

FACET BV
Supporting Small
Enterprises

Final Evaluation of the Micro-SMART Project

Executed by **FACET BV**
on behalf of
CARE Golf of Guinea (Ghana)

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FACET BV, P.O. Box 190, 3700 AD Zeist, the Netherlands
Tel: +31 (0)30 6933766 Fax: +31 (0)30 6923936

E-mail: info@facetbv.nl

Internet: <http://www.facetbv.nl>

LIST OF ABBREVIATIONS

ARCB	Association of Rural and Community Banks
CUA	Ghana Cooperative Credit Unions Association
DANIDA	Danish International Development Agency
DFID	Department for International Development
GIRAFE	Rating instrument focusing on Governance, Information, Risks, Activities, Funding and Efficiency of Micro Finance Institutions
IFAD	International Fund for Agricultural Development
GHAMFIN	Ghana Micro Finance Institutions Network
IKM	Impact Knowledge Management (market research tool)
MDA	Micro Enterprise Development Assistance
MFI	Micro Finance Institutions
MIS	Management Information System
Micro-SMART	Micro Enterprise Services for Manufacturing, Agriculture, Resource Management and Trade
RFI	Rural Finance Institutions
SEAD	Small Economic Activity Development
SCIMP	Smallholder Credit Input Supply and Marketing Project
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Micro-SMART was a three-year project funded by the European Union, DANIDA and CARE Denmark. CARE Ghana executed the project in the period January 2000 – December 2002. Micro-SMART proposed to address the inadequate access to financial services, both savings and loans, by poor rural households and micro and small farm operators in the Western and Brong Ahafo regions of Ghana.

The inadequate access was characterised by liquidity of the rural financial institutions, which was not used for productive purposes, a not met demand, high interest rates for loans and delay in loan disbursements. One of the reasons why RFI did not lend more to the target group were the high legal reserve requirements set by the Bank of Ghana (62%).

The project should have addressed the inadequate access by the following activities:

- ⇒ Enhancing the capacity of organizations providing training, oversight and technical assistance to Rural Finance Institutions (RFI)
- ⇒ Building the capacity of select RFI to deliver financial services to the productive poor (and reduce operational cost)
- ⇒ Development, testing and implementation financial products for agricultural lending
- ⇒ Advocacy through the MicroFinanceNetwork (GHAMFIN) to reduce the secondary reserve requirement

To ascertain the extent to which project objectives and targets had been achieved and with what degree of relevancy, efficiency and sustainability, and to determine what lessons could be learnt from this experience, CARE Ghana contracted FACET BV for the end of term evaluation of the project, which was carried out in the period from 2 to 18 December 2002. The methodology used for the assignment comprised a mix of field visits to selected rural financial institutions and groups of their clients, interviews with key project stakeholders, project management, The CARE SEAD coordinator and the Assistant Country Director. The consultant also reviewed the Micro-SMART project documents, project implementation reports, developed tools, agreements with partners and financial documents. After having received comments on the draft version from CARE Denmark and CARE Ghana, this final report was completed.

Following is a summary of the main findings.

Conclusions

Relevance

1. The Micro-SMART project was a relevant project in terms of identification of the problem to be addressed and the final beneficiaries (RFI) were correctly identified. Rural banks in Ghana already had micro finance clients, what had been lacking were appropriate micro finance technologies and staff capacity to apply them. Moreover, RFI are supervised financial institutions, allowed to mobilise savings from the public for on lending.
2. The project design proposed to provide technical assistance to RFI by training and using local service providers for that purpose. In practice however the project itself provided technical services to the RFI, with the exception of the GIRAFE assessments and in the third year of the project, the provision of services by FFH. The principal reason for this was that the market for technical services to RFI had not well been assessed during the project design, according to the evaluation mission.

In the first place, the project proposed apex organizations such as ARCB to provide technical assistance services to RFI. Experiences elsewhere have shown that apex organizations often lack the capacity to provide technical assistance. On the contrary, their core business is representing the interests of their member organizations and linking them with service providers.

In the second place, the project design failed to identify the existence of a pseudo market of services for RFI. Contrary to an effective market where there is a demand for services and the price of these services is determined by demand and supply, in a pseudo market services are provided with subsidies (mostly by the donor community). Another feature of the pseudo market is that the same donor community has pushed up fees of local consultants prices.

The existence of this pseudo market affected Micro-SMART in two ways. Firstly, RFI were not only interested to participate in the project because of the project's technical services, but also because these services were subsidized. Secondly, local service providers initially involved in the Micro-SMART did not continue their participation in the project, because the project could not pay their fees. This meant that the project itself started providing technical assistance to the RFI.

3. The project was coherent and complementary with government policies and CARE Golf of Guinea activities (SEAD program) and consistent with the themes it recently developed to support its vision and mission. These themes are:

CARE Ghana themes to support Mission and Vision	Micro-SMART characteristics
Constructive engagement of power structures	Advocacy with other stakeholders to reduce the secondary reserve requirements of the Bank of Ghana
Strengthening Institutions and Institutional Linkages	Strengthening of RFI, which in fact are financial institutions serving the poor, but with an inappropriate methodology
Promotion of Inclusive Civic and Individual Empowerment	Access to financial services irregardless of religion, race or gender
Utilisation of Innovative Approaches	The project aims at bringing new approaches to RFI to provide financial services to the poor rural households on a sustainable basis.

4. Although the overall project approach was clear, the project document did not formulate the objectives, results and activities in a precise and complete way. Overall objectives and expected results were lacking. Sometimes expected output was contradictory. Government interference had not been mentioned as a risk, although the government had been involved in one way or another with the rural banking system, since it had been established. The project design was not developed with the use of a logical framework.

Efficiency

5. The project team was aware of best practices in micro finance and had hands on experience in running micro finance projects. This permitted the project to elaborate and apply the technical tools for the implementation of the project and to select the appropriate external consultants like Planet Finance (MFI rating, client survey) and Ananse (MIS). The project did however not complete the systematisation and documentation of its product development efforts.
6. The project-established good working relationships with most of the stakeholders and partners like GHAMFIN, CUA, Ananse, IFAD, etc. The relationship with ARCB and Freedom from Hunger was not so good, according to Micro-Smart staff and Freedom from Hunger, although staff of these institutions participated in activities of the project.

The evaluation mission has the impression that ARCB and Freedom from Hunger felt like co-owners of the project, because they participated in the project design and were presented as the principal project implementers (service providers) in the project document. They stayed at a distance, when it became clear that CARE took the decisions about project implementation. We described the reasons why it was difficult to work with the local service providers under point 2 of the executive summary (lack of institutional capacity as a service provider and/ or too expensive).

7. Activities in the area of institutional capacity building (development and installation MIS and other capacity building activities) and financial product development (product development courses and pilot testing) took later place than planned in the initial project implementation plan included in the project document (paragraph 2.3 and annex 6).
8. According to the same implementation plan, a hands-on approach should have been applied to strengthen the capacity of RFI, attending the selected individual RFI on the spot during monthly periods. The evaluation mission agrees with the latter approach in order to facilitate permanent changes.

In stead, the project team visited each selected RFI approximately four hours per month. The latter was not a deliberate policy of the project. Firstly, the project could not make use of local service providers, as we have referred to. With these service providers it would have been much more easier to accompany individual RFI during a longer period. Secondly, in order to achieve expected outreach of 15,000 clients, the project decided to attend 6 RFI instead of the originally planned 3 to 4 and in the last six month 22 RFI (replication phase).

9. The project carried out activities, which could not necessarily be considered as core activities, like the support to CUA and associated credit unions in the project region and the provision of technical assistance to increase overall performance of RFI. Although the credit unions had a genuine demand for the core services of the project, accessing those services depended on establishing a merger among them, which constitutes a project in itself.
10. The project document spoke of developing new financial products inclusive and beyond group lending methodologies, in order to offer also products, which take more into account characteristics of individual borrowers. The results of the market survey supervised by Planet Finance and financed by the project gave rise to the recommendation to improve existing products of RFI like savings mobilization and individual loan products, among others. Notwithstanding these recommendations, the project offered the selected RFI only group lending methodologies. The decision to consider only group lending methodologies gave the project a supply driven dimension, in the opinion of the evaluation mission.
11. The delay in the implementation of the core activities, the implementation of other than core activities, the impossibility of a hands on approach, accompanying RFI with technical assistance during a longer period, and the supply of only one financial product to RFI contributed to lower than expected output in the areas of institutional capacity building and financial product development. Another factor contributing to the lower than expected output was the existing institutional framework. We refer here to both informal institutions - culturally embedded norms, customs and habits - and formal institutions - the legal reserve requirements and the option to invest safely and profitable government treasury bills.
12. Although the collaboration with GHAMFIN has not resulted yet in direct benefits for the RFI, the support provided by Micro-SMART was justified. Experiences elsewhere have shown that associations of micro finance institutions have a positive influence on the micro finance sector as a whole of which the rural banks form part.
13. The project budget was not appropriate for efficient project management, mainly because it did not permit to identify activity-based cost. For example, the training activities were funded under many item lines. The CARE Ghana accounting system does not track down activity based cost either.

The CARE Ghana accounting system does provide for full accrual of income and expenditure, which would make it in principle suitable to account for the Innovation Fund (Loan Fund). It was however not used by the project for this purpose. This means that the actual value of the Innovation Fund has to be established and verified yet.

The project monitoring system was appropriate for the monitoring of the initial 6 RFI, but became to time consuming (because manual) when the project started to attend 22 RFI.
14. As expected, efficiency improved considerably (efficiency indicators reduced considerably) when the project completed the development phase and went into the replication phase (from 6 to 22 RFI). Average efficiency indicators are similar to projects executed and/or financed by other executing agencies/donors.

Effectiveness

15. Micro-SMART was successful in two areas: outreach and advocacy. It was less successful in the capacity building and financial product development areas. Micro-SMART reached out to more than 15,000 clients, 87% of them women. Moreover, in most cases these clients had never before access to financial services and they were poorer than the regular clients of the rural banks. On the other hand, high interest rates for the products and delay in disbursements continued to exist.
16. Its advocacy activities in collaboration with GHAMFIN, ARCB, Apex Bank and the World Bank resulted in a reduction of the legal reserve requirements for RFI, which permitted these banks to use more of their funds for on-lending to the poor.
17. Although the overall loan portfolios of the participating RFI increased during the life of the project, the relative importance of these loan portfolios (loan portfolio/assets) did not in 4 of the 6 initially selected RFI, which were visited during the end of term evaluation. This again indicates that it is not easy to change informal institutions like culturally embedded norms, customs and habits, despite the reduction of the legal reserve requirements and the project efforts to promote lending activities and to strengthen the management capacity of the RFI.
18. The results in capacity building and financial product development remained below expectations for the reasons mentioned under point 11 of the Executive Summary. The Loan Management System provided by Micro-SMART was not used by RFI or was not updated. Organizations had no clear idea of the repayment rates, and sometimes included in its calculation compulsory savings made by the groups. Various group had serious repayment problems within the group (individuals paying late or not) or with the bank. The organizational structures had not been adjusted to enable rapid loan approval and disbursal in the branches.

Sustainability

19. Government, the apex organizations of MFI and RFI, and donors like the World Bank, IFAD and the African Development Bank, as well as CARE Ghana itself are interested to support the future development of the rural finance sector and have committed resources for this purpose. Various projects like the Rural Financial Services Project, the GTZ project on product development for rural banks and CARE's MDA, MicroInsurance and ESCAPE projects are ongoing. The Micro-SMART project has contributed to this interest and commitment. It could have had a more important role, if it would have systematized and documented its product development efforts and its effects and distributed its experiences to the institutions mentioned above.
20. The capacity building and product development process initiated by Micro-SMART has not been completed. Micro-SMART resources remaining at the end of the project like vehicles, equipment and the Innovation Loan Fund (approximately Euro 100,000) could still be used for this purpose, subject to the varying rules and regulations of the different donors of the project.

The project document proposed to hand over the Innovation Fund to the Bank of Ghana at the end of the project, supposing that the Bank of Ghana would have managed it during project implementation. In reality, the Fund was managed by The Merchant Bank similar to other CARE Funds (as a deposit account). Given the

increasing liquidity of the financial sector in Ghana a Loan Fund would however not be the first priority to increase level and volume of financial services to the rural poor.

21. Groups of clients visited by the end of term evaluation mission, confirmed that in most cases the access to financial services has resulted in improved business income and living conditions. In some cases however there are also repayment problems.
22. The RFI visited by the end of term evaluation mission expressed that they were satisfied with most of the services provided by Micro-SMART. These RFI are operationally self sufficient, but it is not clear in how far the financial product developed by Micro-SMART has contributed to this, due to lack of solid information. Only few MFI in the world are financially self-sufficient due to inflation, the use of external sources of funding with a cost below the market interest rates and subsidized technical assistance. This is also valid for the RFI attended by the project.

