



# Executive summary

## Review of the results of the technical assistance provided to the beneficiary organizations of the FEFISOL fund December 2019

*Final version*



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## LIST OF ABBREVIATIONS

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EIB	European Investment Bank
GIS	Geographic Information System
MFI	Microfinance Institution
MIS	Management Information System
OSS	Operational Self-Sufficiency
PO	Producers' Organisations
ROA	Return on Assets
SME	Small and Medium Enterprise
SPM	Social Performance Management
TA	Technical Assistance
TAF	Technical Assistance Facility
ToR	Terms of Reference

## 1. INTRODUCTION

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### 1.1. CONTEXT

In 2010, SIDI, ETIMOS, and ALTERFIN have established FEFISOL , which is a fund serving rural microfinance institutions (MFI), mostly Tier 2 and 3, producers' organisations (PO), and small and medium enterprises (SME). It provides them with funding (credits and equity investments) and monitors them closely. In addition, there is the possibility for those clients to get technical assistance (TA).

The Technical Assistance Facility (TAF) disposes of a budget of 2 million EUR to support over 40 MFIs, POs and SMEs in order to improve their performance and to gain improved access to (local) finance. TAF received grants from EIB (48% of the budget), PROPARCO (19%), the Ministry of Development of Luxembourg (14%), and other partners. The beneficiaries contributed about 18% of the budget.

## 1.2. EVALUATION'S OBJECTIVES

The objective of the evaluation is to provide in depth qualitative and quantitative analysis on TAF achievements. There are 4 main evaluation questions:

- Q1: Even if TAF clients are not yet fully sustainable, to what extent has their situation improved and have their capacities been strengthened?
- Q2: How relevant and effective was TAF strategy for strengthening the capacity of its clients?
- Q3: Are the systems of TAF fit to achieve its mission to strengthen the capacity of its beneficiaries?
- Q4: What aspects of TAF can be improved in order to guarantee the strengthening of their clients?

This study has been assigned to the consultancy company Cota in Brussels, and their experts Bart DE BRUYNE and Gerda HEYDE who have extensive experience in the evaluation and implementation of projects supporting MFIs and rural SME/cooperatives.

The assignment took place between April and October 2019. It consisted of a quantitative analysis of TAF's portfolio, an in-depth analysis of about 20 TA-files, interviews with the investment managers and the main donors, as well as field visits to 13 TAF clients. 3 preliminary debriefing meetings have been organised in Paris.

With regard to the evaluability of the TAF, it is important to underline that the timing of the evaluation did not allow working with the final data base for all clients 2 to 3 years after the TA. This data limitation touched more PO /SMEs than MFIs. Data were not available for clients which have dropped out

## 2. OUTREACH RESULTS

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TAF has financed 102 TA projects for 46 beneficiaries for a total amount of 1,738,873 EUR, i.e. 56 MFI projects (63% of the budget), 46 PO/SME projects (37%) and a financial and a social audit of FEFISOL. In total, 51% of FEFISOL's clients benefited from a TA project. The average cost of a TA mission is about 17,000 EUR.

The TAF has spent 94% of its budget in Sub-Saharan Africa, in majority in least developed countries. The 6 best served countries were Kenya, Madagascar, Côte d'Ivoire, Malawi, Zambia, and Tanzania. TAF targeted Tier 2 and Tier 3 MFIs with strong rural presence (40-50% are rural borrowers) and which are oriented towards women (55-60%). 50% of the budget was concentrated on 6 MFI, 1 PO and 3 SMEs. In addition, FEFISOL targeted its' TA support to those clients in its portfolio with on average a higher risk profile (lower OSS and ROA ratios). PO/SMEs were active in the export of agricultural products produced by smallholder farmers.

**This targeting strategy should be maintained as it is essential to reach the expected effects of the TAF on its clients and final beneficiaries.**

## 3. MANAGEMENT SYSTEM

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### 3.1. HUMAN AND FINANCIAL RESOURCES

A team of 3 employees, based at the SIDI office in Paris, is in charge of the four key tasks of TAF:

- Support potential beneficiaries with needs identification and formulating TA requests;
- Identify and select adequate service providers to satisfy the beneficiaries needs;
- Finance TA projects, with a minimum 15% financial contribution provided by the clients;
- Monitoring TA implementation.

