Evaluation Unit

Strengthening the Microfinance Sector, Financial Sector Technical Assistance Programme FSTAP, Mozambique

Interim evaluation 2009 – Brief Report

gtz

On behalf of
Federal Ministry
for Economic Cooperation
and Development

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This report was produced by independent external experts.
It reflects only their opinion and assessment.

Eschborn, June 2010

Tabular overview

The evaluation mission

Evaluation period	11/2009-01/2010
Evaluating institute / consulting firm	AGEG Consultants eG
Evaluation team	Jan Ennenbach (international) / Benedito Murambire (national)

The development measure

Title according to the offer	Strengthening the Microfinance Sector, Financial Sector Technical Assistance Programme FSTAP, Mozambique
Number	2008.2105.8 1999.2129.7 1997.2206.7 1991.2153.4
Overall term broken down by phases	Overall term: from 01/1992 to 12/2012 (21 years): 1st phase to 6th phase from 01/1992 to 12/2005 (2,5 years) (13 years) 7th phase from 01/2007 to 12/2008 (2 years) 8th phase from 01/2009 to 12/2012 (4 years)
Total costs	EUR 16 Mio. (8 phases) Estimated costs of the contract for the 7th and 8th phase: EUR 2,02 Mio. and EUR 3,35 Mio.
Overall objective as per the offer, for ongoing development measures also the objective for the current phase	The Mozambican microfinance sector is strengthened. Since the current phase is the last phase, the overall objective and the objective for the current phase are identical.
Lead executing agency	Ministry of Finance
Implementing organisations (in the partner country)	The implementing organisations in the partner country are the association AMOMIF, founded in 2007, as well as the banking supervision of the Central Bank (CB).
Other participating development organisations	In cooperation with KfW, the project is in charge of the implementation of component 5 of the FSTAP (“Access

	to Finance"). The FSTAP is a Technical Cooperation (TC) programme with 10 components, jointly implemented by WB, AfDB, GTZ, KfW, and other development partners.
Target groups as per the offer	The target groups are poor, economically active households as well as micro, small and medium enterprises (MSME) in urban and rural regions that have no or only limited access to financial services. Women and men benefit equally from the services of the project.

The rating

Overall rating *On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)*	4
Individual rating	Relevance: 2; Effectiveness:4[1]; Impact: 4; Efficiency: 4; Sustainability: 3

The **subject** of this independent evaluation is the development measure "Strengthening the Microfinance Sector (Financial Sector Technical Assistance Programme FSTAP) in Mozambique". GTZ implements this measure on behalf of the German Federal Ministry for Economic Cooperation and Development, BMZ, and is supported by GFA Consulting Group. The interim evaluation was conducted by the experts Jan Ennenbach (international consultant) and Benedito Murambire (national consultant) on behalf of AGEG Consultants eG. The mission in Mozambique took place between 22nd of November and 12th of December 2009, three years before the end and almost three years after the start of the development measure.

The evaluation of the development measure is based on a combination of different applied **methods** like (1) the study and analysis of documents (project documents, publications, print media, e-VAL), (2) meetings with those responsible at GTZ and parties involved in the project in Germany, (3) structured guideline-based interviews with dialogue partners from the development measure in Mozambique and its environment (project staff, implementation partners, government, donor community).

1 See Annex 1

The **framework conditions** have changed considerably during the past three decades. In 1975, the liberation movement FRELIMO achieved the independence of the People's Republic of Mozambique from the Portuguese colonial rule. This was followed by a civil war that lasted 16 years and was finally ended in 1992. Today, Mozambique is a democratic state with a multiparty system and its constitution guarantees human rights and freedom of opinion.

Although the growth rates of the gross domestic product (GDP) have been higher than the average of Sub-Sahara Africa (8,4% in 2005 and 6,5% in 2008), and although the international donor community's contributions were comparatively high, Mozambique still remains one of the least developed countries of the world. In 2008, with only USD 370, the gross national income (GNI) per capita amounted to only one third of the average in Sub-Sahara Africa (USD 1.082). This gap has increased in the period between 2000 and 2008. In the Human Development Index (HDI), which is considered as the measure of the human development of a country, Mozambique ranks only 172nd of the 182 countries registered. In the year 2007, 36,2% of the population in Mozambique lived on less than USD 1 per day. Of the first six Millennium Development Goals (MDG), the country will probably only achieve goals 4 (child mortality) and 5 (maternal health) by 2015. Regarding the goals 1 (extreme poverty and hunger), 2 (primary education), 3 (gender equality), and 6 (contagious diseases), Mozambique falls behind schedule.