Recommendations

Relevance

23. It is good practice to involve local service providers to strengthen RFI and MFI, but in that case an assessment of the supply and demand side of the market for these technical services is required. This market assessment should indicate the effective demand for services (for which services RFI are willing to pay; effective demand not necessarily is equivalent to needs) the availability of competent local providers and the cost of services from local providers. In most cases a cost-sharing fund is required to develop the effective demand. This type of market development oriented approach increases the commitment of the client and the sustainability of the intervention.
24. The mission recommends preparing and designing projects in future with the assistance of a logical framework. This would make the project design more clear, complete and logical.

Efficiency

25. Projects should start systematizing and documenting their products and tools as soon as possible and transfer knowledge and skills to interested institutions (stakeholders and users). This not only makes it possible to make the necessary adjustments during the project implementation, but it also increases probability that other institutions will continue to use them after project implementation.
26. It is important to clarify the future role of stakeholders (donors, the potential contract holder, local institutions envisaged to have a role in the project) consulted during the design phase of the project so that they will not have false expectations (like Freedom from Hunger and ARCB). To avoid conflict of interest, project implementers and local service providers, should not have a vote in the Board or Steering Committee. Implementing partners or local service providers should be selected on a competitive basis.
27. Projects should stick to their core activities, except in the case where it is clear that these activities will not contribute to the expected results. In case of doubt, projects should consult with the donors.

28. Projects should set up separate accounting and monitoring systems to efficiently manage and account for their resources, when the systems of donors or contract holder are not appropriate.

Effectiveness

29. The Micro-SMART program achieved the expected quantitative output, but was less successful in achieving expected qualitative output. Projects should try to seek for a balance between the two and create awareness for that with the donors.

30. Organizational and behavioural changes require a relatively long - hands on - presence of the service provider. Projects, which seek these changes, should prioritise this presence, even at the cost of all other activities.

Sustainability

31. Micro-SMART initiated a process in the rural finance sector, which has not been completed. Although the Micro-SMART project expires, CARE Ghana continues its presence in the rural finance sector with other ongoing projects with similar methodologies like the MDA, Micro Insurance and ESCAPE project. The evaluation mission recommends transferring Micro-SMART equipment and vehicles to these projects, subject to the varying rules and regulations of the different donors of the project.

32. The end of term evaluation recommends to complete the capacity building and product development process initiated by MICRO-SMART by applying some of the best practices referred to in the previous paragraph (guiding principles). This approach would increase the commitment of the beneficiary organizations and consist of the following steps:

- ⇒ The Micro-SMART project attended a real problem, the inadequate access to financial services of poor rural households, correctly chose the strengthening of the rural banking system and advocacy to reduce legal reserve requirements, as ways to contribute to the solution of this problem. It would make sense for donor community and government to support continuing efforts in this area.
- ⇒ CARE Ghana prepares offers for technical assistance to RFI to complete the capacity building process MICRO-SMART initiated.
- ⇒ The offers include a list of possible providers of technical assistance which maybe local or international ones, subject to the availability of local providers. In case there are no local providers with sufficient capacity, the services will be provided by an international consultant twinning with a local one.
- ⇒ These offers are auctioned among the RFI, which participated in the Micro-SMART project. Care should be taken to prevent price fixing deals among RFI.
- ⇒ The two or three RFI, which offer the best deal (cost sharing) will be selected and will contract the technical service provider.
- ⇒ CARE Ghana monitors the provision of technical assistance

- ⇒ The provider of technical assistance systematizes and documents the experience and the attended RFI could in future function as center of excellence.

An alternative option for the use of the Innovation Loan Fund would be to make an equity contribution to the three RFI, which will perform best in terms of outreach, quality and profitability of the Micro-SMART portfolio at the end of 2003. Also in this approach the beneficiary organization would be motivated to improve its performance by hiring in technical expertise or additional staff or equipment and also in this case a consultant should be hired in to systematize and document the experience. The limitation of this approach is that in this option, CARE Ghana will not be able to guide the RFI, since there are no offers of technical assistance.

Finally, the funds could be used, under supervision of CARE Ghana but in collaboration with the APEX Bank and/or GHAMFIN to continue to exposure Board members of RFI to best practices (workshops or trips to visit successful experiences). The limitation of this option is that it is not directly linked to the previous achievements of Micro-SMART.

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1. RELEVANCE

1.1 Identification of real problems and correct beneficiaries

The MICRO-SMART project proposed to address the inadequate access to financial services, both savings and loans, by micro and small farm enterprises operators in the Western and Brong Ahafo regions in Ghana.

This inadequate access was caused by the following factors, according to the project document:

- 1) The lack of liquidity mobilised by the financial sector for productive use.

Most of the resources mobilised by the formal financial sector was invested in Treasury-bills (T-bills). Government competition with the private sector for limited funds was particularly onerous for the rural banks, whose secondary reserve requirements left only 38% of mobilised savings available for investment.
- 2) Weak internal management capacity of Rural Finance Institutions (RFI) to develop and manage a variety of products to attract savings and lend funds.
- 3) Poor timing and terms of available loan products.
- 4) High interest rates on loans

The project intended to address inadequate access to financial services and to increase the level and volume of financial services to micro and small farm enterprises in a sustainable way by implementing the following activities:

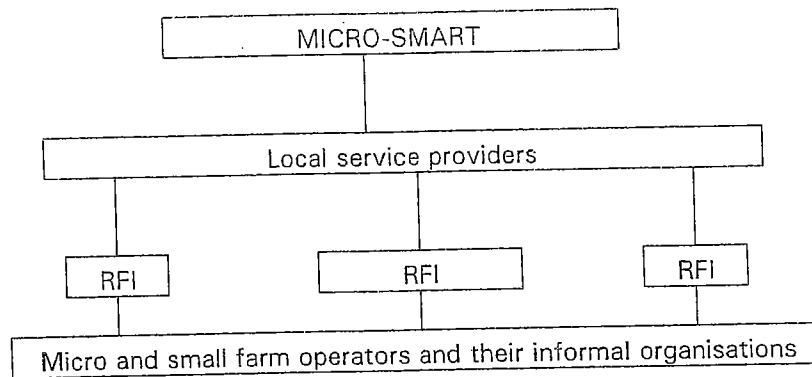
- 1) Enhancing the capacity of organisations providing training, oversight and technical assistance to Rural Finance Institutions (RFI)
- 2) Building the capacity of select RFI to deliver financial services to the productive poor (and reduce operational cost)
- 3) Development, testing and implementation financial products for agricultural lending
- 4) Advocacy through the MicroFinanceNetwork to reduce the secondary reserve requirement

The end of term evaluation of the project showed that inadequate access to financial services by micro and small farm operators continues to exist, although legal reserve requirements have now been reduced by the Bank of Ghana (from 62 to 43-33%, depending on portfolio quality) and lending for productive use has become more attractive for RFI, due to a reduction of the interest rate on T-Bills.

1.2 Assessment of local absorption capacities and local implementation capacities

The project document proposed to reach the final beneficiaries of the project (the micro and small farm operators and/or their traditional and informal financial organisations) through the existing system of rural banks: working with them would be less expensive than setting up new institutions. Additionally, the rural banks are supervised by the Bank of Ghana and permitted to mobilize savings.

Local service providers – not the project – would provide a select group of rural banks (3 to 6) in the project area with support in order to increase their institutional capacity and to develop appropriate financial products for the final beneficiaries. The project in turn would improve the capacity of the local service providers to deliver these services.



At the end of the project a situation should have been reached in which RFI would purchase services from local service providers to increase their capacity to reach out to the final beneficiaries, according to the project document.

Several local service providers had been identified and assessed during the design period and had expressed their interest – in writing – to participate.

- ⇒ The Association of Rural and Community Banks (ARCB) would provide training to RFI in new financial product development, Board management and staff training
- ⇒ Freedom from Hunger (FFH), a local NGO, would provide training to RFI staff in group lending methodologies
- ⇒ SOFT, a local software consultant, would provide MIS systems
- ⇒ The Ghanaian Micro Finance Network (GHAMFIN) would assist in the dissemination of project successes to institutions not served by Micro-SMART

The designers correctly assessed the absorption capacity of the selected RFI in the sense that they would require training and repeated technical assistance on the spot during a period of two and a half years and financial support to develop and manage financial products.

On the other hand, the evaluation mission considers that the market of local service providers was not correctly assessed during the design of the project. The ARCB indeed provided training to its member – organisations at the time of the design of the project, but this was limited to explaining the requirements of the Bank of Ghana. Moreover, ARCB did not have its own training capacity but instead hired in resource persons from elsewhere. Despite intents of Micro-SMART to involve the ARCB in the capacity building activities for RFI, its involvement remained limited to its participation in Micro-SMART seminars.

The designers should have foreseen the above, since similar experiences exist elsewhere. The core business of most apex organisations is to represent the interest of their members. Therefore they lack training and technical capacities. The role, which ARCB could have played, is the one of facilitator, disseminating successful experiences among its members or linking member-organisations with local providers. In the project document such a role was correctly defined for another apex organisation GHAMFIN.

Another weakness in the assessment of the market for local providers was that the designers failed to identify the existence of a pseudo market of services for MFI. Contrary to an effective market where there is a demand for services and the price of these services is

determined by demand and supply, in a pseudo market services are provided with subsidies (from the donor community). Another feature of the pseudo market is that the same donor community has pushed up fees of local consultants prices.

The existence of this pseudo market affected Micro-SMART in two ways. Firstly, RFI were not only interested to participate in the project because of the project's technical services, but also because these services were subsidized. Secondly, local service providers initially involved in the Micro-SMART did not continue their participation in the project, because the project could not pay the fees, which local service providers were demanding. The above has been verified during the end of term evaluation. Finally, it meant that the project itself had to provide the technical assistance to the RFI.

1.3 Preparatory activities and participation of key stakeholders in the design

The following studies and information sources were accessed to ensure a project design feasible and appropriate to beneficiary needs.

- ⇒ Field study of micro enterprise operators in the agricultural sector, conducted by CARE in February and March 1998.
- ⇒ Government of Ghana: Accelerated growth and Development Strategy in Support of Ghana Vision 2002
- ⇒ Ongoing information in the Micro Finance Network (MFN)
- ⇒ Interviews with Ministry of Finance officials, donors and researchers

The information obtained has effectively been used in the design of the project. Concern was expressed that funds used for on lending should not discourage financial institutions from savings mobilisation, which led to the savings match constraint of the Innovation Fund. That is, RFI can borrow funds for on lending from the project, but receive a discount on the interest rate, in case they increase savings mobilisation. Referral was also made to the weak management capacity of RFI, particularly in the field of MIS, which led to the inclusion of an MIS component in the project.

1.4 Complementarity and coherence with related activities undertaken elsewhere

The project was coherent with the Governments policy described in the document "Accelerated growth and Development Strategy in Support of Ghana: Vision 2002" and with CARE's policy to promote income generating activities of the poor under the umbrella of its Small Economic Activities Development Program (SEAD) at the time of project design.

At the time of the end of term evaluation the project was still relevant in terms of compatibility with the Government policies and CARE Ghana's new Strategic Plan for the period July 2000- July 2005, and its recently formulated principles and themes to support its vision and mission.

1.6 Overall design strengths and weaknesses

1.6.1 Quality of the logical framework

The Micro-SMART project has been prepared without using the logical framework. This makes it difficult to have a clear picture of the objectives, results, activities, indicators of success and assumptions of the project and the logic between them.

The most important limitation of the project document is that overall objectives and expected results have not been formulated. In stead the document identifies five principal project activities:

- 1) Enhancing the capacity of organisations providing training, oversight and technical assistance to Rural Finance Institutions (RFI)
- 2) Building the capacity of select RFI to deliver financial services to the productive poor (and reduce operational cost)
- 3) Development, testing and implementation financial products for agricultural lending
- 4) Advocacy through the MicroFinanceNetwork to reduce the secondary reserve requirement
- 5) Increased savings mobilisation

On the other hand quite some indicators of success have been formulated, although some of them are contradictory. The document speaks of a select group of 3 to 4, and of 6 RFI, which should benefit from the project. Other RFI would be involved in the phase at the end of the project buying services from local service providers to implement the products developed by the project. In reality the project worked initially with 7 RFI. In the last half year it expanded its activities to 22 RFI.

According to the project document, the project should aim at the implementation of new products for agricultural lending in order to benefit micro and small farm operators. Nevertheless it also states that the majority of beneficiaries should be women. In fact, only one loan product developed by the project could be defined as agricultural lending, the others are directly linked to trade and services of female entrepreneurs and are typical micro finance products.

1.6.2 Inputs

The human and material resources proposed for the execution of the project according to its design were adequate. The designers did not however correctly assess the cost of the inputs, especially as regards the MIS system for the RFI and the fees of international and local consultants.

As has been argued above, local consultants initially involved in the project did not wish to continue their activities as local service providers because of the non-competitive fees offered by the project. This was one of the reasons the project started to provide technical assistance itself to the RFI and decided to create the function of program assistant to support the program manager. A second consequence was that the MIS system was limited to a loan management system, because designing a system for the management of all financial services would have become too expensive.

