the majority of the investments. All in all, the increase in the number of agreements and the growth of the portfolio for almost all investments are either in line with or clearly exceed the defined target values. In the case of indicator 1 (increase in agreements), no data is available for four FIs. Since three of the four show above-average portfolio growth, we do not consider this to be critical. The decline in the portfolio (indicator 2) for one FI is attributable to the fact that the parent company was taken over by another FI in a participating fund and the new parent company is now planning to sell the subsidiaries. In a situation of uncertainty such as this, it is understandable that the business is not being expanded. Indicators 1 and 2 are thus considered almost fulfilled.

**Indicator 3:** As to the fulfilment of the PAR > 30 days indicator, a mixed picture is obtained. Only seven out of a total of 15 investments achieved or almost achieved this target value. Six did not meet the target value. In the case of two investments – the two digital payment services – no data are available owing to the nature of the business. In the case of the portfolio at risk indicator, there is thus still potential for improvement, with specific causes in each individual case and general improvement measures being implemented by the institutions. Impairment for credit losses is only available for FC direct investments, and not for the individual investments of the two funds. However, the impaired direct investments are consist-
ently within an acceptable range of 1-3% of the total credit portfolio and have not deteriorated significantly compared to the previous year.

**Indicator 4**: In all institutions, considerable effort is being put to improve the cost/income ratio. In general, most of the FIs are under construction, which in the short term will have a negative impact on the cost-income ratio. The personnel also requires regular further training in order to work more efficiently and in a more goal-oriented way. Overall, seven of the 15 FIs achieved or almost achieved the target value, one FI only narrowly missed the target value with a value of 85%, and four FIs fell clearly short of the target value with values between 89% and 278%. In the case of one FI, there is no quantitative data for this indicator, but we know from the reporting that the cost-income ratio is not yet satisfactory. Applying this indicator makes no sense in the case of two of the enterprises (the digital financial services providers), as this is mainly used for the operational activities of banks. In this case, the income after tax and the return on assets (ROA) and return on equity (ROE) are considered in the same way: the return figures are all still negative, as is income after tax.

The aforementioned indicators were also applied to the two investment funds as a whole. This painted the following picture: one fund achieved a good result with just under 30% and a nominal ROA/ROE of 11% (inflation rate: 0.4%). The other fund put up a weaker performance, with a cost-income ratio of 120% and a nominal ROA/ROE of negative 2.5% (inflation rate: 1.6%).

Overall, we regard the indicator as being only partially fulfilled.

**Indicator 5** (proportion of female customers): None of the participating institutions places a special focus on female customers. There is no targeted advertising that exclusively addresses women and there are no special products or consultations that have been developed purely for female needs. Men and women are treated according to the same objective loan criteria. According to the information provided, the share of female customers more or less reflects the proportion of women active in business, specifically in the customer segment (and is also roughly indicative of the proportion of female employees). It can therefore be assumed that the FIs under review provide equal access to financial services for both men and women and do not contribute to discrimination against women. For cultural reasons, all of the visited institutions in Ghana and Tanzania with a focus on the microfinance business have a very high proportion of female employees. On the whole, where data are available, the proportion of women is above the planned 40% in around three-quarters of cases and the indicator has been achieved.

In addition, institutions were selected at random and asked whether the additional capital had either contributed to the strengthening of the institution’s capital adequacy or had enabled the institutions to grow. Two large institutions and a smaller one were selected for this purpose, all direct FC investments. All three institutions had seen strong growth after the respective date of investment. This growth was financed from additional borrowed funds such as equity capital. The capital provided by FC contributed to the fact that, despite strong growth, capital adequacy remained within the limits set by the respective central banks.

At the beginning of the programme activities there was only a small range of micro-finance services in the target countries with a rather underdeveloped product and service offer. Private households and MSMEs had very high financing needs. A number of MFIs have since established themselves, primarily in the larger cities. Local banks in the meantime have established semi-independent departments for lending to microfinance clients. Increasingly, the institutions visited offer their clients a wider range of banking products. These include customer-specific savings products, customised loan options and various insurance services, and will increasingly include mobile banking services in future. Forms of “group lending” are still used in the credit sector, particularly at micro-finance level. On the one hand, these are designed to develop lasting and trusting customer relationships. On the other hand, this form of lending, which is based on the principle of solidarity, reduces the risk of default for many MFIs and educates borrowers about financial services and their procedures. Loans are initially issued with short terms and low credit volumes. Following timely repayment, however, these allow for the subsequent gradual increase of the maximum amount that can be received.