A majority of the Mozambican population (60,8% of the urban and 86,8% of the rural population) had and still has no access to financial services. In the year 2009, 79,6% of the population did not save money at all, and 92,2% did not use any credit. In addition, there is a lack of financial literacy among the population. In 2008, there were 28 credit institutions operating in Mozambique. The banking system is highly concentrated: In 12/2008, four banks held 88,9% of the financial assets of the sector, 88,6% of the credits, and 91,2% of all deposits. Currently, three commercial banks, five credit cooperatives, and 20 other credit institutions are authorised for the microfinance business. Furthermore, there are approximately 3.000 savings and credit cooperatives. In Mozambique, three categories of microfinance institutions (MFI) can be distinguished: (i) banks with microfinance business which are subject to the banking legislation and supervision. All remaining MFI are regulated in accordance with the Microfinance Law of 2004. The latter distinguishes MFI (ii) which are authorized to hold saving deposits on their own account, and those (iii) with no savings business. The first-mentioned are subject to stricter control by the Central Bank (CB).

Following the Action Plan II for the Reduction of Absolute Poverty (2006-2009) of the Mozambican Government, the international donor community currently finances 19 projects in the field of Financial System Development (FSD) with a total budget of USD 59,6 million. The GTZ project "Strengthening the Microfinance Sector/FSTAP" is part of the Financial Sector Technical Assistance Programme (FSTAP) which involves various donors.

The origins of the project "**Strengthening the Microfinance Sector/FSTAP**" reach back to the year of 1992. At that time, GTZ started the allocation of micro credits which led to the establishment of a microfinance institution, the *Sociedade de Crédito de Moçambique* (SOCREMO). GTZ supported the establishment of SOCREMO in six phases until December of 2005. In two further phases (01/2007-12/2008 and 01/2009-12/2012), it is intended to establish an association of MFI, the *Associação Moçambicana de Operadores de Microfinanças* (AMOMIF), and to strengthen the capacities of the CB for the supervision of MFI. This interim evaluation refers to the two last phases.

The outputs in the field of **technical assistance (TA) to a microfinance association** are focused on supporting the development of the organisation, strategy and concept of the association AMOMIF. These are to be used by AMOMIF to build internal capacities, to generate financial resources, to develop a range of services for its members, and to act as a mouthpiece for the microfinance sector. As a direct result, the association should achieve its full operability and financial sustainability. Through the use of the services by its members and the commitment of the association in the creation of a sector policy, it is expected that MFI operate more efficiently and profitably, and that more clients can make use of their financial services.

In the field of **CB consulting**, the main concern is to advise CB staff, at first selectively, on fulfilling their steering and control function over microfinance institutions as well as on the establishment of a credit information office and other innovative issues. The Mozambican CB uses the outputs for developing its capacities and thus enhances the quality and efficiency of its control over MFI. This aims at improving the framework conditions for MFI in a way that allows them to operate more efficiently, more sustainably, and with a broader impact (direct results).

The intended indirect results are that the improved access to credits contributes to ensuring the basic income of people and to increase their productivity in the long run. Better access to savings products also enables them to better plan their income and expenses, and thus to reduce their subsistence risk in the case of crises or illness. Furthermore, this leads to effects of growth and income which contribute to the reduction of poverty.

The **concept** of the project is regarded as coherent and is in line with international guidelines. After 14 years of support in the establishment of an MFI, it is also reasonable that the programme has turned away from the micro level to now focus on the meso and the macro level. In practice, however, this change of levels has proved to have happened too early, and the MFI turned out to still require direct advice in operative and strategic matters. The integration into the comprehensive FSTAP facilitates, in principle, the creation of synergies. Furthermore, the concept corresponds to GTZ's understanding of sustainable development.

