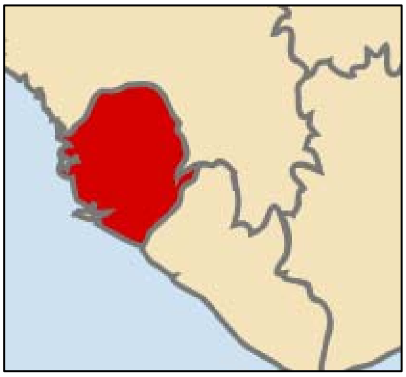
Ex Post-Evaluation Brief
Sierra Leone: Sectoral Programme Microfinance and ProCredit



Programme/Client	1) Microfinance Sector Programme I + II: 200366062*; 2005 66299 (hereinafter: MITAF) 2) ProCredit Bank Sierra Leone: 200566430* (incl. basic and advanced training -2006353)	
Programme executing agency	1) Bank of Sierra Leone 2) ProCredit Bank Sierra Leone	
Year of sample/ex post evaluation report: 2011*/2011		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	1) EUR 7.8 million 2) EUR 7.5 million (thereof EUR 4.0 million basic and advanced training)	1) EUR 9.4 million 2) EUR 7.5 million
Financial Cooperation funds (budget funds - grant)	1) EUR 6.0 million 2) EUR 1.6 million (thereof EUR 1.0 million basic and advanced training)	1) EUR 6.0 million 2) EUR 1.6 million

* random sample

Project description: 1) MITAF is a virtual fund under the auspices of the United Nations and was founded in 2004 by UNCDF, UNDP and KfW. In 2005 the Dutch NGO Cordaid became a financing partner. The fund provides funding for technical advice, operating equipment and refinancing for microfinance institutions (MFIs) and periodically funding to support institutions on the meso and macro levels. In this way several sustainable MFIs were to be developed, while strengthening the framework conditions in the microfinance sector. For the project, German FC committed EUR 3.0 million (Sector Programme Microfinance II) in 2003 and an additional EUR 3.0 million (Sector Programme Microfinance II) in 2005.

2) The project consisted in an equity investment in ProCredit Bank Sierra Leone (PCBSL), founded in 2007, and project-related staff support. For this purpose, trust funds amounting to EUR 0.6 million and funds for basic and advanced training of EUR 1.0 million were made available. At the time of its establishment, the shareholders (total foundation capital) comprised: KfW (12%); ProCredit Holding (68%); DOEN Foundation (20%). For staff support a total of EUR 4 million was to be provided for 4 years, only EUR 3 million was actually used due to the early sale. Of this, EUR 1.0 was made available by KfW with additional contributions from the DOE Foundation (USD 350,000), MITAF (USD 1 million) and the Gates Foundation (USD 1.2 million).

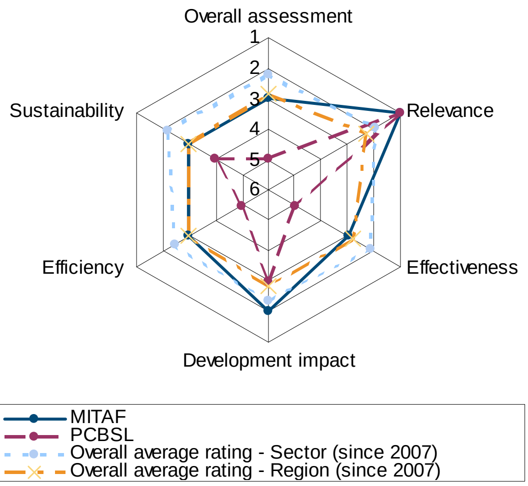
Target System: The project purpose of both projects was to increase the sustainable offer of needs-oriented financial services for MSEs. This, in turn, was to make a contribution towards creating and ensuring additional income and employment. Furthermore, MITAF should contribute to the structural enhancement of the emerging sector. **Target group:** Economically active households and MSMEs in the formal and informal sectors (primarily in retail trade) in Sierra Leone.

Overall rating:

1) Rating 3
MITAF made an important contribution to the establishment of the MFI sector, with reservations in terms of efficiency.

2) Rating 5
PCBSL did not achieve the intended objectives and was sold early.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: As an overall result, we have reached the conclusion that MITAF has made and must continue to make an important contribution to developing the microfinance sector. Due to some weaknesses in the conception and implementation, we assess the project overall as satisfactory **(rating 3)**.