Interviews with TAF team, investment managers from SIDI and Alterfin, and TA clients confirm that the TAF team has a vast experience in the microfinance sector and in supporting producers' organisations. They understand well the diverse challenges their clients face, and master even the more technical topics. The roles of TA and donors' committee are complementary which strengthens the involvement of all actors around the TAF projects.

SIDI has received 1,603,359 EUR for managing TAF (2012-2018), whereas the total expenditure equals to 1,665,764 Euro (the TA services and the managements fees). The deficit of 62,405 Euro is covered by SIDI. The contribution of TAF team and of the SIDI and ALTERFIN investments managers has only been partially covered by the administrative fees financed by the donors.

### 3.2. ANALYSIS OF SYSTEMS AND PROCEDURES

A TA intervention is based on a client request with clearly identified needs. Often, the TA demand is elaborated with the support of investment managers of SIDI/Alterfin. The terms of references (Tor) for each TA intervention include the description of the client, its needs, the profile of the required service provider and the proposed selection procedure. Tender applicants are evaluated and selected with strong involvement of the client and a tripartite contract is signed between SIDI, the selected service provider and the TA beneficiary.

The evaluators confirm the high quality and efficiency of the tendering process and selection of service providers. The TA files contain all relevant information about the client, the justification of the TA and provides specific indicators describing the expected impact.

The majority of the consultants are local or national consultants, which is important for further follow-up. TA demands are processed and executed without much delay. All steps and payments are based with an excel based dashboard, allowing to see the progress status of each intervention. However, post-TA monitoring is less developed, and the standard and specific indicators specified in the ToR are not collected systematically, which does not enable to fully document the TA effects.

The clients are satisfied with the received support (see high evaluation scores for the TA) and highlighted their appreciation for the critical dialogue they had with the investment managers and the TAF team. The clients were at all time well informed about the approval process and were involved in the selection of the service providers. These aspects, along with their financial contribution (minimum 15%) strengthened their ownership of the TA results.

## 4. THE IMPACT ON CLIENTS AND FINAL BENEFICIARIES

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### 4.1. ACHIEVEMENT OF EXPECTED RESULTS = OUTPUTS

The analysis of the 103 files (56 MFI and 46 PO/SME) shows the achievement of almost all deliverables as specified in the ToRs. Clients have been satisfied with the delivered quality and found that the service providers were very motivated and competent.

### 4.2. PROGRESS AT INSTITUTIONAL LEVEL = DIRECT OUTCOME

#### 4.2.1. Professionalization of systems

Strong client involvement over TA needs assessment has oriented the interventions towards the most relevant topics/fields for the clients.

##### **MFI**

MIS and digitalisation TA are often part of a longer process. These are relevant and needed processes for solid expansion of the MFI, but they are also sensitive. Poor quality of input data may delay and complicate the process.

MFI growth and stringent regulatory requirements often oblige MFIs to initiate profound restructuring and transformation processes. Several TAs were thus aimed to support the MFIs during this transition period, or to capture new opportunities following those transformations such as the development of new products (e.g. savings mobilisation). Even though the TA represents only a small part of entire process, the evaluators observed that TA support reduced the risks and errors that are inherent to those critical transitions.

The strengthening of human resources - mostly of middle management – benefited the overall performance of the MFIs.

With regard to social performance management, most MFIs supported by the TAF, have acceptable interest rates. 5 MFIs however charge high interest rates while they make high profits. Within FEFISOL, there are efforts to apply "social performance management" (SPM) within its own organisation: fast processing of demands, social targeting, simple procedures, client training on their procedures (for instance during SAM), SPM reporting, etc.

##### **PO/SME**

Positive TA effects on PO/SME covers the improvement of their accounting and financial management systems through audits and the introduction of new accounting systems. Such improved transparency helps decision making and leads to higher credibility towards existing and potential financial partners. In addition, the improved governance and management systems of the PO strengthened trust and commitment of their members. Other TA provided training to the producers and the employees of the clients in order to improve their collaboration, to strengthen the quality of their production and to improve the monitoring of the producers (via GIS systems). Such TA which led to pre-certification of producers or the traceability of production, has enabled to develop niche-markets (in particular for coffee). Also 5 to 7 TA interventions financed feasibility studies for extension or diversification of the activities of the client. Those interventions provided better preparation for investments, even

if certain investments have not been implemented afterwards due to raisons unrelated to FEFISOL.