The evaluation of the **technical implementation** of the development measure arrives at different results for the two lines of the project. The TA to a microfinance association shows major deficiencies. Central and generally applied methods, instruments, and procedures of Organisational Development (OD) were not considered sufficiently. This encompasses Human Resource Development (HRD) as well as the control of activities by means of an operative monitoring system. These deficiencies are all the more serious, considering that the project focuses on OD, the establishment of an association, and that the majority of the project resources are provided for that intervention. In contrast, the CB consulting is distinguished by a systematic approach in line with international requirements.

With regard to **Capacity Development**, in the area of TA to a microfinance association, the project has succeeded in giving the association AMOMIF an independent form, among others through its formal foundation, the institutionalisation of the administrative board, and the move into proper office accommodation. Due to different factors, it has however not succeeded so far in providing the association with the internal capacities and resources necessary for stimulating independent dynamics of association development. Moreover, it is observed that the project has developed the individual capacities of CB staff for the enhanced supervision of MFI. It is now up to the CB to use these capacities and to extend them further through a continued cooperation with the project, thus strengthening the performance and capacity of the CB as an organisation.

With regard to **relevance**, it can be stated that the concept and objectives of the project make a contribution to the achievement of the MDG. It contributes to the improvement and stabilisation of the income situation of the poor (MDG 1). This enables credit customers to invest in the education of their children (MDG 2) and to make more use of health services (MDG 4-6). As Mozambique will presumably not be able to achieve the MDG 1, 2, and 6 according to plan, further efforts, among others through the extension of appropriate services, are of utmost importance. The concept of the project is in line with Mozambique's development strategy. It also corresponds to the guidelines of the sector concept on Financial Systems Development of the German Federal Ministry for Economic Cooperation and Development (see BMZ 2004). It must be stated, however, that the focus on the meso level (establishment of the AMOMIF) and the macro level (consulting of the CB) does not fully correspond to the needs of the Mozambican microfinance sector. Despite the many years of support by GTZ (establishment of SOCREMO – *Sociedade de Credito de Mocambique*) and other donors, the institutional weaknesses of the micro level continue to exist. They prevent that even larger parts of the population obtain access to the services. The overall rating of relevance is therefore **good (2).**

The analysis of **effectiveness**[2] allows the conclusion that the project has made progress regarding the number of MFI that mobilise savings, as well as the trainings for staff of the banking supervision. Furthermore, the CB has started the implementation of full inspections of institutions which are active in the savings business. It can be assumed that further MFI will join AMOMIF, thus increasing the importance of the association. However, on the whole, the institutional building of MFI progresses more slowly than expected. MFI which are members of AMOMIF even report negative instead of positive growth rates regarding the number of micro borrowers, while the market leader, *Banco ProCredit*, was able to gain additional market shares without the support of donors and without being a member of AMOMIF. Out of a total of 11 indicators for effectiveness, only one can be regarded as achieved. Four other indicators are in progress, two will not be achieved, and in the case of four indicators, the measures that aim at their achievement have not yet begun. Against this background, the effectiveness of the project is rated as **unsatisfactory (4)**: **Despite the visible positive results, the negative results are predominant.**

At present, contributions to **overarching development-policy results (impact)** can only be assumed to a minor degree. The interest rates on credits of MFI linked to AMOMIF are very high, also compared to other African countries. This constrains the effectiveness of micro credits on enterprise level. Moreover, the number of micro borrowers of the MFI which are members of AMOMIF has decreased after the start of the project. In the area of savings, the number of clients has increased significantly. However, it is not plausible to assume that the project has made any direct and significant contribution to this. Although the concept is suitable for supporting "Participatory Development and Good Governance" through the establishment of an association as a mouthpiece of MFI in Mozambique, the association fulfils this role still insufficiently due to institutional constraints. In the context of this

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[2] See Annex 1.

evaluation, it was not possible to verify to what extent the access of women to microfinance products has been improved. However, on the level of the association (project and association staff, composition of the supervisory board) and in the area of training, positive developments have been achieved. On the whole, the impact of the project is rated as **unsatisfactory (4)**: **Despite the visible positive results, the negative results are predominant.**