ProCredit Bank Sierra Leone (PCBSL) did not achieve the intended objectives. It was lagging so far behind the stated objectives at the end of the 3rd business year that it can be assumed these would not have been achieved without the sale. This is due both to management errors, primarily in the initial phase of the project, as well as difficult framework conditions in the partner country as described in detail below. As the positive development of the PCB Congo shows, in our opinion it should not be concluded that the green fielding approach, i.e. the founding of a new bank, cannot generally be successful in difficult markets. Even if the entry of the bank into the sector was able to provide positive impulses, overall we rate the project as insufficient **(rating 5)**.

Relevance: A functioning financial sector is the backbone of every economy. In particular access to financing for micro, small and medium-sized enterprises (MSMEs) makes an important contribution to economic development and thereby to creating jobs and income. In addition, a high impact on poverty is assumed in the microfinance sector.

At the conclusion of the civil war in Sierra Leone (2002), the financial sector was considerably underdeveloped and the microfinance sector hardly existed. Therefore both projects, which were to support the establishment of a microfinance sector using different approaches, were highly relevant.

The establishment of a diversified microfinance sector was promoted on the one hand via the MITAF through the support of different MFIs. In this way the projects were to reach a larger number of customers, strengthen the local stakeholders and contribute to the professionalization of the sector. In addition, the meso and macro levels were to be supported through corresponding advisory services.

The aim of establishing a new microfinance bank, PCBSL, was to introduce an internationally successful model in the local market. PCBSL, with a full banking license, offered a broad range of financial services which the existing MFIs could only partially offer. In addition, as "best practice" project, the bank was to contribute to raising the standards across the entire sector. Against the background of the small number and size as well as the low level of professionalization of existing MFIs, the establishment of a new microfinance bank (green fielding approach) seemed an adequate approach to support the development of the sector.

Good coordination of the donors was ensured through the regular exchange of information between the donors (KfW, UNCDF, UNDP and Cordaid) involved in MITAF and with local actors (BoSL, MoFED) in the framework of the investment committee and advisory committee. Overall we come to the conclusion that both projects are highly relevant (Sub-Rating: 1).

Effectiveness: The purpose of both projects defined at project appraisal was to expand the sustainable supply of needs-oriented financial services for MSMEs in Sierra Leone. In this way, in particular MSMEs were to be given access to the financial sector.

In both projects, the achievement of this project purpose was measured using the usual state-of-the-art indicators for the financial sector, in particular in terms of reaching ultimate borrowers (portfolio size, number of customers, average loan amount), qualitative and quantitative indicators on efficiency of participating institutions (portfolio quality / portfolio at risk (PaR) > 30 days) and indicators on operational and financial sustainability.

Although all quantitative objectives were achieved and even partially exceeded for MITAF, particularly in terms of the indicators for financial and operational sustainability and the number of active customers in the microfinance sector, there were deficits in the portfolio quality of participating MFIs. The problems in this area have worsened since the end of phase I of MITAF (June 2010), and some MFIs which had a portfolio quality corresponding to the indicator exceeded the threshold of 5% (PaR>30)[1] at the time of the ex-post evaluation. Many of the MFIs promoted under MITAF followed overly ambitious growth scenarios and neglected to build up resources and appropriate structures, which in turn led to a portfolio quality that was no longer sufficient.

ProCredit Bank Sierra Leone achieved neither the quantitative nor the qualitative objectives. Due to the high losses, the difficult environment and the hardly achievable equity requirements, the bank was sold to the Nigerian Ecobank at the end of the business year. We judge the effectiveness of MITAF as satisfactory (Sub-rating 3), while PCBSL clearly missed all stated target objectives (Sub-rating 5).

Efficiency: Microfinance has generally proven to be a cost-efficient approach to promote MSMEs and strengthen private sector development. However the cost efficiency of both projects can hardly be compared with projects in other countries due to the very specific conditions in Sierra Leone (post-conflict environment, very low level of education, still very early development stage of the whole financial sector).

The efficiency of MITAF could have been increased through the physical pooling of resources. However, the donors could not agree on this during the first phase. The fact that

[1] Portfolio at risk (PaR)> 30: The share of the disbursed loans which are in payment arrears of more than 30 days.

despite common funding bodies the loan agreements were signed bilaterally with the respective donors, while joint documentation (Policies & Procedures) was also developed late and with little details, led to considerable delays in the signing of agreements and particular in disbursements. In addition, the relatively complicated structure tied down unnecessary resources for coordination and bookkeeping by the technical service provider which could have been used more efficiently to support the sector. Furthermore, the involvement of the Central Bank and Ministry of Finance (MoFED) in investment decisions also slowed down this process. The coordination process between the donor representatives was hampered by different internal principles and views on the concept of financial sector promotion, both among the donors as well as between the donors and the Central Bank/MoFED. As a result, decision-making was often a time-consuming process. This is also reflected, among others, in the fact that from the funds made available in the second phase of the programme about two thirds have not yet been disbursed and will be transferred to the next phase.