Once, it was decided that the project itself would provide the technical assistance to the RFI established that the project could make use of the Care Office and support staff, a budget revision was proposed and approved in 2001 which reduced the budget for office rent and staff and incremented it for technical assistance and training activities.

1.6.3 Flexibility

In general the project has reacted adequately to facilitate rapid responses to changes in circumstances.

2. EFFICIENCY

2.1 Management

The project team consisted in first instance in a SEAD coordinator (35%), a micro finance specialist (100%), a driver and accountant. The micro finance specialist served as the project manager. Due to the fact that the project itself provided services to the RFI, a program assistant was required and hired in the second half of 2000. In June 2002, the program assistant was replaced by a part timer (60%) for the last phase of the project.

Both the SEAD coordinator and the project manager were well aware of best practices in micro finance and had hands on experience with micro finance programs. The same is true for the first program assistant.

The capacity and experience of project management permitted the project to elaborate and apply the technical tools required for the implementation of the project and to select external consultants like Planet Finance (RFI assessments, client survey) and Ananse (loan management system) to assist in that process in case that was required. The table below gives an overview of the tools developed. The work carried out by Planet Finance and Ananse was good and well documented.

Most of the tools developed by the project team were well developed like the risk management course, loan officer course and the various agreements between the project and its partners. Also the criteria to select the initial group of RFI were well developed and applied. The agreements with the project partners have been applied consequently, even in the sense that if partners did not comply, technical and financial support was interrupted.

There exists a need however to systematize and document the product development experience of Micro-SMART. Stakeholders like the Apex Bank and GHAMFIN are very interested to know this experience. The following issues should be considered while systematizing the financial product development experience:

- ⇒ Initial product characteristics (target group, eligibility criteria, loan purpose, interest rate, loan amount, loan term, repayment conditions, collateral requirements)
- ⇒ Loan approval, disbursement procedures and late payment policies and procedures
- ⇒ Nr. of loans and amount disbursed during the pilot testing
- ⇒ Nr. of active clients and loan amount outstanding at the end of the period
- ⇒ Development of drop out rate
- ⇒ Development of the repayment rate and portfolio at risk
- ⇒ Nr. of loans and amount disbursed per loan officer
- ⇒ Nr. of active clients and amount outstanding per loan officer
- ⇒ Repayment rate and portfolio at risk per loan officer
- ⇒ Drop out rate per loan officer
- ⇒ Monthly income and operational expenses during test period, including loan loss provision
- ⇒ Other reports required to manage portfolio
- ⇒ Adjustments made in product characteristics
- ⇒ Adjustments in policies or procedures
- ⇒ Financial projections (break even point) in order to take a decision on launching the product

2.2 Networking

The project manager was a rural banker himself, which facilitated establishing good relationships with the RFI.

The project established also good working relationships with most of the stakeholders and other projects like GHAMFIN, the APEX Bank, the CARE MDA and Micro Insurance projects.

The relationship with the ARCB and Freedom from Hunger could have been better, according to project staff and FFH. The evaluation mission has the impression that ARCB and Freedom from Hunger felt themselves like co-owners of the project, because they participated in the project design and they were presented as the principal project implementers (service providers) in the project document. They kept themselves at a distance, when it became clear that CARE took the decisions about project implementation. We described the reasons why it was difficult to work with the local service providers in previous paragraphs (lack of institutional capacity as a service provider and/ or too expensive).

2.3 The core activities and the process

The table below presents the principal activities of the project, the tools that were developed, the period in which the activities should have been carried out according to the initial design and the period in which they actually were carried out.

According to the initial project design GHAMFIN should have been strongly involved in the dissemination of the project successes and RFI would have hired in local service providers to replicate these successes, which however did not occur yet.

Activity	Tool	Carried out during	Initially planned
Selection of rural banks	Application form Analysis of financial statements Meeting with Board and management	March - April 2000	Similar
Presentation of program	Stakeholders workshop	June 2000	Similar
Partnership agreement	Memorandum of Understanding	June 2000, October 2001, June 2002	Similar
Assessment of rural banks	Girafe rating tool	July 2000 - October 2000	March-April 2000
Capacity building activities	Ongoing advisory assistance Monitoring of key performance indicators	November 2000- April 2001	September 2000-end of project
Training of Board directors and senior staff	CARE 's Micro Finance Risk Management Handbook	April 2001	
Survey existing products	Institutional capacity to deliver its financial products	January 2001 - March 2001	July 2000- August 2001
Client Survey	Impact Knowledge Management (IKM) Market Research Tool	April 2001 - July 2001	
MIS for loan portfolio management and training in use	CARE/Ananse systems software	June 2001 - November 2001	June 2000-November 2001 (operational in April 2001)

Activity	Tool	Carried out during	Initially planned
Training for loan officers on micro finance best practices	CARE 's Training Guide	October 2001	July 2000-November 2002
Product selection and financial projections	CARE 's manual on micro finance products	October 2001	August 2001
Access to loans	CARE/Merchant Bank Innovation Fund	February 2001	July 2000
Product pilot testing	Monitoring visits On site technical assistance	October 2001- June 2002	April 2001-June 2001
Feedback and self evaluation	Sharing of experiences workshop	June 2002	April 2002

Delay in the implementation of the project activities

The process described in the table took approximately two and half years from February 2000 to June 2002, and in the whole process there was a delay of approximately two months compared with the time schedule presented in the project document. At the present moment, CARE could run the program in 12 months according to the SEAD coordinator.

Delay up to six months occurred however in the implementation of those activities which can be considered as the core activities of the project. That is, those activities which would have permitted the selected RFI to increase their capacity to deliver improved financial products to poor rural households and to manage expanding portfolios according to best practices, namely:

- ⇒ The design and implementation of the MIS system
- ⇒ The product pilot testing
- ⇒ The training of RFI staff (Board, senior management and loan officers) in portfolio management and product development according to best practices
- ⇒ The design and implementation of the Innovation Fund (subsidized interest rates to share the risk with RFI to lend to poor rural households)

The results of the RFI assessments carried out by local service providers and the project team, under the supervision of Planet Finance, were the principle causes of the decision by project management to postpone the mentioned activities. These assessments showed weaknesses in all critical areas of the RFI, not only in portfolio management and product development, including low awareness of the problems encountered. For this reason the project decided to built in a additional step in the process, which consisted in bi-monthly on the spot visits of approximately 3 hours per RFI during the period November 2000 to April 2001. The objectives of these visits were to:

- ⇒ Create awareness of the weaknesses identified during the assessments and of the need to take action
- ⇒ Monitor RFI on key performance indicators (in particularly whether RFI complied with the capital adequacy and reserve requirements posed by the bank of Ghana) and provide advice in case of problems in these areas
- ⇒ Improve existing financial product delivery and loan portfolio management

The mid term evaluation, which was carried out in November 2001, confirmed the need to postpone the core activities of the project until April 2001. The latter then took place in the period April 2001 to June 2002 and consisted in:

- ⇒ A two days risk management for MFI course for Board and senior staff of RFI
- ⇒ An assessment of the RFI's capacity to deliver existing financial products
- ⇒ A client survey on RFI existing products by Planet Finance and an analysis of the institutional capacity to deliver them
- ⇒ A two day course on group lending mechanism for loan officers and their supervisors
- ⇒ Design and implementation of a loan management system by Ananse
- ⇒ Product pilot testing: on the spot assistance and monitoring by the project team during the period October 2001-June 2002 (approximately 8 visits of 3 hours to each RFI)
- ⇒ Feedback and self evaluation (one day workshop for loan officers and supervisors)

The 4 RFI visited during the end of term evaluation, expressed their satisfaction with these activities, including the assessments, the financial support to hire in new loan officers and the access to the Innovation Fund. On the other hand, one out of the four institutions indicated to use the new loan administration system and there were conceptual problems as regards the group lending methodologies, which had been introduced, of which the most common was to include in the repayment rate pre-payments and compulsory savings. The latter in case the groups did not pay on time the loan, which shows that there were also repayment problems.

Monitoring instead of a hands on approach to facilitate changes

Apart from the fact that there was delay in the implementation of the core activities of the project, the implementation plan actually carried out differed from the original one in that on the spot assistance was relatively limited.

Capacity building and product development in person/days per RFI

	Selected 6 RFI	Replication 16 RFI
Advisory assistance		
Monitoring of key performance indicators	1.5	
Risk management workshop	3	3
Group formation and management	2	2
Product pilot testing assistance	3	1
MIS	3	
Workshops sharing experiences on financial product development	2	1
Monitoring and assistance after pilot testing	1	
Total	15.5	7

While in the original implementation plan local service providers would be repeatedly present on the spot for one monthly periods, in reality project staff was present in each of the selected RFI 6 person/days per RFI (including MIS assistance of Ananse), of the total package of 15.5 person/days dedicated to capacity building and product. As we have seen, this was not a deliberate policy of the project.

Supply driven dimension

RFI in Ghana are in fact institutions with micro finance clients. What they have been lacking was micro finance technology. Micro finance technology is however not limited to the group lending methodology introduced by MICRO-SMART. Sticking to the group lending methodology with compulsory savings as collateral gave MICRO-SMART the dimension of a supply driven project and has resulted in missed opportunities.

In favour of the project's choice for group lending methodologies speaks that these have proven to be successful in reaching the poor in rural and peri-urban areas (from a cultural and efficiency point of view) and some - like project management - see the use of them as a transitional phase to lending methodologies which take more into account the needs and capacities of the individual borrower. Moreover, the project has put quite some effort in the adjustment of the group lending methodology according to the demand of the local clients. In fact, there are differences between the group lending methodologies introduced in the various RFI.

On the other hand, micro finance institutions are nowadays revising their group lending methodologies and diversifying their financial products because of worsening loan portfolio performance and high drop out rates, in particular in areas with strong competition like in Bolivia and Kenya.

The project document recommended group-lending methodologies, but at the same time it recommended them and offer products more adjusted to the needs of the individual client.

Finally, the client survey carried out by Planet Finance came to the conclusion that clients prefer individual loans (although the majority with a group loan was satisfied with it) and recommended among other things to adjust existing individual lending products and to increase savings mobilisation through the payment of interest on savings deposits (financial institutions in Ghana are not used to pay interest on savings deposits).

The existing institutional framework as an obstacle for change

The delay in the implementation of the core activities, the implementation of other than core activities, the impossibility of a hands on approach, accompanying RFI with technical assistance during a longer period, and the supply of only one financial product to RFI contributed to lower than expected output in the areas of institutional capacity building and financial product development.

It is not possible to explain the limited results in these areas by referring only to the institutional framework in which the project took place, causing a lack of commitment with RFI to change. We refer here to both informal institutions - culturally embedded norms, customs and habits - and formal institutions - the legal reserve requirements and the existence of the option to safely invest in treasury bills.

These institutions certainly played a role, but not alone. In the first place, because in the end the RFI implemented the group lending methodologies reaching out to 15,000 new clients, and assuming the risk. The lack of commitment expressed itself rather in not applying the correct managerial practices. In the second place, because the objective of the project is precisely to facilitate changes. Therefore, the evaluation mission believes that the limited results in the capacity building and product development areas were caused by a combination of factors. Lacks of a hands-on approach and limiting the services of the project to group lending methodologies certainly have played a role, besides institutional limitations.

2.4 Other activities

Apart from the principal activities described above, the project carried out other activities. Some of these were mentioned in the project document others not.

According to the project document, MICRO-SMART should have used GHAMFIN in the dissemination of project successes. This had not happened yet at the moment the end of term evaluation took place. In stead, MICRO-SMART itself approached other RFI.

As a result of the dissemination, other RFI would become interested in the products and services developed by MICRO-SMART and hire in local service providers for their implementation, according to the project document. This activity did not take place either and in the previous chapter we described the reasons. Although initially the project identified and trained local service providers (in assessing RFI as a first step), the participation of these providers discontinued due to disagreement on the proposed fees, which were underestimated during the project design. This not only implied that MICRO-SMART had to provide directly assistance to the initially selected RFI, but also that it had to provide direct technical and financial assistance to introduce its products in 16 additional RFI. Visits to 4 new RFI showed the same degree of satisfaction as in the initially selected RFI and the same problems, for the same reasons.

The project dedicated also quite some time and resources to assist CUA to initiate and complete an amalgamation process among credit unions in the project region with the objective to enable these small credit unions to participate as one in MICRO-SMART's regular program. The process was however never completed and the project had to stop its assistance. Although the demand of the credit unions for project services was genuine, the support to the amalgamation process was not a core activity of the project.

In the context of advocacy, MICRO-SMART worked closely together with GHAMFIN supporting it to design a benchmarking framework for MFI (in collaboration with Calmeadow and CGAP), to formulate a proposal for a supervisory framework for MFI and to run a workshops about the supervisory framework for MFI with the participation of other stakeholders such as the Bank of Ghana, the APEX bank (of rural banks), the World Bank, etc. The project also supported GHAMFIN in setting up a resource centre and website.