The assessment of **efficiency** arrives at the conclusion that, although the project is part of the FSTAP, possible synergies are not being created to the extent desirable. The reasons lie in the insufficient interconnection of the work of FSTAP's implementing unit with the project, and the lack of a monitoring system for the efficient coordination between the project and FSTAP. In addition, the lack of a feasibility study regarding the foundation of an association before the start of the 7^{th} phase contributed to a high cost of coordination in the integration of the project into the FSTAP. The project steering in the area of TA to a microfinance association was realised without the full use of the established instruments for project analysis, planning, and monitoring. This led to losses in efficiency. In contrast, the cooperation between GTZ and KfW in Mozambique is deemed positive. Furthermore, in the area of CB consulting, the outputs were delivered in a timely and targeted manner. On the whole, a rating of **unsatisfactory (4)** seems appropriate at present: **Despite the visible positive results, the negative results are predominant.**

The evaluation of **sustainability** comes up with different results for the two interventions. For the association AMOMIF, there are strategies and plans for the achievement of economic viability. However, the potential for generating revenue is deemed very limited for the great majority of the services considered. Moreover, the insufficient staffing of the association has yet prevented the use of existing opportunities for the generation of revenues. Besides, there are no indications so far as to which organisation will be able to take the place of GTZ and cover part of AMOMIF's operating expenses through subsidies in the long term after the end of the project. For the consulting of the CB, a different picture emerges. Here, one can plausibly assume that, in the future, results will be achieved in a sustainable and increasing manner (paralleling the increased number of regulated MFI). Against this background, the **sustainability of the association is rated as unsatisfactory (4)**, while **the sustainability of the CB consulting receives the rating very good (1)**. The overall **sustainability** is rated as **satisfactory (3).**

For the entire project, the ratings for relevance (good, 2), for sustainability (satisfactory, 3), and for effectiveness, impact, and efficiency (unsatisfactory, 4) result in an **overall rating** of **unsatisfactory (4)**.

The main **recommendation to German Development Cooperation** is to enhance the synergies of the interventions from GTZ, KfW, DED and CIM. This could be initiated by a strategic workshop dealing with the implementation of the BMZ sector concept on Financial Systems Development and, on this basis, also the (formal) clarification of the division of labour within German Development Cooperation and between the latter and other stakeholders in Mozambique. It is recommended to carry out such a workshop by June 2010. Building on this, the implementation of the planned joint programme proposal in 2010 is of great importance. A clear strategy of German Development Cooperation is also needed in order to participate effectively and in a targeted way in the current as well as in a potential new FSTAP from 2012 on. Since, up to now, the FSTAP is funded by the three most important partners of the partnership for Making Finance Work for Africa (MFW4A), it is crucial to shape the cooperation in such a way as to make it replicable in other countries. The BMZ should support this coordination process and influence the mentioned organisations of German Development Cooperation accordingly.

The **recommendation to the Mozambican Ministry of Finance** is to proceed with the elaboration of an overarching strategy for the development of Mozambique's financial system, including microfinance issues, by the end of 2010. Such a frame of reference contributes to the enhancement of donor coordination and the attribution of clear competences to lead executing agencies, thus increasing the efficiency and effectiveness of measures in the field of FSD.

The **recommendations to the implementing partners AMOMIF and GFA** can be summarized as follows:

- In the area of CB consulting, the dialogue should be continued via the new officer for the contract and cooperation (AV). The CB has already signalled that further advice for the fine-tuning of the microfinance monitoring instruments in 2010 would be appreciated. Besides, the CB could also be advised with regard to the establishment of a Performance Monitoring System (PMS) for MFI.
- <u>AMOMIF</u> should play an important role in the development and implementation of a comprehensive FSD strategy. As a prerequisite, the association must first be strengthened comprehensively: A best-practice audit of the association should be

conducted by June 2010. Its results should be presented to all AMOMIF members in a two to three day workshop.