**Summary appraisal**: The effectiveness of the objectives achieved with the FC measure is assessed as satisfactory. The effectiveness of the objectives achieved with the FC measure is assessed as satisfactory. The implementation of the MIFSSA programme under evaluation offers a long-term, responsible approach to using the funds. MIFSSA II will continue to offer good potential for development in the future.
with the participating financial intermediaries placing a greater focus on rural regions outside the main cities and urban centres.

**Effectiveness rating: 3 (for both tranches)**

**Efficiency**

The programme objectives elaborated within the scope of the programme design can be implemented largely economically at the partner institutions involved in MIFSSA II. On the one hand, the proven profitability of the investment measures at the level of MIFSSA II is an important success criterion in and of itself, while at the level of the local network banks and MFIs, efficient use of the funds made available is a key economic target, measurement and control figure. In addition to the developmental objectives, all companies essentially have corresponding earnings targets as well; this means that they must cover costs at the very minimum, and in some cases a reasonable return should also be generated in the medium term.

Despite the chronic under-supply of the financial sector, the microfinance sector in the target countries visited is a highly competitive market where, in addition to licensed institutions, many unlicensed providers operate in the grey market sector or on the illegal black market. Central banks and other supervisory authorities often do not have enough personnel resources to effectively control or further develop the financial sector in terms of fiscal policy.

Within the framework of the evaluation, local network banks have generally been observed as being more robust and more stable economically. Equity investments in smaller MFIs in particular offer great potential for development. However, these require more time and additional financial resources. As a result, the smaller institutions are also likely to perform slightly worse under MIFSSA II with regard to production efficiency (growth of total assets, capital adequacy, net income, credit growth rate). For reasons of efficiency, it is also fundamentally questionable whether a large number of institutions is useful. Factors that hamper efficiency in Ghana include additional power shortages. Each bank branch must be equipped with a generator. Thus, acquisition costs and ongoing operating costs constitute a significant cost item.

The development of established customer structures is of crucial importance, as these ensure the stable income structure of the institutions and help build efficient cost structures. Microfinance customers often cannot afford to visit branches to do their banking business. In this respect, site visits by field staff are an important factor of success. Against the backdrop of cost efficiency, this is surely the reason why large banks are neither willing nor able to service this sector.

However, the financial sector in Africa is experiencing a clear quantum leap, which will significantly improve the efficiency of banking transactions: with the introduction of digital banking, financial services can now be handled easily by mobile phone. The operation is simple, and since the data are transmitted by text message, no Internet connection or smartphone is required. Some FIs have introduced digital banking over the past two years.

In discussions with the branches visited and in the context of the numerous surveys of final borrowers, there was a firm impression that the examined institutions adequately checked the loans granted and approved these at a satisfactory pace. All institutions place considerable emphasis on employee instruction and further training, as well as on increasing motivation within the workforce.

In all cases, the programme was able to contribute to an improvement of the capital structure and has thus enabled the institutions to continue growing in their business area and to meet the capital adequacy requirements of their respective central banks. The allocation efficiency is assessed as good.

**Summary appraisal:** The institutions under review are, for the most part, capable of implementing the programme objectives effectively and in proportion to their internal costs. All MIFSSA partners service their liabilities – in particular to KfW – in full and on time. The partners involved in MIFSSA have already made progress with regard to the desired profitability and credit quality. A number of institutions also operate much better than their competitors. Against the background of the programme objectives defined in the programme proposal and those not yet fully achieved, the efficiency of the programme as a whole is assessed as just satisfactory.

**Efficiency rating: 3 (for both tranches)**
**Impact**

As DC development objectives, the programme was supposed to

1. make an effective contribution to financial inclusion in the African countries in which financial institutions are supported and

2. contribute to the deepening of the financial sector in general.

The target group was predominantly MSMEs as well as the poorer, economically active households in the target region that are behind these companies. An indirect target group consisted of the MFIs supported by MIFSSA II in order to reach the target group.

The overall economic indicator of the ratio of private sector loans to gross domestic product, which serves as the DC project objective indicator, has increased over the course of the FC measure in all countries under review. The median rose from 13.2% to 31.1% of gross domestic product. The chain of effects here, however, is very long.