The direct results of these activities for rural micro finance institutions are not really visible yet, although important processes have been set in motion. Ghanaian MFI appear now in the Micro Finance Bulletin, which publishes regularly performance indicators of MFI in the world. Also a task force has been set up to lobby for a supervisory framework for MFI.

Apart from the efforts mentioned above, the project formed part of the group of same lobbyist, which convinced the Bank of Ghana to reduce the secondary reserve requirements for the rural banks in accordance to their loan portfolio quality. This was a major success of the project.

Finally, the project contracted in its last year Freedom from Hunger to rehabilitate a rural bank, which previously had not received support from the project.

The resources devoted to the advocacy activities and support to GHAMFIN are justified in the eyes of the end of term evaluation mission. Although direct results take some time,

experiences elsewhere show that support to associations of micro finance institutions have certainly positive effects for the industry as such.

On the other hand, it will remain the question whether the resources used for the activities carried out with Freedom from Hunger and CUA should not have been used for the core activities of the project: product development and capacity building of RFI related with the product development?

The same question is valid for the activities carried out with the selected RFI aimed at improving their general performance in the period November 2000-April 2001.

2.5 Accounting and monitoring

The project budget was not appropriate for efficient project management, mainly because it did not permit to identify activity-based cost. For example, the training activities were funded under many item lines. The CARE Ghana accounting system does not track down activity based cost either.

The CARE Ghana accounting system does provide for full accrual of income and expenditure, which would make it in principle suitable to account for the Innovation Fund (Loan Fund). It was however not used by the project for this purpose. This means that the actual value of the Innovation Fund has to be established and verified yet.

The project monitoring system was appropriate for the monitoring of the initial 6 RFI, but became to time consuming (because manual) when the project started to attend 22 RFI.

Frequently, programs of NGO have to set up separate accounting systems to be able to manage their activities with sufficient financial information.

RFI participating in the program had to report on their activities on a quarterly basis. The project manager consolidated these reports manually. This was an easy job with the 6 RFI, which initially participated in the program, but more time consuming in the last half year when 22 RFI participated. This among others explains that the October figures were only ready at the end of the end of term evaluation.

2.6 Efficiency indicators

In this paragraph we compare between efficiency indicators of the project in the development phase and in the replication phase. The average efficiency indicators are compared with those of other projects financed by the donor community. Efficiency indicators reduce considerably in the replication phase, as they should. On the other hand, averages are comparable with projects financed by the Government of the Netherlands.

The project used 99% of its budget in the period between the start of the project and the moment of end of term evaluation. The total amount mentioned in the budget was Euro 874,285 (exchange rate 1 Euro = US\$ 0.953). From this amount we deducted the design cost, the local contribution in the form of savings deposits of final beneficiaries in the RFI, the cost of the mid term and end of term evaluations and the expenses related with other activities than the core business of MICRO-SMART (GHAMFIN; Freedom from Hunger and CUA). The latter cost is estimated in Euro 43,000. This leaves us with a total cost of Euro 564,962 at the end of the project.

At the end of June 2002, this amount was Euro 494,483. June 2002 was the month in which the development phase of the project with the initially 6-selected RFI came to an end and in which the replication phase with an additional 16 RFI started. This permits comparing efficiency indicators of the development phase and the replication phase and the averages with similar projects financed by the donor community.

Efficiency indicators	Development Phase As from Oct 01	Replication Phase As from July 02	TOTAL
Cost per RFI (euro)	75,247.17	4,404.94	23,725.55
Cost per final beneficiary (euro)	47.40	12.50	34.42
Cost per increased euro access	0.90	0.33	0.73
Cost per loan disbursed (euro)	82.45	46.22	74.56

The table shows that logically the cost per RFI attended (6 in the development phase; 16 in the replication phase) reduces in the replication phase, because tools and products have already been developed and only require their implementation in interested RFI. It could be argued that the price for the service to assist the RFI in the introduction of group lending methodologies and management of the new portfolio has come to approximately euro 4,500. Another question is whether this service is sufficient to result in good quality portfolios, since it is rather limited in time.

Another conclusion is that the cost to provide access to clients to the services of the rural banks has decreased from Euro 47 per client in the development phase to Euro 12,50 in the replication phase. The average cost was Euro 34. In a recent evaluation of a micro finance project in Bolivia, it resulted that the Ministry of Foreign Affairs of The Netherlands had to contribute an amount of Euro 40 to provide access to a loan.

In the case of MICRO-SMART this would be still Euro 46 and on the average Euro 74. The reason for this is that the client can already have access to financial services like savings, but not yet to a loan. It speaks for itself that the cost of these transactions will decrease over time, since additional assistance to RFI will become unnecessary (zero cost).

Finally, the cost per euro increased access to financial services (savings and loans) has been reduced from Euro 0.90 to Euro 0.33. On the average it was Euro 73. The average cost corresponds with the contribution per loan disbursed of the Ministry of Foreign Affairs of The Netherlands in a micro credit program in Tanzania.

3. EFFECTIVENESS

In this chapter we compare the expected output of the project with the output it really achieved on the level of the project purpose and expected results. The project document did not mention an overall objective, reason why there will be no chapter on impact.

Expected output versus achieved output

Purpose	Indicators of success	Real project output
Increase the level and volume of financial services to micro and small farm operators on a sustainable basis	<ul style="list-style-type: none"> ⇒ 15,000 economically active poor served during the project term, the majority women ⇒ An increasing number of RFI continues to purchase services from local service providers (LSP) to enhance their capacity to provide micro finance services 	<ul style="list-style-type: none"> ⇒ More than 15,000 people have been achieved of which 67% are women ⇒ The project has directly provided services to 22 RFI. It has created awareness about best practices, but it is not realistic to expect purchase of BDS services in a pseudo market.
Expected Results	Indicators of success	Real project output
Enhanced capacity of organisations providing training, oversight and technical assistance	<ul style="list-style-type: none"> ⇒ ARCB provides training to RFI in new financial product development, Board management and staff training ⇒ FFH provides training to RFI staff in group lending methodologies ⇒ SOFT provides MIS systems ⇒ GHAMFIN will assist in the dissemination of project successes to institutions not served by MICRO-SMART ⇒ 3-6 RFI assisted 	<ul style="list-style-type: none"> ⇒ Staff of 14 local consultancy agencies was trained in GIRAFE, an MFI assessment methodology. 5 of these providers and the project team assessed 6 RFI. ⇒ FFH does, but not to selected RFI ⇒ Staff of ARD, GUA, MFN has been trained in Risk management but did not assist RFI ⇒ Project and RFI staff participated in the product development course. ⇒ Ananse has developed a user friendly loan management system with user manual ⇒ Micro smart has developed various tools which can be locally used for capacity building and financial product development ⇒ GHAMFIN did not actively participate in the dissemination
Improved capacity of selected RFI to deliver financial services to the productive poor, in a sustainable matter	<ul style="list-style-type: none"> ⇒ Installed and timely use of MIS in 3 to 6 RFI ⇒ Improved capacity of Directors, board and staff of 3 to 6 MFI to manage and operate micro finance portfolio 	<ul style="list-style-type: none"> ⇒ In 1 of the 4 visited RFI the MIS was updated, but the information not correct. ⇒ Board and staff trained in risk management. Senior staff and loan officers in group formation and management ⇒ Repayment rate groups October 2002: Ahantaman (47.5); Kintampo (?); Amenfiman 74.4%; Bogoso 89.9%; Nzema 61%; Jomoro 51%; Kaaseman 95.5%; Wamfie (?)
Financial products for agricultural lending tested and implemented	<ul style="list-style-type: none"> ⇒ Leverage by additional donor funding ⇒ 3 to 6 RFI will have introduced innovative savings and loan products, including and beyond group lending ⇒ 100% increase of savings mobilisation ⇒ Interest paid on savings accounts ⇒ Improved on time disbursements ⇒ Reduced interest rates on loans ⇒ Median loan size 250 euro ⇒ New loan products financed by at least 50-50 match Innovation Fund and RFI deposits 	<ul style="list-style-type: none"> ⇒ For two products additional funding is available from IFAD SCIMP and ARB/Danida ⇒ MICRO-SMART provided technical assistance to MDA / CARE/USAID project, DFID/CARE Ghana Micro Insurance Project and the ARD/Danida project ⇒ 22 RFI have introduced compulsory savings as collateral for loans. Nevertheless savings increase for four initially selected RFI was ⇒ No interest is paid on these savings ⇒ Savings 4 initially selected RFI increased with 29% ⇒ 22 RFI have introduced group lending methodology ⇒ Authorisation to disburse loans is at the level of Board and/or management, not at branch level in visited RFI ⇒ In most cases interest rates are lower than other loan products of RFI, but the loans have become more expensive through insurance fees ⇒ The average loan size is smaller than 250 euro, but increasing according to cycle ⇒ In 3 out of 4 initial selected RFI loans are financed for more than 50% from savings deposits
Reduction of the secondary reserve requirements for RFI with sound financial ratings	<ul style="list-style-type: none"> ⇒ Reduced reserve requirements for RFI with sound performance 	<ul style="list-style-type: none"> ⇒ Bank of Ghana has reduced second reserve requirements according to portfolio quality of RFI. Current reserve requirement vary now from 33% to 43% in stead of 62%

One of the biggest successes of Micro-SMART is its outreach, both in terms of number of final beneficiaries (RFI clients) attended and in the number of RFI assisted (16 more than the 3 to 6 RFI which should have been assisted according to the project document). Most of these RFI reached out to poorer clients in semi-urban and rural areas, previously not attended, without any discrimination as far as the evaluation mission has been able to verify (it visited for example groups of Islamic women who received loans).

The other success story of Micro-SMART – apart from outreach- is the reduction of the legal reserve requirements for RFI from 52% to 22%-32%, according to portfolio quality. Although Micro-SMART could not have produced this output alone, its advocacy efforts formed part of the forces that have led to this decision of the Bank of Ghana in the second half of 2001; together with the efforts other stakeholders like the World Bank, the Association of Rural Banks, the Apex Bank and the Ghanaian Micro Finance Network.

Notwithstanding its increasing outreach it is necessary to make some comments on whether indeed the level and volume of financial services for poor rural households and entrepreneurs has been increased.

	Total		
	Dec 01	June 02	Oct-02
Increase in savings mobilisation		14%	15%
Increase in advances		27%	1%
MICRO-SMART deposits/total savings deposits		2%	2%
MICRO-SMART loans/total advances		7%	14%
Advances/assets	32%	34%	29%
Liabilities/advances	11%	12%	8%
Innovation Fund/micro smart loans		40%	15%

Source: information from the project on the four initially selected RFI during the end of term evaluation (Ahantaman, Kintampo, Amenfiman and Bogoso)

The evaluation mission agrees with an increase in savings mobilisation but the increase is less than 100% (29%). There was an increase of 28% in outstanding loans. On the other hand, the figures above show that the relative importance of loans (as a proportion of the assets) or advances as they are called in Ghana reduced from 32% in December 01 to 29% in October 02 (during the life of the project hence), despite the fact that the government reduced reserve requirements.

Part of the resulting liquidity apparently was used for loans, since the liabilities reduced their importance as financing source for loans. The other liquid funds must have been used for voluntary investments in treasury bills although interest rates on these bills have been reduced as well. The conclusion is that the level and volume of financial services has been increased but the relative importance of loans declined, despite the efforts of the project. The phenomenon emphasises that it is difficult to modify the institutional framework, in particular the customs, habits, etc. of RFI Board and staff.

Micro-SMART achieved less in the area of capacity building of local service providers and RFI and in product development than in outreach.

The project carried out most of the capacity building of RFI in the field, although the service providers mentioned in the project document like GHAMFIN, ARCB and Freedom from Hunger participated as trainees in the sessions for RFI on risk management and group formation and management. The project supported however GHAMFIN in the dissemination of best practices in micro finance through its financial contribution for the formulation of a proposal

for a supervisory and regulatory framework for MFI, a benchmarking framework and the establishment of a resource centre for micro finance.

The GIRAFE assessments showed that the RFI require changes in quite some areas from governance and decision making processes to risk identification and control, and from use of information to product development. Micro-SMART was meant to concentrate on the latter two issues.

With the objective to break with the traditional rural centralized banking culture and organisational structure, Micro-SMART obliged the participating RFI to hire in new loan officers with a university degree to run the new portfolios which was a good decision.

Nevertheless, the results obtained in the area of product development and capacity building to manage portfolios of improved products remained below expectations. The table below shows the repayment rates of the rural banks during the end of term evaluation. According to project management performance is much better and the figures not correct. This maybe true, but still points to the fact that the capacity to manage the portfolios remained limited.