- The recruitment of a skilled managing director for AMOMIF should be finalised by June 2010. Besides, the development of the PMS should be initiated. As various formats for such a system are available, the development should not consume too much time. Moreover, the procedures and systems for collecting and processing information are to be identified and implemented. This should be done by the end of 2010.
- Once AMOMIF has provided sector-relevant information, these are to be made available for MFI and other parties in the sector. This includes the drafting of quarterly bulletins as well as the organisation of dialogue forums on different topics, on MFI and sector policy level. This approach allows for the association's visibility and, at the same time, increases its attractiveness for further donor funding. The implementation of these measures can be started immediately.
- The training strategy should be pursued as it has been up to now. Though, a strengths/weaknesses profile of the most important MFI should be developed towards the end of 2010. Such will form the foundations for the development of sustainable strategies for the enhancement of MFI performance.
- GFA should immediately present an operative monitoring system as well as a coherent and revised concept for effective backstopping (by March 2010). In addition, the development of a plan for the OD of AMOMIF should be initiated without delay. In 2010, the international long-term expert should focus the outputs of the project on the development of the key areas of AMOMIF's operational performance. This includes, amongst others, the preparation of consistent work plans, the introduction of accounting and financial planning systems as well as the elaboration of an HRD concept and the procurement of funds.

Annex 1: Graphical display of the achievement of objectives according to indicators (modified indicators, resp.) – including the status of BMZ codes

Strengthening the Microfinance Sector, FSTAP, Mozambique

Overall term: 01/1992 – 12/2012

Subject of the independent evaluation in particular: 01/2007 – 12/2012

Overall objective
„The Mozambican microfinance sector is strengthened"

Cross-cutting themes

Socio-economic results (MSA)	Participatory Development and Good Governance (PD/GG-1)	Gender equality (G1)
STATUS: The project has not yet achieved any direct results regarding the performance and capacity of MFI and thus the number of savings and micro borrowers. Positive effects on growth and income do therefore not seem plausible.	**STATUS**: First steps through the foundation of an association as well as measures for the promotion of the dialogue between the stakeholders of MF industry in Mozambique and Africa have been initiated.	**STATUS:** At present, no results of the project regarding an increase of the proportion of women in the area of savings and micro borrowers can be plausibly assumed or verified, due to the lack of a PMS.

Indicator	Status	Colour
Indicator 1: MFI which are members of AMOMIF hold at least 2/3 of the sector's credit users (AMOMIF database, preliminary underlying asset 29%; actual underlying asset to be determined by 06/2010).	**STATUS 09/2009: 29%**	Yellow
Indicator 2: On average, MFI which are members of AMOMIF increase the number of their credit users by at least 10% annually (AMOMIF database).	**STATUS 09/2009: -1,1% (2008) ; -7,3% (2009)**	Red
Indicator 3: The operative efficiency of MFI which are members of AMOMIF increases to less than 40% by 12/2012, allowing for the reduction of effective interest rates for credit users (database AMOMIF and/or separate data collection).	**STATUS 09/2009: In process**	Yellow
Indicator 4: At least 80% of the MFI which are members of AMOMIF regularly transmit their data to AMOMIF's Performance Monitoring System which meets international best practice requirements (database AMOMIF).	**STATUS 12/2009: 0**	Red
Indicator 5: A formalised public-private dialogue platform is established, on which microfinance actors communicate at least twice a year, and where the association is accepted as a dialogue partner by the Central Bank (ToR of the platform; minutes on the results of the dialogues at least twice a year).	**STATUS 12/2009: Not yet started**	Blue
Indicator 6: At least 2/3 of AMOMIF's clients (MFI and others) are satisfied with the services of the association (survey; the base value will be indicated in the next report 2010).	**STATUS: First survey planned for 07/2010**	Blue
Indicator 7: The association, as a service provider for MFI and others involved in the sector, covers 15% of its expenses through the sale of services (measured on the basis of the annual report, basic value: 0).	**STATUS 12/2009: No information available**	Blue
Indicator 8: The Fundraising Strategy resulting from the updated operating plan is operational and guarantees the future funding over a period of at least 2 years (MoU; official funding commitments).	**STATUS 12/2009: In preparation**	Blue
Indicator 9: The number of regulated institutions which mobilise savings is increased from 5 to 8 (annual report Central Bank).	**STATUS 12/2009: 16**	Green
Indicator 10: The number of trained staff at the banking supervision is increased from 10 to 22 (FSTAP Mission 2011).	**STATUS 12/2009: 10**	Yellow
Indicator 11: The number of on-site inspections by the BM of all MFI which mobilise savings has increased from 2 pilot inspections to 18 full inspections (annual report Central Bank).	**STATUS 12/2009: 4**	Yellow

Green – Indicator achieved Yellow – In process Red – Not achieved/probably not achievable Blue – Not yet started/in preparation

KNOWING WHAT WORKS

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