### Triggering/Accelerating impact

In several cases, TAF interventions, in spite of being limited in time, are part of larger processes that aim at a fundamental transformation or evolution of the clients, which is often essential for maintaining their market position – in a context of strong competition (in case of MFI) or to respond to higher expectations from buyers (in case of OP/SME). These fundamental processes and changes require important efforts from the clients. As a result, the propensity of certain risks increases, e.g. a temporary deterioration of the quality of the portfolio (MFI), or a reduction of working capital needed for the ongoing activities when the OP/SME invests in a new production facility.

### 4.2.2. Final beneficiaries

For the MFI, the quantitative analysis observes that 3 years after a TA the numbers of borrowers served by the beneficiary MFIs expanded with about 110,000 to 200,000 borrowers (22% to 24% increase) with a quarter of this growth realised in rural areas. TA permitted the MFIs to maintain an outreach to more than 600,000 borrowers. Regarding the PO/SME, approximately 14,000 additional smallholder farmers have accessed relatively stable markets thanks to TAF clients, especially in the case of 3 to 4 POs.

### 4.2.3. Impact on balance sheet

From 2016 to 2018, 17 out of 20 MFI increased their assets and 12 out of 19 increased their borrowings. Assets rose on average by 17% and debt funding by 39%. A comparison of the indebtedness before TA and 2 years after TA shows a 53% increase of borrowed funds (from 3.8 to 5.8 mil EUR accumulated for 24 MFI all together). 13 out of 20 MFI are profitable, but 18 out of 24 experienced higher default rates after TA (8 MFIs experienced PAR30 of 10% or more). Nevertheless, even if after 2 years the rate of general performance of the MFI has not (yet) evolved positively, the TA strengthened their competences and working tools.

### 4.2.4. Transversal effects

Beside the fact that many MFI clients are women and that clients launched interesting initiatives favourable to women clients or suppliers, TAF did not orient TA directly towards the economic empowerment of women. Apart from 3 files that cover organic certification, there are no other dossiers that explicitly aim an environmental impact. The launch of "green financial products' could be an interesting development direction for a next generation of TAF clients.

## 5. COMPLEMENTARITY BETWEEN TECHNICAL ASSISTANCE AND FUNDING SUPPORT

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### 5.1. OPERATIONAL AND RELATIONAL BENEFITS

The evaluation reveals numerous synergies between the financial activities of FEFISOL and the TA interventions. FAT benefits a lot from the contributions of the investment managers, who participate in TA needs identification and monitoring.

- The investment managers who know the clients well (they launch the TA offer at least one year after the first financial transaction) discuss with clients about their difficulties and opportunities;
- The due diligence of a financial project is an important source of information for the TA requests;
- TA project allows to acquire a better insight in the key problems and issues (e.g. on governance issues), which may lead to end a financial relationship before the reimbursement/repayment difficulties;
- Despite the limited duration of the TA dossier, the global evolution of the client is well monitored thanks to the financial partnership which usually stretches over many years;
- In case FEFISOL contributes to the clients' capital, the FEFISOL presence in the Board of directors may facilitate the ownership of the TA activities at the level of the management and governing bodies.

### 5.2. STRUCTURAL SYNERGIES

The evaluators have identified two types of reasons for requiring/providing a TA:

- (1) Secure a long-lasting relationship with "good" clients in the context of higher competition between social investors. This type of TA is mostly oriented towards strategic needs or opportunities of the client;
- (2) Strengthen the credibility of weaker clients through improving the quality of accounting/financial data for better management and internal transparency.

TAF enables FEFISOL to integrate in its portfolio some well performing MFI or OP/SME, which contributes to improving the portfolio's global performance and risk management. Moreover, there is better financial information on clients with a higher risk profile.

### 5.3. 'DROP OUTS' AND CRISIS MANAGEMENT

From all 66 TAF clients served between 2012 and 2015, 33 dropped out the FEFISOL portfolio, even though this represents an annual retention rate of more than 90%. There were fewer drop outs among TA supported clients than among FEFISOL clients without TA support.