In the previous sector some reasons for this has been mentioned:

- ⇒ Limited presence in the field of the project staff to facilitate the necessary changes
- ⇒ In certain aspects the project approach was supply driven
- ⇒ The limited capacity of staff of the RFI (in a qualitative sense)

The repayment problems can however also partly be explained by government interference in the RFI. The latter are more or less obliged to provide subsidized credit to people who participate in governmental poverty alleviation programs. The clients working with the Micro-SMART products compare the different programs, which in some cases may have resulted in repayment discipline or drop outs of the Micro-SMART clients.

Finally, as unexpected output, Micro-SMART contributed to create awareness in the RFI community about best practices in micro finance and other future projects will be able to built on this, like the Rural Financial Service Project financed by the World Bank, IFAD, and GTZ. Additionally, the international donor community has increasingly become aware of the existence of the RFI in Ghana through the good work of Planet Finance, which together with CARE publicized the assessments of 6 RFI on its website and through the publication of the IMK/Planet Finance/CARE Client Survey. Recently, the rural finance sector received visits from CORDAID and Triodos Bank, two Dutch institutional investors.

4. SUSTAINABILITY

4.1 Ownership of objectives and achievements

There are a number of institutions in the country which agree with the objectives (increase the level and volume of financial services for poor rural households and entrepreneurs) and achievements (outreach, tools, financial products) of the project and which will continue to support and disseminate these.

The Government for example will continue to be interested to improve the access to financial services of the rural poor. In fact, the government took the initiative to establish the rural banking system some 20 years ago and recently, with the ARCB, participated in the creation of the Apex Bank of the rural banking system. Apart from supervisory tasks (delegated from the Bank of Ghana), this institution will provide financial services to the rural banks and provide the necessary technical support to ensure that the rural banks will have technically able staff and equipment to provide the information requirements of the Bank of Ghana.

The Government participates also in the Rural Finances Services Project, financed by the World Bank, IFAD and the African Development bank, whose objective is to strengthen the sector. GTZ also provides financial and technical support to the Apex Bank and already started working on financial product development for rural banks. In order to ensure that use will be made of the achievements of Micro-SMART it is important to share these with the mentioned stakeholders.

The ARCB will continue to represent the interest of its member-organisations and its project financed by DANIDA will continue to offer technical support to these organisations.

The dissemination of best practices in micro finance will also continue in the context of GHAMFIN and the project has contributed to this.

CARE Ghana will continue to support the rural banking sector through its MDA and Micro-insurance projects, whereby it will make use among others of the methodologies developed by Micro-SMART. The end of term evaluation mission recommends the donors, which financed Micro-SMART to contribute to this effort by transferring the equipment and vehicles of Micro-SMART to these projects, once the project expires.

Finally, the rural banks themselves will continue to be interested to attend the people of the communities to which they belong, because this is the reason why they have initially been set up.

4.2 Policy support

The Government in reality has supported the objective of increasing the level and volume of financial services for the rural population (as was mentioned in the previous paragraph). Another example of this has been the reduction of the legal reserve requirements in accordance with the portfolio quality of the rural banks.

The Government should however be aware that direct interference in the business of the rural banks might affect seriously the sustainability of its own efforts and those of others. This may be the case with the poverty alleviation programs, which the government is, actually is carrying out through the rural banks and which give these banks a political colour.

Moreover, these programs distort the market because of subsidized interest rates and "easy access" to financial services.

Also the donor community should refrain as much as possible from subsidized and supply driven interventions, which negatively affect the commitment of the beneficiary institutions and their capacity to run their programs as much as possible on a cost recovery basis. We refer here in particular to the MFI/RFI and the local providers, which could provide services to these MFI. Donors have formulated sound guiding principles for selecting and supporting financial intermediaries and for developing markets for the business development services of local providers¹, which unfortunately are not always applied.

4.3 Institutional capacity

We refer here specifically to the capacity of RFI to continue and expand the delivery of services to poor rural households.

As has been expressed in earlier occasions, the end of term evaluation mission has doubts about the commitment and capacity of the RFI serviced by the project to provide the financial services developed by Micro-SMART in a sustainable way. Or in other words, the awareness creation, capacity building and product development process has not been completed yet.

The evaluation mission is confident that this process will be completed by other projects and by already committed RFI. On the other hand, at the end of the project CARE Ghana will remain with approximately Euro 100,000 of the Innovation Loan Fund. The evaluation mission recommends using this fund to speed up the completion of the process referred to, rather than continuing the present use of the Fund. Given the present liquidity of the rural financial system there is no direct need for a Loan Fund.

The end of term evaluation recommends to complete the capacity building and product development process initiated by Micro-SMART by applying some of the best practices referred to in the previous paragraph (guiding principles). This approach would increase the commitment of the beneficiary organisations and consist of the following steps:

- ⇒ CARE Ghana prepares offers for technical assistance to RFI to complete the capacity building process Micro-SMART initiated.
- ⇒ The offers include a list of possible providers of technical assistance which maybe local or international ones according to the availability of local providers. In case there are no local providers with sufficient capacity, the services will be provided by an international consultant twinning with a local one.
- ⇒ These offers are auctioned among the RFI, which participated in the Micro-SMART project. Care should be taken to prevent price fixing deals among RFI.
- ⇒ The 2 or three RFI, which offer the best deal (cost sharing) will be select and contract the technical assistance provider.
- ⇒ CARE Ghana monitors the provision of technical assistance
- ⇒ The provider of technical assistance systematizes and documents the experience and the attended RFI could in future function as centre of excellence.

¹ **Guiding Principles for Selecting and Supporting Financial Intermediaries.** Committee of Donor Agencies for Small Enterprise Development. Donors' Working Group on Financial Sector Development, October 1995
Business Development Services for Small Enterprises. Guiding Principles for Donor Intervention. Committee of Donor Agencies for Small Enterprise Development, 2001

An alternative option for the use of the Innovation Loan Fund would be to make an equity contribution to the three RFI, which perform best in terms of outreach, quality and profitability of the Micro-SMART portfolio at the end of 2003. Also in this approach the beneficiary organisation would be motivated to improve its performance by hiring in technical expertise or additional staff or equipment and also in this case a consultant should be hired in to systematize and document the experience. The limitation of this approach is that in this option, CARE Ghana will not be able to guide the RFI, since there are no offers of technical assistance.

Finally, the funds could be used, under supervision of CARE Ghana but in collaboration with the APEX Bank and/or GHAMFIN to continue exposure the Board members of RFI to best practices (workshops or trips to visit successful experiences). The limitation of this option is that it is not directly linked to the previous achievements of Micro-SMART.

4.4 Financial sustainability

It is generally accepted that financial services for the poor are financially sustainable at the client level (final beneficiary). In this case the work plan included in the ToR did not include the realisation of an impact study to determine whether the individual client had seen an increase of sales sufficient to pay the loan and the interest of the loan. On the other hand, the visited groups of clients confirmed that this had in general been the case, although individual repayment problems existed in various groups.

All RFI attended by the project are operationally self sufficient, that is to say that they make a profit and in general these profits are growing. It was however not possible to determine in how far the Micro-SMART financial products contributed to this profit, due to the lack of trust worthy information, among others on portfolio at risk and loan loss provision.

Only few MFI in the world, including RFI in Ghana, have reached the phase of financial self-sufficiency, due to inflation, external sources of finance cheaper than commercial loans and subsidized technical assistance.

5. CONCLUSIONS, LESSONS LEARNED AND RECOMMENDATIONS

5.1 Conclusions

Relevance

1. The Micro-SMART project was a relevant project in terms of identification of the problem to be addressed and the final beneficiaries (RFI) were correctly identified. Rural banks in Ghana already had micro finance clients, what had been lacking were appropriate micro finance technologies and staff capacity to apply them. Moreover, RFI are supervised financial institutions, allowed to mobilise savings from the public for on lending.
2. The project design proposed to provide technical assistance to RFI by training and using local service providers for that purpose. In practice however the project itself provided technical services to the RFI, with the exception of the GIRAFE assessments and in the third year of the project, the provision of services by FFH. The principal reason for this was that the market for technical services to RFI had not well been assessed during the project design, according to the evaluation mission.

In the first place, the project proposed apex organizations such as ARCB to provide technical assistance services to RFI. Experiences elsewhere have shown that apex organizations often lack the capacity to provide technical assistance. On the contrary, their core business is representing the interests of their member organizations and linking them with service providers.

In the second place, the project design failed to identify the existence of a pseudo market of services for RFI. Contrary to an effective market where there is a demand for services and the price of these services is determined by demand and supply, in a pseudo market services are provided with subsidies (mostly by the donor community). Another feature of the pseudo market is that the same donor community has pushed up fees of local consultants prices.

The existence of this pseudo market affected Micro-SMART in two ways. Firstly, RFI were not only interested to participate in the project because of the project's technical services, but also because these services were subsidized. Secondly, local service providers initially involved in the Micro-SMART did not continue their participation in the project, because the project could not pay their fees. This meant that the project itself started providing technical assistance to the RFI.

3. The project was coherent and complementary with government policies and CARE Golf of Guinea activities (SEAD program) and consistent with the themes it recently developed to support its vision and mission. These themes are:

CARE Ghana themes to support Mission and Vision	Micro-SMART characteristics
Constructive engagement of power structures	Advocacy with other stakeholders to reduce the secondary reserve requirements of the Bank of Ghana
Strengthening Institutions and Institutional Linkages	Strengthening of RFI, which in fact are financial institutions serving the poor, but with an inappropriate methodology
Promotion of Inclusive Civic and Individual Empowerment	Access to financial services irregardless of religion, race or gender
Utilisation of Innovative Approaches	The project aims at bringing new approaches to RFI to provide financial services to the poor rural households on a sustainable basis.

4. Although the overall project approach was clear, the project document did not formulate the objectives, results and activities in a precise and complete way. Overall objectives and expected results were lacking. Sometimes expected output was contradictory. Government interference had not been mentioned as a risk, although the government had been involved in one way or another with the rural banking system, since it had been established. The project design was not developed with the use of a logical framework.

Efficiency

5. The project team was aware of best practices in micro finance and had hands on experience in running micro finance projects. This permitted the project to elaborate and apply the technical tools for the implementation of the project and to select the appropriate external consultants like Planet Finance (MFI rating, client survey) and Ananse (MIS). The project did however not complete the systematisation and documentation of its product development efforts.

6. The project-established good working relationships with most of the stakeholders and partners like GHAMFIN, CUA, Ananse, IFAD, etc. The relationship with ARCB and Freedom from Hunger was not so good, according to Micro-Smart staff and Freedom from Hunger, although staff of these institutions participated in activities of the project.

The evaluation mission has the impression that ARCB and Freedom from Hunger felt like co-owners of the project, because they participated in the project design and were presented as the principal project implementers (service providers) in the project document. They stayed at a distance, when it became clear that CARE took the decisions about project implementation. We described the reasons why it was difficult to work with the local service providers under point 2 of the executive summary (lack of institutional capacity as a service provider and/ or too expensive).

7. Activities in the area of institutional capacity building (development and installation MIS and other capacity building activities) and financial product development (product development courses and pilot testing) took later place than planned in the initial project implementation plan included in the project document (paragraph 2.3 and annex 6).

8. According to the same implementation plan, a hands-on approach should have been applied to strengthen the capacity of RFI, attending the selected individual RFI on the spot during monthly periods. The evaluation mission agrees with the latter approach in order to facilitate permanent changes.

In stead, the project team visited each selected RFI approximately four hours per month. The latter was not a deliberate policy of the project. Firstly, the project could not make use of local service providers, as we have referred to. With these service providers it would have been much more easier to accompany individual RFI during a longer period. Secondly, in order to achieve expected outreach of 15,000 clients, the project decided to attend 6 RFI instead of the originally planned 3 to 4 and in the last six month 22 RFI (replication phase).

9. The project carried out activities, which could not necessarily be considered as core activities, like the support to CUA and associated credit unions in the project region and the provision of technical assistance to increase overall performance of RFI. Although the credit unions had a genuine demand for the core services of the project, accessing those services depended on establishing a merger among them, which constitutes a project in itself.
10. The project document spoke of developing new financial products inclusive and beyond group lending methodologies, in order to offer also products, which take more into account characteristics of individual borrowers. The results of the market survey supervised by Planet Finance and financed by the project gave rise to the recommendation to improve existing products of RFI like savings mobilization and individual loan products, among others. Notwithstanding these recommendations, the project offered the selected RFI only group lending methodologies. The decision to consider only group lending methodologies gave the project a supply driven dimension, in the opinion of the evaluation mission.
11. The delay in the implementation of the core activities, the implementation of other than core activities, the impossibility of a hands on approach, accompanying RFI with technical assistance during a longer period, and the supply of only one financial product to RFI contributed to lower than expected output in the areas of institutional capacity building and financial product development. Another factor contributing to the lower than expected output was the existing institutional framework. We refer here to both informal institutions - culturally embedded norms, customs and habits - and formal institutions - the legal reserve requirements and the option to invest safely and profitable government treasury bills.
12. Although the collaboration with GHAMFIN has not resulted yet in direct benefits for the RFI, the support provided by Micro-SMART was justified. Experiences elsewhere have shown that associations of micro finance institutions have a positive influence on the micro finance sector as a whole of which the rural banks form part.
13. The project budget was not appropriate for efficient project management, mainly because it did not permit to identify activity-based cost. For example, the training activities were funded under many item lines. The CARE Ghana accounting system does not track down activity based cost either.