In the relevant example of the FI visited, the developmental impacts should be considered on an individual basis:

**Microfinance bank in Tanzania**

The average credit volume for first-time microfinance borrowers is approximately 2,500 USD. Although this amount is well above the theoretical minimum of 50 USD, it represents an amount that makes a meaningful income-generating investment possible. Smaller loan amounts are reportedly prioritised for use in consumer spending. The provision of loans for MSME income-generating measures contributes to the reduction of poverty in the households behind these enterprises, since family members and, where appropriate, other employees are offered employment opportunities, and children are able to attend school or university. This correlation was confirmed by the customers visited on site as well as by the interviewed loan advisors.

At the end of 2014, the bank had 27,500 loan customers. When founded, it was one of the first providers of microfinance in Tanzania. The market has since evolved and is now very competitive. The loan technology used has been found to be so interesting to other competitors on the market that it is often copied. This technology has led to the further development of the financial sector.

The MIFSSA investment, which is seen alongside the International Finance Corporation as an anchor investor, has resulted in further smaller investors participating in the bank, and a share of another state investor has already been successfully sold to a private investor. Thus the ultimate goal of mobilising private capital for developmentally effective projects has also been achieved.

The sub-rating of the impact for both tranches is good.

**Network for financial services for civil servants**

Extending the offering to civil servants allows them access to financial services that they would not otherwise have. Borrowers mainly use the loans to finance school fees (67% of loans). Access to educational (training) funding is a secondary objective of financial sector development and is therefore welcomed. Investments in housing are financed in the second instance (11%), and MSME activities take third place (5%). As at the reporting date of 31 December 2014, a total of 558,000 active borrowers in the group had been provided with loans.

The subordinated loan from MIFSSA II facilitated access to private capital market investors; thus the ultimate objective of mobilising private capital for developmentally effective projects has also been achieved.

State employees are only a small part of the intended target group (MSMEs and the poor, economically active households behind MSMEs). In any case, state employees already have a fixed income – though this can be very low – and not all are small-scale entrepreneurs as well. Nonetheless, the provision of educational funding is accorded a similarly high developmental value. In total, 72% of the network loans granted in the countries under review are intended for this purpose.

The sub-rating of the impact for both tranches is good.
First microfinance bank in Ghana:

If we consider the development of total assets, equity capital and the extent of the deposit business, steady growth can be seen, although this may be weak at times. The microfinance portfolio records quarterly growth of 2.0-2.5% on average and currently accounts for 28% of the total lending volume. This microfinance bank has around 5,900 microfinance customers, with a credit portfolio of approximately 7 million GHS (1.7 million EUR). Of these customers, 66% are women. The total number of loan customers is around 13,000. By comparison, the number of customers with deposits of around 121,000 appears to be quite high. The average deposit is still below EUR 100 (currently around GHS 410); however, deposits are the population’s first step in gaining access to financial services. When it comes to granting loans, 25-30% of the pledged deposit is required as a security; this is a compulsory lending requirement. The institution also offers its customers savings products. These are term, higher-interest savings deposits. The purchase of “risk-free” Ghanaian government bonds – although financially attractive for all financial institutions – is of lesser importance from the perspective of development policy. These generate very high returns and thus contribute to positive business results overall. In the first quarter of 2015 alone, the bank’s growth in earnings from government bonds was 37%, compared with only 3% from loans/exchange transactions.

The sub-rating of the impact for both tranches is satisfactory.

Second microfinance bank in Ghana:

A similar picture can be observed in the second MFI that was visited. With total assets of approximately 12 million EUR, seven branches and 200 employees, the institution is a somewhat smaller market participant, which has not yet found its economic footing. The institution has more than 75,000 customers in the deposit business with an average deposit amount of around 130 EUR. This MFI currently has over 5,300 customers in the loan sector, with an average credit volume that has now risen to 2,000 USD (previous year: 580 EUR). The total proportion of women in the customer base is 51%, while in the microfinance segment this is over 85%. The product range to be offered to customers is currently still under development. The expansion of the micro business is seen as a strategic business objective. To this end, employee and customer training should be carried out in a targeted manner, with the aid of human resources development support from the FC and a Norwegian development agency. Cooperation with a local Ghanaian partner institute should significantly increase existing customer potential. Overall, it must be stressed that this small bank is on a positive trajectory in terms of development policy, particularly when compared with its beginnings, when only the opportunity for investment was available to customers and loans were often used for vehicle financing.

The sub-rating of the impact for both tranches is satisfactory.