FEFISOL targets 'promising' but still vulnerable clients evolving in a high-risk environment, without calling upon a guarantee fund. However, when an organisation is not sufficiently resilient to risks, chances are low that it will become performant only with a TA intervention. . As a logical and justified result, FEFISOL has decided in 2016 not to accept new clients with a high-risk profile.

In cases of deep crisis, TA has not been able to reverse a downward spiral. Coping with severe crisis is often a long process (3-4 years) that requires more resources than those offered by a TA and the involvement of other partners. Nevertheless, there are a few cases when FEFISOL contributed to manage a crisis linked to a defaulting portfolio of a client.

## 6. TAF STAKEHOLDERS – ADDITIONALITY

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The discussions with the representatives of two major donors confirmed that they highly appreciate the TAF initiative, in particular it's social orientation as well as its prompt response to organisational needs (accounting, financial management, human resources, etc.) and its answer to MFI and SME challenges.

Even though donors are concerned about potential market distortion because of TA to TAF clients, the analysis indicates that TAF is highly additional and complementary to other contributions:

- TAF helps small MFIs and PO/SME to finance much needed TA processes that they cannot afford otherwise;
- It reinforces the clients' capacity to follow and implement the strategic development process and reduces the related risks;
- TAF offers access to competent service providers through tendering in the market;
- No unfair competition with other TA-providers;
- There is a multiplier-effect in the sector and on other MFI/PO/SME.
- There are several promising initiatives for collaboration/synergy between TAF and other development actors as Technoserve, project TRANSFORM, ICCO, etc.

## 7. CONCLUSION

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**TA offered by FEFISOL is highly relevant and efficient: short term punctual TA interventions contribute to larger strategic development processes which are essential to FEFISOL clients. With the TA, the client is able to cope with specific needs for its further diversification/evolution. These clients appreciate the flexible contribution of TAF and the quality of consultants' inputs.**

TAF has achieved its objectives with regard to the number of client beneficiaries (46) and covered 104 TA interventions (104 files of which 88 are closed), for a total amount of 1,738,873 EUR of which 63% targeted to MFI and 37% to PO/SME. Most of MFI are Tier 2 or Tier 3 (25/27), located in the least developed countries of Sub-Saharan Africa. They focus on rural areas (38-50%); most of their clients are women (55-60%) and they finance income generating activities.

The **TAF-FEFISOL mechanism is very efficient and effective**, managed by a dynamic team in collaboration with the investment managers who also contribute enormously. The TAF assessment procedure is relevant, versatile and transparent. However, the monitoring/ follow-

up of the effects and impact of the TA intervention does not meet the expectations, in particular with regard to the collection of the indicators defined in the file.

The **sustainable effects of TA** are appreciated by the beneficiaries who indicated that TA contributes to the launching and continuation of important processes of organisational change. Thanks to the TA, the organisations that are active in rural areas with a strong social focus (see FEFISOL section criteria) but which face difficulties in the field of governance and management, witnessed an improvement of their information flow both internally (accountability /management) and externally (follow up with suppliers and producers). Unfortunately, in many cases, TA was not able to remedy a crisis situation or a lack of trust/transparency which in most cases has led to the interruption of financial collaboration with FEFISOL.

TA demonstrates a strong complementarity/ **added value with the financial offer of FEFISOL funds**: it contributes to clients' loyalty and maintains rural and social targeting.

## 8. RECOMMENDATIONS

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The first recommendation concerns the maintenance of the current targeting strategy, eligibility criteria and procedures that meet the needs of the beneficiary clients.

The main recommendation is to apply a "more **systemic approach of TA**" i.e.

- 1) A full analysis of the strategic importance of the TA for the client;
- 2) an analysis of the induced risks;
- 3) a better understanding - and taking into account in the co-financing criteria - of the clients' efforts to launch the transformation process;
- 4) an analysis of the clients' capacity to implement/ use/ and/or adapt the system after the TA;
- 5) the analysis of the impact of the proposed change on the other functions of the organisations;
- 6) a systematic follow-up during 2-3 years after the implementation of TA.

'Gender', 'Environment', and 'Digitalisation' should receive more attention.

The widening of TAF's scope of intervention would allow better coping with certain challenges:

- 1) TA before a financing and during a crisis;
- 2) A double approach of combining the exchange of experience (TA multi-actors) with specific TA adapted to the client's spec;
- 3) A stronger synergy with other actors that support MFI/OP/SME.