The CARE Ghana accounting system does provide for full accrual of income and expenditure, which would make it in principle suitable to account for the Innovation

Fund (Loan Fund). It was however not used by the project for this purpose. This means that the actual value of the Innovation Fund has to be established and verified yet.

The project monitoring system was appropriate for the monitoring of the initial 6 RFI, but became too time consuming (because manual) when the project started to attend 22 RFI.

14. As expected, efficiency improved considerably (efficiency indicators reduced considerably) when the project completed the development phase and went into the replication phase (from 6 to 22 RFI). Average efficiency indicators are similar to projects executed and/or financed by other executing agencies/donors.

Effectiveness

15. Micro-SMART was successful in two areas: outreach and advocacy. It was less successful in the capacity building and financial product development areas. Micro-SMART reached out to more than 15,000 clients, 87% of them women. Moreover, in most cases these clients had never before access to financial services and they were poorer than the regular clients of the rural banks. On the other hand, high interest rates for the products and delay in disbursements continued to exist.
16. Its advocacy activities in collaboration with GHAMFIN, ARCB, Apex Bank and the World Bank resulted in a reduction of the legal reserve requirements for RFI, which permitted these banks to use more of their funds for on-lending to the poor.
17. Although the overall loan portfolios of the participating RFI increased during the life of the project, the relative importance of these loan portfolios (loan portfolio/assets) did not in 4 of the 6 initially selected RFI, which were visited during the end of term evaluation. This again indicates that it is not easy to change informal institutions like culturally embedded norms, customs and habits, despite the reduction of the legal reserve requirements and the project efforts to promote lending activities and to strengthen the management capacity of the RFI.
18. The results in capacity building and financial product development remained below expectations for the reasons mentioned under point 11 of the Executive Summary. The Loan Management System provided by Micro-SMART was not used by RFI or was not updated. Organizations had no clear idea of the repayment rates, and sometimes included in its calculation compulsory savings made by the groups. Various groups had serious repayment problems within the group (individuals paying late or not) or with the bank. The organizational structures had not been adjusted to enable rapid loan approval and disbursement in the branches.

Sustainability

19. Government, the apex organizations of MFI and RFI, and donors like the World Bank, IFAD and the African Development Bank, as well as CARE Ghana itself are interested to support the future development of the rural finance sector and have committed resources for this purpose. Various projects like the Rural Financial Services Project, the GTZ project on product development for rural banks and CARE's MDA, MicroInsurance and ESCAPE projects are ongoing. The Micro-SMART project has contributed to this interest and commitment. It could have had a more important role,

if it would have systematized and documented its product development efforts and its effects and distributed its experiences to the institutions mentioned above.

20. The capacity building and product development process initiated by Micro-SMART has not been completed. Micro-SMART resources remaining at the end of the project like vehicles, equipment and the Innovation Loan Fund (approximately Euro 100,000) could still be used for this purpose, subject to the varying rules and regulations of the different donors of the project.

The project document proposed to hand over the Innovation Fund to the Bank of Ghana at the end of the project, supposing that the Bank of Ghana would have managed it during project implementation. In reality, the Fund was managed by The Merchant Bank similar to other CARE Funds (as a deposit account). Given the increasing liquidity of the financial sector in Ghana a Loan Fund would however not be the first priority to increase level and volume of financial services to the rural poor.

21. Groups of clients visited by the end of term evaluation mission, confirmed that in most cases the access to financial services has resulted in improved business income and living conditions. In some cases however there are also repayment problems.
22. The RFI visited by the end of term evaluation mission expressed that they were satisfied with most of the services provided by Micro-SMART. These RFI are operationally self sufficient, but it is not clear in how far the financial product developed by Micro-SMART has contributed to this, due to lack of solid information. Only few MFI in the world are financially self-sufficient due to inflation, the use of external sources of funding with a cost below the market interest rates and subsidized technical assistance. This is also valid for the RFI attended by the project.

5.2 Lessons learned

Relevance

23. The project design identified real needs of RFI in terms of capacity building and financial product development, but RFI were not always committed to implement the changes proposed by the project, despite subsidies and other incentives.

Partly, the existing institutional framework can explain this "lack of commitment". We refer here to both informal institutions - culturally embedded norms, customs and habits - and formal institutions - the legal reserve requirements and the existence of the option to safely invest in treasury bills. Partly, it was caused by the lack of a more hands on approach and the type services offered. Experience has shown that commitment is higher when services are offered for which beneficiaries are willing to pay, for example through a cost sharing fund.

The type of assessment required to identify effective demand has not been carried out in the design phase or implementation phase of the project and Micro-Smart limited its services to the introduction of group lending methodologies.

24. The project design proposed to use local institutions to provide technical assistance services to RFI but instead most of the technical assistance was provided by the project.

Although local institutions expressed their interest to participate in the project, during project implementation there were major problems to involve them. The lesson learnt is that the mere presence of local service providers and their expression of interest to participate, not necessarily results in their effective participation in the project.

The evaluation mission has identified several reasons why it was so difficult to collaborate local service providers:

- ⇒ The project document proposed to work with local institutions whose core business was and is not providing technical services to RFI, but rather representing the interest of MFI, like ARCB. In general, apex organizations set up to represent the interest of their member organizations do not have the capacity to provide technical services.
- ⇒ In many countries a pseudo market exists for technical services to MFI. The main reason for the existence of this market is that the donor community is prepared to pay fees to local service providers, which are higher than the fees the local demand can afford. The Micro-Smart budget had a line for hiring in local service providers but fees had been established at the local market level. Local consultants like Freedom from Hunger invited by the project to deliver services could choose between the high fee paid by the international donor community and the low local fees of Micro-SMART.
- ⇒ Local intermediaries such as ARCB and Freedom from Hunger had been strongly involved in the project formulation and design phase. Moreover, the project document assigned them roles in the project implementation phase. It is very likely that these institutions considered themselves with CARE Ghana as the project implementers or owners of the project. When CARE established its leading role in Micro-Smart, ARCB and FFH decided to stay at a distance from the project.

Efficiency

25. The project design involved consulting local institutions (stakeholders) and defining roles for them as service provider in the project implementation phase. In the case of ARCB and Freedom for Hunger this process created false expectations, considering themselves as co-owners of the project, which was one of the reasons why during project implementation they did not play their role as local service providers. The lesson learnt is that one has to be clear about the role of local institutions in the design phase and implementation phase.
26. The project carried out activities, which could not necessarily be considered as core activities, like the support to CUA and associated credit unions in the project region and the provision of technical assistance to increase overall performance of RFI. Although CUA and the credit unions had a genuine demand for the core services of the project, accessing them to these services depended on establishing a merger among them, which is a project in itself. Project should stick to their core activities as long as these lead to the expected results and objectives.
27. Budget and accounting systems of respectively donors and CARE Ghana were not appropriate for efficient project management, because they not permitted to track activity based expenditure and income. If this is the case project should set up separate budget and accounting systems.

Effectiveness

28. The proposed changes in the RFI included the introduction of new financial products, a change from a manual to a computerised MIS, the generation of a new type of information and effective use of this information. Micro-SMART experience has confirmed that a relatively limited period of technical assistance provision is insufficient to produce the permanent changes.
29. The project required each participating RFI to hire in new staff, which should dedicate itself for a 100% to the delivery of the new financial products. This approach has resulted in outreach conform expectations.

Sustainability

30. The government and donor community are interested to promote sustainable development in the rural financial sector. At the same time they undertake activities, which undermine these efforts. Donors for example have driven up the fees of local service providers, which make it more difficult for Micro-SMART and in future RFI to pay for their services. Government reduces the legal reserve requirements so that RFI will be able to on lend their funds. On the other hand, government obliges RFI to run subsidized credit programs in the context of its policy alleviation programs.

5.3 Recommendations

Relevance

31. The Micro-SMART project attended a real problem, the inadequate access to financial services of poor rural households, correctly chose the strengthening of the rural banking system and advocacy to reduce legal reserve requirements, as ways to contribute to the solution of this problem. It would make sense for donor community and government to support continuing efforts in this area.
32. It is good practice to involve local service providers to strengthen RFI and MFI, but in that case an assessment of the supply and demand side of the market for these technical services is required. This market assessment should indicate the effective demand for services (for which services RFI are willing to pay; effective demand not necessarily is equivalent to needs) the availability of competent local providers and the cost of services from local providers. In most cases a cost-sharing fund is required to develop the effective demand. This type of market development oriented approach increases the commitment of the client and the sustainability of the intervention.
33. The mission recommends preparing and designing projects in future with the assistance of a logical framework. This would make the project design more clear, complete and logical.

Efficiency

34. Projects should start systematizing and documenting their products and tools as soon as possible and transfer knowledge and skills to interested institutions (stakeholders and users). This not only makes it possible to make the necessary adjustments during the project implementation, but it also increases probability that other institutions will continue to use them after project implementation.
35. It is important to clarify the future role of stakeholders (donors, the potential contract holder, local institutions envisaged to have a role in the project) consulted during the design phase of the project so that they will not have false expectations (like Freedom from Hunger and ARCB). To avoid conflict of interest, project implementers and local service providers, should not have a vote in the Board or Steering Committee. Implementing partners or local service providers should be selected on a competitive basis.
36. Projects should stick to their core activities, except in the case where it is clear that these activities will not contribute to the expected results. In case of doubt, projects should consult with the donors.
37. Projects should set up separate accounting and monitoring systems to efficiently manage and account for their resources, when the systems of donors or contract holder are not appropriate.

Effectiveness

38. The Micro-SMART program achieved the expected quantitative output, but was less successful in achieving expected qualitative output. Projects should try to seek for a balance between the two and create awareness for that with the donors.
39. Organizational and behavioural changes require a relatively long - hands on - presence of the service provider. Projects, which seek these changes, should prioritise this presence, even at the cost of all other activities.

Sustainability

40. Micro-SMART initiated a process in the rural finance sector, which has not been completed. Although the Micro-SMART project expires, CARE Ghana continues its presence in the rural finance sector with other ongoing projects with similar methodologies like the MDA, Micro Insurance and ESCAPE project. The evaluation mission recommends transferring Micro-SMART equipment and vehicles to these projects, subject to the varying rules and regulations of the different donors of the project.
41. The end of term evaluation recommends to complete the capacity building and product development process initiated by MICRO-SMART by applying some of the best practices referred to in the previous paragraph (guiding principles). This approach would increase the commitment of the beneficiary organizations and consist of the following steps:
- ⇒ CARE Ghana prepares offers for technical assistance to RFI to complete the capacity building process MICRO-SMART initiated.
 - ⇒ The offers include a list of possible providers of technical assistance which maybe local or international ones, subject to the availability of local providers. In case there are no local providers with sufficient capacity, the services will be provided by an international consultant twinning with a local one.
 - ⇒ These offers are auctioned among the RFI, which participated in the Micro-SMART project. Care should be taken to prevent price fixing deals among RFI.
 - ⇒ The two or three RFI, which offer the best deal (cost sharing) will be selected and will contract the technical service provider.
 - ⇒ CARE Ghana monitors the provision of technical assistance
 - ⇒ The provider of technical assistance systematizes and documents the experience and the attended RFI could in future function as center of excellence.

An alternative option for the use of the Innovation Loan Fund would be to make an equity contribution to the three RFI, which will perform best in terms of outreach, quality and profitability of the Micro-SMART portfolio at the end of 2003. Also in this approach the beneficiary organization would be motivated to improve its performance by hiring in technical expertise or additional staff or equipment and also in this case a consultant should be hired in to systematize and document the experience. The

limitation of this approach is that in this option, CARE Ghana will not be able to guide the RFI, since there are no offers of technical assistance.

Finally, the funds could be used, under supervision of CARE Ghana but in collaboration with the APEX Bank and/or GHAMFIN to continue to expose Board members of RFI to best practices (workshops or trips to visit successful experiences). The limitation of this option is that it is not directly linked to the previous achievements of Micro-SMART.

ANNEX 1:
Final Evaluation of Micro-SMART Project

- TERMS OF REFERENCE -

1. Introduction

Since January 2000, CARE International in Ghana is implementing Micro-SMART, a three-year technical assistance project with funding from the European Commission (EC), DANIDA and CARE Denmark. The project ends in January 2003.

CARE intends hiring the services of an international consultant to conduct a final evaluation of the project. The evaluation shall be carried out in December 2002.

2. Objective of the Evaluation

The final evaluation responds to a contractual agreement between CARE Denmark, CARE Ghana and the Micro-SMART project donors. Its primary purpose is to assess the achievement of the project against its stated goal and objectives. It will also provide hindsight on the project management, strategies, methodologies and lessons learned, and therefore contribute to the design of a new project phase (which is not dependent on CARE Denmark or EC funding).