The rating of other investments is good to satisfactory with regard to the impact criterion. The per capita loan volume is between 160 USD and 2,900 USD and therefore within the acceptable range. All FIs offer a diverse range of products corresponding to their size, and all but two FIs offer both loan and savings products. With the exception of a few very small MFIs, the supervisory boards are professionally managed. In this context, however, the question arises as to whether it makes sense to support very small FIs, even if this is done via funds. In the institutions where there are still deficits in terms of governance, these are being worked on by representatives from the umbrella companies.

The mobilisation of other investors has also been observed at all institutions.

Summary appraisal:

The funds for the project cannot be used to revolutionise the entire financial sector of the respective countries due to their low total volume. Nevertheless, they have contributed to improving the situation in the MSME sector and have been structurally effective to some extent, including the imitation effects observed in individual cases. The project has thus contributed to the long-term, sustainable development of the fi-
nancial sector and to stabilising and permanently improving the living conditions of the population through MSME funding in the target countries.

Impact rating: 2 (for both tranches)

Sustainability

The review of sustainability in the MIFSSA II programme was conducted with a view to the long-term, responsible management of the funds. These should be used for the long-term development of the financial sector and to stabilise and permanently improve the living conditions of the population through MSME funding in the target countries. The discussions looked into whether the institutions concerned would be able to pursue their mission of local MSME financing and the supply of financial services in the future even without FC subsidies, in the event that the loans were repaid or the equity participations sold.

The FIs supported by MIFSSA are all geared towards the long term. They are either already profitable or are on their way to becoming so. If operations are economically successful, it is likely that once the MIFSSA II investment is complete, it will be possible to attract another – possibly even private – investor, who will take over the shares, so that operations can continue unchanged. The sustainability of the FC measure would then be guaranteed by the mobilisation of private capital. At the level of the individual FIs, this is achieved via new investors. One of the microfinance institutions visited is also beginning to establish a new financial product for its customers and develop lasting customer relationships by issuing its own company share certificates.

With regard to sustainability, it should also be mentioned that all of the institutions visited go to great lengths to actively implement Responsible Finance principles. In many branches, for example, the corporate guidelines are on display for both customers and employees. Well-devised, target group-oriented posters at the entrances to retail branches make it clear that loans should be taken up with caution. One poster, for example, reads: “A loan is meant to make your life better, not worse”. There is a box in each store where customers can submit suggestions, requests and criticisms to the bank management.

In addition, some institutions have a call centre, which is well received by customers. The dedicated work of the field staff helps develop close customer relationships, which centre on trust and sustainability.

The umbrella organisations funded through MIFSSA II send their own management representatives to the supervisory authorities and control bodies of the MFIs that as part of the programme were provided with equity capital. Through this commitment, it is impressive to see that, in addition to earnings, the investments effected are also geared towards the sustained expansion of the respective institution. Within the framework of Responsible Finance, almost all the institutions visited have already introduced the application of consumer protection principles in accordance with the requirements of the Smart Campaign, even if only a few institutes have successfully passed the certification.

Summary appraisal: The institutions visited have credibly demonstrated that the results and impacts already achieved are sustainable in the long term, and thus that they will endure on the market and continue to grow in future. There is a very good chance that they will succeed in generating future growth as well.

Sustainability rating: 1 (for both tranches)
Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project’s development effectiveness. The scale is as follows:

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>Very good result that clearly exceeds expectations</td>
</tr>
<tr>
<td>Level 2</td>
<td>Good result, fully in line with expectations and without any significant shortcomings</td>
</tr>
<tr>
<td>Level 3</td>
<td>Satisfactory result – project falls short of expectations but the positive results dominate</td>
</tr>
<tr>
<td>Level 4</td>
<td>Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results</td>
</tr>
<tr>
<td>Level 5</td>
<td>Clearly inadequate result – despite some positive partial results, the negative results clearly dominate</td>
</tr>
<tr>
<td>Level 6</td>
<td>The project has no impact or the situation has actually deteriorated</td>
</tr>
</tbody>
</table>

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

**Sustainability is evaluated according to the following four-point scale:**

Sustainability level 1 (very good sustainability): The development effectiveness of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The development effectiveness of the project (positive to date) is very likely to decline only minimally but remain positive overall (this is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The development effectiveness of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive development effectiveness.

Sustainability level 4 (inadequate sustainability): The development effectiveness of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a “successful” project while rating levels 4-6 denote an “unsuccessful” project. It should be noted that a project can generally be considered developmentally “successful” only if the achievement of the project objective (“effectiveness”), the impact on the development objective (“impact”) and the sustainability are rated at least “satisfactory” (level 3).