The volume of the funds made available for advisory services amounts to 62% of total disbursed funds, which is relatively high compared to the funds disbursed as loans. In our view, however, this is necessary and justified in light of the still very weakly developed sector. Particularly the generally low education level of (potential) employees of MFI, the underdeveloped lending culture and difficult environment in a post-conflict country require a higher use of advisory services. A direct comparison between similar projects in other countries is therefore only possible to a limited extent.

In light of the lack of effectiveness for the PCBSL project, the establishment of the bank cannot be rated as efficient. This is particularly evident when comparing the high resource input and the low sales price that was realised in March 2010. In addition to the FC funds directly assigned to the project, the bank received EUR 1 million from MITAF for advisory measures. Along with internal weaknesses in establishing the PCBSL, such as management deficits, frequent changes in management, disproportionate share of (inexperienced) foreign staff and poor knowledge of the special market environment, difficult conditions in the country contributed to the high costs. In our view, the latter factors should be given great importance. Although the ProCredit model had already been successfully implemented in different contexts, including in post-conflict countries, the deficits in the framework conditions in Sierra Leone were underestimated and the business model was inadequately adjusted to local conditions. Overall we rate the efficiency of MITAF as satisfactory (Sub-rating 3), while the efficiency for PCBSL can only be characterised as deficient (Sub-rating 5).

Overarching developmental impact: MITAF played an important role in establishing a sustainable microfinance sector. Initially the sector was very underdeveloped and the impacts of the 11-year civil war are still visible today. During the course of the project a diversified sector developed, which served the various segments of the microfinance market through institutions with different business models.

By focusing on the foundation and professionalization of the sector, MITAF supported the establishment of sustainable structures. Nevertheless, overall the sector is still far from being a fully developed industry and there are some weaknesses that must be urgently dealt with. This includes in particular the improvement of the portfolio quality, the expansion of the offered product, extension into rural areas and further improvement of the management capabilities of the MFIs. Based on this, the follow-up phase of MITAF II is focused on these listed priority areas.

PCBSL had a positive effect on the sector overall, as the bank addressed a market segment as target group which thus far neither commercial banks nor MFIs had served. With the takeover by Ecobank, now there is a commercial bank with a subsidiary specialised in microfinance active in the market. PCBSL was also the first bank to introduce the VISA credit card payment system in Sierra Leone. The staff trained by PCBSL remain available to both the sector overall and Ecobank (about half the employees of PCBSL were taken on by Ecobank).

The concrete impacts of projects on reducing poverty and developing income could not be precisely determined due to a lack of systematic data. Against the background of low average loan sizes at MITAF, it can be assumed that mainly micro enterprises were served, which fall to the middle to poor population groups. However, as with other microfinance programmes, the poorest population groups in Sierra Leone are at best reached indirectly (creation of jobs), as due to the very low level of development in the country there is a lack of potential to successfully establish micro enterprises. Overall we assess the project's overarching developmental impact of MITAF as good (Sub-rating 2) and of PCBL as satisfactory (Sub-rating 3).

Sustainability: Against the background of the early stage of market development of the microfinance sector in Sierra Leone, the duration of the MITAF measure was not long enough to completely establish sustainable structures in the sector. However it should be emphasized that significant progress was achieved. The end of the programme at this time would not endanger the success of MITAF. It is therefore welcome that both the donor community active in the country as well as the local government have emphasised their willingness to continue support in building up the sector.

While the majority of MFIs continue to require advisory services, some have taken a great step towards operational and financial sustainability. However, this success is endangered by the continuing poor portfolio quality of many MFIs. In addition, numerous market participants have drawn attention to the increasing problem of multiple lending and the tendency towards over-indebtedness in the urban agglomerations.

The sustainability of <u>PCBSL</u> did not meet expectations. PCBSL was sold to Ecobank, which continues the business activities of PCBSL (with thus far minimal adaptations in the business model). Despite the positive impacts of the PCBSL on building up structures of the entire sector as well as the training of qualified staff which remain active in the sector, overall the sustainability is viewed as no longer satisfactory. We rate the sustainability of MITAF as satisfactory (Sub-rating 3). This includes consideration of both the early development stage of the sector as well as the risks caused by a further worsening of the portfolio quality.

The sustainability of PCBSL is deemed as no longer satisfactory (Sub-Rating 4).

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 overall developmental efficacy. The scale is as follows:

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

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

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

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

Sustainability level 2 (good sustainability): The developmental efficacy 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 developmental efficacy 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 developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy 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. Ratings 1-3 of the overall rating denote a "successful" project while ratings 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 overall objective (“overarching developmental impact”) and the sustainability are rated at least “satisfactory” (rating 3).