The consultant is expected to prepare a draft report on the evaluation's findings, which will be reviewed by CARE Denmark and CARE Ghana before being finalized by the consultant.

3. Background

Micro-SMART is a 3-year project with a total budget of 795,194 Euros. The project aims at increasing the level and volume of financial services available to 15,000 micro- and small enterprise operators in the Western and Brong Ahafo regions of Ghana. This objective is to be achieved by strengthening the capacity of rural financial institutions (RFIs) and their apex organizations, to adapt internationally recognized best practices to the Ghanaian environment and to develop and implement new methodologies to increase rural financial service delivery. The project has been implemented in four phases:

- Phase I - Project Start-up and Management
- Phase II - Institutional Capacity Building
- Phase III - Product Development
- Phase IV - Replication and Dissemination

The major activities undertaken by Micro-SMART were as follows:

- Select an initial group of rural banks to participate in the project.
- Enhance the capacity of local service providers to provide training and technical support to the participating rural banks (PRBs).
- Deliver capacity building programs in the areas of governance, MIS and loan management to the PRBs.
- Assist PRBs to develop new products that are demand-driven and addressing the needs of micro-enterprise operators.

- Assist PRBs in accessing refinancing loans from commercial banks to expand their micro credit activities.
- Assist in the documentation and dissemination of improved/new products for further replication by other rural banks.
- Push for reforms in Bank of Ghana regulations regarding rural banks' activities.

Micro-SMART has worked with the following partners:

- ◆ 22 rural banks in Western and Brong Ahafo regions, that is six in the initial Product Development phase and an additional sixteen in the Replication and Dissemination phase
- ◆ 9 credit unions located in Techiman District of Brong Ahafo region
- ◆ 4 apex institutions located in Accra: Association of Rural & Community Banks (ARCB), ARB Apex Bank, Ghana Co-operative Credit Union Association (CUA) and Ghana Micro Finance Institutions Network (GHAMFIN)
- ◆ 5 local consulting firms, a local NGO (Freedom from Hunger) and an international NGO (PlaNet Finance).

4. Issues to be studied

The final evaluation shall address the main following issues:

- .1 Determine whether project activities have been implemented in line with Micro-SMART project design.
- .2 Determine to what extent project resources -- human, physical and financial -- have been managed and used in the most effective manner.
- .3 Assess the project's capacity to build productive partnerships with selected organizations.
- .4 Assess the relevance and quality of Micro-SMART's technical and financial assistance towards project partners.
- .5 Assess satisfaction of Micro-SMART's partners and beneficiaries with project activities.
- .6 Verify whether information has been collected for proper monitoring and documentation of project results.
- .7 Assess the appropriateness of the project design and funding in meeting the project goals.
- .8 Verify whether CARE's administrative and accounting systems have properly supported project implementation.
- .9 Identify factors -- both internal and external -- that have enhanced or constrained project implementation.
- .10 Determine to what extent project goals and specific objectives have been attained.
- .11 Analyze lessons learned throughout the project.
- .12 Determine what should happen to the project assets, including those held by CARE Ghana, project partners and beneficiaries.
- .13 Give recommendations with the view of improving CARE's development work in the area of micro-finance and micro-enterprise support in the future.

Throughout the evaluation, the consultant shall pay particular attention to the sustainability of project interventions.

5. Methodology

The consultant is expected to conduct his/her work by following the European Commission's Evaluation Guidelines (SCR/F/5 Evaluation Unit, Brussels, December 2000, Part II). The consultant is therefore strongly advised to read through the EC's Guidelines before starting his/her mission. In accordance with the Guidelines, the consultant shall assess the project through the following criteria: relevance, efficiency, effectiveness, impact and sustainability.

The consultant shall work in close collaboration with Micro-SMART Program Manager and CARE-Ghana's DM&E Advisor. Specifically, the consultant will carry out the following activities and tasks:

- i. Study Micro-SMART project documents including: initial project design, contracts with donors, implementation plan, bi-annual reports, agreements with partners, training and capacity building materials, mid-term evaluation report, and others.
- ii. Prepare questionnaires for interviewing all project stakeholders.
- iii. Conduct interviews with CARE's relevant staff including: Program Coordinator, Sector Coordinator, Program Manager, Program Assistant and Admin./Finance Officer.
- iv. Conduct interviews with project partners including participating RFIs, apex organizations and consultants; as well as a number of group interviews with project beneficiaries (new micro-finance clients of participating rural banks).
- v. Compile data collected and prepare draft report.
- vi. Consult with CARE's staff to gather observations on draft report and prepare final report.

6. Reporting

The consultant shall prepare a draft report and a final report. Both reports shall be written in English under Word/Excel formats, and sent to CARE Denmark and CARE Ghana in electronic form (diskette or e-mail) as well as five hard copies for each.

The final evaluation report shall address all issues stated in Section 4 above and include an Executive Summary of no more than 5 pages with fully cross-referenced findings and recommendations. In addition, a short, separate summary of one page shall be prepared to facilitate inclusion of the report in the European Commission's evaluation databases.

The dates for submission are as follows:

Draft report --	31 December 2002
Final report --	15 January 2003

7. Expertise required

The international consultant must have an advanced degree in management, economics or a related field, as well as relevant and considerable experience in micro-finance/micro-enterprise project monitoring and evaluation, preferably in Africa.

8. Work Plan and Time Schedule

The final evaluation shall be carried out in December 2002, with the final report being finalized in January 2003. CARE estimates the required level of effort at 22 person-days as described below.

<i>Activity</i>	<i>Date</i>	<i>Effort (p-days)</i>
i. Study project documents	Dec. 3	1
ii. Prepare questionnaires for interviews	Dec. 4	1
iii. Organize/plan interviews	Dec. 5	1
iii. Conduct interviews with CARE's staff	Dec. 6	1
iv. Conduct interviews with partners and beneficiaries	Dec. 8-17	9
v. Compile data and prepare draft report	Dec. 19-31	5
vi. Prepare final report	January 1-15	2
International travel	Dec. 2 & 18	2
Total	-	22

ANNEX 2. NAME OF THE CONSULTANT AND HIS COMPANY

The company

CARE Golf of Guinea contracted FACET BV for the execution of the final evaluation of the Micro-SMART project.

FACET BV (Financial Assistance, Consultancy, Entrepreneurship and Training) is a consultancy company specialised in Private Sector development, with a special focus on small enterprises.

We are active in three broad areas:

- 1) Financial Services
- 2) Business Development Services
- 3) Sustainable Enterprises

Our direct clients are Financial Institutions (FIs), business development agencies, small enterprise support organisations and individual enterprises.

Over the past 10 years we successfully carried out assignments for a wide range of clients, including the Dutch Ministry of Foreign Affairs, bilateral donors (GTZ, Swiss Development Co-operation, SIDA), Dutch and foreign NGO's and co-financing organisations, the European Commission, financial institutions (World Bank, Asian Development Bank, Inter American Development Bank, Triodos Bank, FMO), UN agencies (ILO, UNCDF, UNDP, IFAD, UNIDO, UNIFEM, OPS) and clients involved in sustainable entrepreneurship (Max Havelaar Foundation, Fair Trade Assistance, Solar Development Foundation).

We are based in Zeist, the Netherlands and carry out both long and short-term assignments in Asia, Central- and Latin America, Africa and Central- and Eastern Europe. Through FACET's affiliated organisations SEON and IntEnt we also support enterprise development in the Netherlands.

FACET BV has sister companies in South Africa, Indonesia and Guatemala.

The consultant

Mr. L.P.M. Soldaat holds the position of senior micro finance consultant in FACET BV.

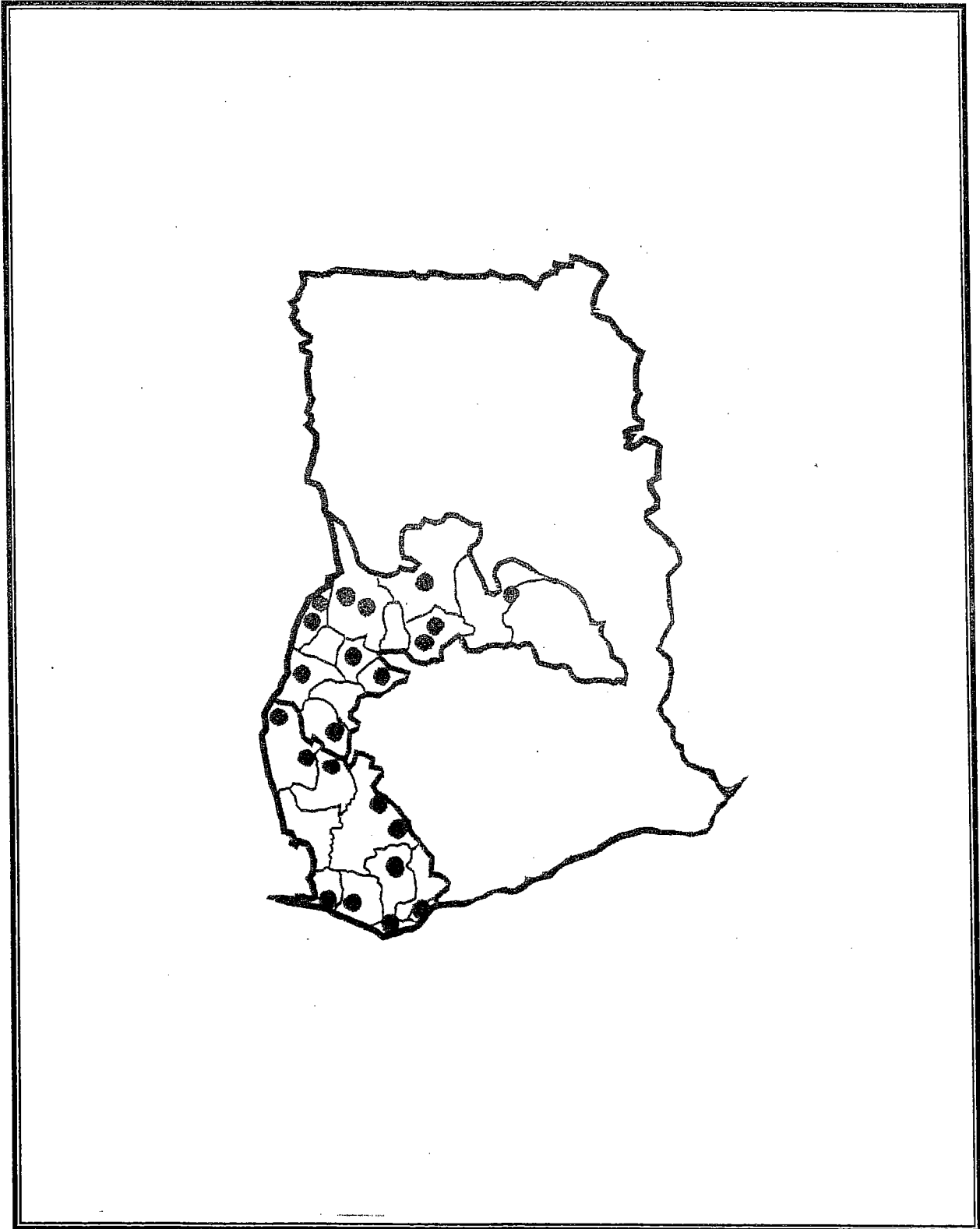
Mr. Soldaat has been involved for more than 15 years in small enterprise and cooperative development. In the last 10 years he has worked intensively in the areas of micro finance and cooperative finance:

Mr. Soldaat has worked as a Co-director and Team leader, Management Advisor and technical advisor in micro finance projects and institutions In Latin America, Africa and Eastern Europe. As a consultant he has designed and evaluated SME development programmes. Mr. Soldaat is specialised in:

- ⇒ Design and evaluation of micro finance programmes
- ⇒ Management of Micro Finance Institutions and projects
- ⇒ MFI assessment
- ⇒ Costing and pricing of financial products
- ⇒ Product development
- ⇒ SME financing
- ⇒ Co-operative Banking
- ⇒ Design and implementation of training programmes

ANNEX 3.

Locations of participating rural banks in the Western and Brong Ahafo regions



ANNEX 4. LIST OF PERSONS / ORGANISATIONS CONSULTED

Date	Time	Location
Monday, December 2	20:30	Arrival in Accra - Transfer to Hotel
Tuesday, December 3	09:00	Reception at CARE Office in Osu, Accra
	09:30	Review of project implementation and activities with Joe Aidoo (Programme Manager)
	14:00	Review of project documentation
Wednesday, December 4	09:00	Meeting with Peter McAllister (ACD)
	10:30	Meeting with Francis Nyanin (Adm.-Acct.)
	13:00	Meeting with Ama Asante (M&E Officer)
	14:00	Meeting with Peace Sagoe (Project Asst.)
	15:00	Meeting with Gifty Blekpe (Project Asst.)
	16:00	Meeting with Pierre Markowski (SEAD Coordinator)
Thursday, December 5	All day	Review of project documents and preparation of interview guides
Friday, December 6	All day	Review of project documents and preparation of interview guides
Sunday, December 8	11:00	Leave for Takoradi with Joe Aidoo Night in Takoradi
Monday, December 9	09:00 - 12:00	Ahantaman RB
	14:00 - 16:00	Field Visit to Groups Night in Takoradi
Tuesday, December 10	09:00 - 12:00	Nzema Manle RB
	14:00 - 17:00	Jomoro RB Night in Takoradi
Wednesday, December 11	07:00	Leave for Bogoso
	09:00 - 11:00	Bogoso RB
	14:00 - 17:00	Amenfiman RB Night in Kumasi
Thursday, December 12	09:00 - 11:00	Kaaseman RB
	13:00 - 16:00	Wamfie RB
	17:00 - 18:00	Ebenezer Methodist CU Night in Techiman
Friday, December 13	09:00 - 12:00	Kintampo RB
	13:00 - 15:00	Field Visit to Groups Night in Kumasi
Saturday, December 14	09:00	Leave for Accra
Monday, December 16	09:00	Briefing Meeting with Joe Aidoo and Pierre Markowski
	13:00	Meeting with CUA - Emmanuel Darco, General Manager
	15:00	Meeting with ARCB - ARCB cancelled the visit
Tuesday, December 17	11:00	Meeting with RB Apex Bank (Mr. E. Kwapong (Managing Director)
	14:00	Meeting with Pentax Consultants - Joe Appeah
	16:00	Meeting with Merchant Bank - Kwasi Yirenkyi & George Okine
Wednesday, December 18	08:00	Meeting with Ananse Systems - Mr. Boateng
	10:00	Meeting with GHAMFIN - J.B.
	11:00	Meeting with FFH - Francis Beinpuo
	14:00	Meeting with Joe Aidoo
	16:00	Meeting with Pierre Markowski
	22:20	Leave Accra

ANNEX 5. LITERATURE AND DOCUMENTATION CONSULTED

- 1) Project document
- 2) Semi annual reports June 2000 to June 2002
- 3) Report of the Mid term Review, November 2001
- 4) Criteria for the selection of participating rural banks
- 5) Agreements with the 6 initially selected rural banks
- 6) Agreements with CUA, GHAMFIN, Freedom from Hunger
- 7) MFI GIRAFE ratings carried out under supervision of Planet Finance
- 8) Risk Management training manual
- 9) Survey of existing financial products in RFI participating in Micro-SMART
- 10) Tools designed for the execution of the client survey under supervision of Planet Finance
- 11) Reports of the client survey
- 12) Loan Officer training manual
- 13) Programmes of the workshops with initially selected and additionally attended rural banks on risk management, loan officer training and experience sharing workshops
- 14) Evaluation reports of these workshops
- 15) Documents, products, of the agreements with CUA and GHAMFIN
- 16) Descriptions of other CARE programmes (MDA, MicroInsurance, Escape)
- 17) Summaries of other projects and institutions involved in the rural finance sector (GHAMFIN, ARCD, Apex Bank)

ANNEX 6. ORIGINAL IMPLEMENTATION PLAN

	January 2000	February 2000	March 2000	April 2000	May-00	June 2000	July 2000	August 2000	September 2000	October 2000	November 2000	December 2000	January 2001	February 2001	March 2001	April 2001	May-01	June 2001	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May-02	June 2002	July 2002	August 2002	September 2002	October 2002	November 2002	December 2002		
Project start up																																						
Purchase vehicles and equipment																																						
Set up office																																						
Hire Project Manager																																						
Hire Project staff																																						
Conduct project base line survey																																						
Establish sub contract agreements with Local Partners																																						
Negotiate agreements with Bank of Ghana																																						
Select Rural Financial Institutions																																						
Establish Agreement with RFIs																																						
Institutional Capacity Building																																						
Assistance delivery to local partners																																						
MIS consultancy																																						
MIS training																																						
Operational Training																																						
Installation and Functional Operation of MIS																																						
Capitalization RFI (computerization)																																						
Training for Micro Finance Network																																						
RFI capacity building assistance																																						
New Product Development																																						
Financial Product Development Course																																						
Financial Product Development Consultancy																																						
New Product Development Workshop (year 2)																																						
Implementation of Innovation Fund																																						
Pilot testing																																						
Replication and Dissemination																																						
Reaching scale and expansion with selected RFI																																						
Strengthening Dissemination capacity of the MFN																																						

ANNEX 7.

Micro-SMART
Main Performance Indicators (As at 31 October 2002)
Development Phase -- 6 Banks (Started 1-Oct-01)

Indicators	Ahanlaman	Bogoso	Amentilman	Nsoatreman	Nkoranman	Kintampo	TOTAL
Number of groups	106	86	138	60	59	102	551
Number of clients	2,994	1,802	930	518	1,191	2,090	9,525
Women clients	2,913	1,323	748	488	1,187	2,090	8,749
Savings (million ₺)	148	286	49	52	48	290	873
Loans (million ₺)	528	1,232	223	108	133	933	3,157
Number of loans	497	1,346	825	183	692	2,233	5,476
Recovery rate (%)	75	90	80	95	85	94	n/a
Project officers	4	5	2	2	5	5	23
Project coordinators	1	1	1	1	1	1	4
No. of groups per P.O.	27	17	69	30	12	20	24
No. of clients per P.O.	749	360	465	259	238	418	414
ILF (million ₺)	100	150	50	50	150	100	600

Replication Phase -- 16 Banks (Started 1-Jul-02)

Indicators	Jomoro	Nzema M.	Asawinso	Bia Torya	U. Amenfi	Kaaseaman	Ahafo CB	Derma	Suma	Nafana	Baduman	Wamfie	Yapra	Fiagya	Nkoranza K.	Lower Pra	TOTAL
Number of groups	30	16	16	14	19	32	20	16	11	8	18	16	10	32	32	17	308
Number of clients	466	509	272	240	644	614	393	343	182	124	192	314	143	458	607	137	5,638
Women clients	237	509	272	163	592	498	284	336	132	124	116	228	143	423	514	137	4,708
Savings (million ₺)	37	34	79	60	25	100	36	51	12	28	39	37	10	66	69	36	719
Loans (million ₺)	0	12	0	123	116	247	0	0	0	50	0	16	0	69	11	346	990
Number of loans	0	35	0	106	316	470	0	0	0	58	0	25	0	133	9	373	1,525
Recovery rate (%)	n/a	n/a	n/a	n/a	n/a	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Project officers	2	2	2	2	2	2	2	2	2	1	2	2	2	2	3	2	32
Project coordinators	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
No. of groups per P.O.	15	8	8	7	10	16	10	8	6	8	9	8	5	16	11	9	10
No. of clients per P.O.	233	255	136	120	322	307	197	172	91	124	98	137	72	229	202	69	176
ILF (million ₺)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	100	100

Totals

Indicators	Development Phase	Replication Phase	TOTAL
Number of groups	551	308	859
Number of clients	9,525	5,638	15,163
Women clients	8,749	4,708	13,457
Women clients (%)	91.9%	83.5%	88.7%
Savings (million ₺)	873	719	1,592
Loans (million ₺)	3,157	990	4,147
Number of loans	5,476	1,525	7,001
Project officers	23	32	55
Project coordinators	4	0	4
No. of groups per P.O.	24	10	34
No. of clients per P.O.	414	176	590
ILF (million ₺)	600	100	700

ANNEX 8.

Micro-SMART Project
EXPENDITURE REPORT – As of 30 June 2002
(Euros)

Headings	2000 (Actual)				2001 (Actual)				Jan - June 2002 (Actual)				Project Life Total			
	CARE		Total	Local Contbn	CARE		Total	Local Contbn	CARE		Total	Local Contbn	CARE		Total	
	EC	DANIDA			Danmark	DANIDA			Danmark	DANIDA			Danmark	DANIDA		Danmark
I. DIRECT COSTS	30,368		30,368												30,368	
15.1 Design costs																
15.3 Costs of purchasing and transporting equipment, materials and supplies, including	16,261		16,261	21,855	3,384	21,855	3,384	21,855	3,384	21,855	3,384	21,855	3,384	21,855	3,384	42,139
a. Office equipment and supplies	40,862		40,862	2,875	25,495	2,875	25,495	2,875	25,495	2,875	25,495	2,875	25,495	2,875	25,495	37,837
b. Materials and Equipment	24,303	24,303	40,862	0	0	0	0	0	0	0	0	0	0	0	0	40,862
c. Vehicles	62,035		62,035	28,176	13,342	51,246	13,342	51,246	13,342	51,246	13,342	51,246	13,342	51,246	62,747	135,613
d. Training	34,624	34,624	34,624	70,381	81,769	103,292	55,068	55,068	55,068	55,068	55,068	55,068	55,068	55,068	140,413	210,660
15.5 Staff costs	6,138	55,897	62,035	47,511	55,781	103,292	0	0	0	0	0	0	0	0	0	218,182
15.6 Revolving Fund																
15.7 Operating costs	20,216	3,667	23,883	35,667	11,025	46,692	5,957	5,957	13,294	19,251	19,251	30,867	30,867	30,867	61,416	92,283
a. Operating costs	7,857	7,857	15,714	3,719	3,949	7,668	3,949	3,949	3,949	3,949	3,949	23,621	23,621	23,621	23,621	23,621
b. Vehicle operations	11,359	0	11,359	3,948	7,076	10,324	10,324	10,324	17,243	45,474	45,474	17,243	17,243	17,243	17,243	17,243
Total direct costs	113,845	67,421	181,266	156,954	75,581	311,448	103,247	103,247	17,243	45,474	21,869	181,957	181,957	181,957	415,782	831,565
II. INDIRECT COSTS																
16.2 Evaluation	9,000		9,000	2,644	2,751	5,395	5,395	5,395	0	0	0	8,709	8,709	8,709	8,709	17,773
16.3 Admin. expenses of CARE				6,085	6,085	12,170	12,170	12,170	0	0	0	24,947	24,947	24,947	24,947	24,947
Denmark at 6% of direct costs of EU funds	9,000		9,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Total indirect costs	122,845	67,421	190,266	8,729	8,836	17,565	17,565	17,565	0	0	0	33,656	33,656	33,656	33,656	33,656
GRAND TOTAL	236,690	134,842	371,532	165,683	84,417	329,013	120,812	120,812	17,243	45,474	21,869	213,913	213,913	213,913	449,438	874,285
																100%

Exchange rate of Euro 1 = \$0.953

Annex 9. The Standard DAC Format for Evaluation Report Summaries

Evaluation title

Final evaluation of the Micro-Smart Project

Abstract

Micro-SMART was a three-year project funded by the European Union, DANIDA and CARE Denmark with a total budget of 795,194 Euros. CARE Ghana executed the project in the period January 2000 – December 2002. The project aimed at increasing the level and volume of financial services available to 15,000 micro- and small enterprise operators in the Western and Brong Ahafo regions by providing assistance to rural finance institutions (RFI) in the areas of capacity building and financial product development.

Subject of the evaluation

To assess the achievement of the project against its stated goal and objectives. It will also provide hindsight on the project management, strategies, methodologies and lessons learned, and therefore contribute to the design of a new project phase (which is not dependent on CARE Denmark or EC funding).

The consultant is expected to conduct his/her work by following the European Commission's Evaluation Guidelines (SCR/F/5 Evaluation Unit, Brussels, December 2000, Part II). In accordance with the Guidelines, the consultant shall assess the project through the following criteria: relevance, efficiency, effectiveness, impact and sustainability.

Main findings

Micro-SMART reached out to more than 15,000 clients, 87% of them women. Moreover, in most cases these clients had never before access to financial services and they were poorer than the regular clients of the rural banks. On the other hand, high interest rates for the products and delay in disbursements continued to exist. Finally, the relative importance of the loan portfolios of the financial institutions (loan portfolio assets) did not increase.

Its advocacy activities in collaboration with GHAMFIN, ARCB, Apex Bank and the World Bank resulted in a reduction of the legal reserve requirements for RFI, which permitted them to use more of their funds for on-lending to the poor.

Micro-Smart was less successful in areas of capacity building and financial product development areas. The Loan Management System provided by Micro-SMART was not used by RFI or was not updated. Organizations had no clear idea of the repayment rates, and sometimes included in its calculation compulsory savings made by the groups. Various groups had serious repayment problems within the group (individuals paying late or not) or with the bank. The organizational structures had not been adjusted to enable rapid loan approval and disbursement in the branches.

One of the obstacles was that local service providers could not be hired in to accompany selected RFI during monthly periods to enable permanent changes, as was foreseen in the project design. Local intermediaries were too expensive and / or did not have the capacity to provide services. Another obstacle for change was formed by the institutional framework in which the project had to be implemented. We refer here to both informal institutions - culturally embedded norms, customs and habits - and formal institutions - the legal reserve requirements and the existence of the option to safely invest in treasury bills.