Accountability for Results in Financial Sector Development

A Manual on Managing Cooperation in Financial Sector Development

Strategic and Operational Project Cycle Management

Swiss Agency for Development
and Cooperation SDC

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Focal Point Employment and Income

Overview Modules and Annexes

This Manual for Strategic and Operational Project Cycle Management (PCM) aims at improving Accountability for Results in SDC Financial Sector Development (FSD) cooperation projects. It was initiated following a critical review of SDC evaluations (2005) undertaken between 1995 and 2005 and a CGAP (Consultative Group to Assist the Poor) Peer Review. Both reviews highlighted significant scope for the improvement of PCM processes, for increased transparency on results, and for enhanced effectiveness of SDC's support to expanding the sustainable access of poor households and small enterprises to financial services (savings, loans, insurance, payment services, etc.) in SDC partner countries.

Based on a mandate of SDC's senior management, Dr. Ruth Egger (consultant), Markus Engler (KEK-CDC Consultants), Hans Ramm and Hansruedi Pfeiffer (Focal Point and Network Employment and Income, SDC) developed this manual. The overall coordination and responsibility resided with Hansruedi Pfeiffer. The module Project Agreements with its contract templates was reviewed by SDC's Section Contracts and Mandates. Valuable guidance and feedback was provided by SDC's Quality Assurance Section and colleagues and partners engaged in implementing Financial Sector Development initiatives in Asia, Africa, Latin America, Eastern Europe, and Central Asia. This final version also benefited from comments received from CGAP, the Consultative Group to Assist the Poor.

The manual provides practice-oriented guidance to development professionals overseeing Financial Sector Development (FSD) projects. It is complementary to SDC's Financial Sector Development Policy (Update 2007) and focuses on planning, monitoring, evaluating and steering FSD initiatives. Its main audience is SDC programme management staff and partner representatives with whom projects are planned, monitored and evaluated.

This document consolidates much of the knowledge and experience SDC, its partners, and other actors in FSD have gained over the last years. However, the field of FSD keeps changing. The manual will therefore require regular updates. Thanks to its modular format it is open to the future incorporation of significant additions.

Perhaps most important of all, the manual can only become effective if it is embedded in SDC's management processes. Better PCM processes are critically dependent on the feedback and dialogue they generate, as well as on the results reported, over time, by partners, SDC Cooperation Offices and Headquarters, and, as the case may be, by financial sector specialists. In addition, the senior management must demand minimal standards in PCM and accountability for results. Methods, tools, and indicators do exist, probably nowhere more advanced and standardized than in Financial Sector Development.

Our aim is to continue to ensure the support and coordination that is required to make this manual effective. Its orientations make an excellent fit with SDC's re-confirmed concern for results and effectiveness as specified in the March 2008 Message of the Swiss Federal Council to the Parliament on the continuation of SDC's development cooperation activities.

The authors hope that this manual will contribute to more efficient and effective financial sector development projects, and to better reporting on results achieved. Feedbacks on experiences with the manual's use and propositions for improvements are most welcome.

Hansruedi Pfeiffer, Ruth Egger, Hans Ramm and Markus Engler

CGAP	Consultative Group to Assist the Poor
FI	Financial Institution
FRAME	Framework for Reporting, Analysis, Monitoring, and Evaluation
FSD	Financial Sector Development
HRD	Human Resource Development
MIS	Management Information System
NGO	Non Governmental Organisation
PAR	Portfolio-at-risk
PCM	Project Cycle Management
PPI	Progress out of Poverty Index
SDC	Swiss Agency for Development and Cooperation
SEVAL	Schweizerische Evaluationsgesellschaft (Swiss Evaluation Society)
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical Assistance
ToR	Terms of Reference
WOCCU	World Council of Credit Unions

1 Rationale / Background

SDC is publishing this manual to provide **a practice-oriented guide for development practitioners in financial sector development**, which integrates the general methodology of **Project Cycle Management** (PCM) and the technical aspects of **Financial Sector Development** (FSD). By linking the essential elements of PCM with the requirements of FSD, it aims at a comprehensive approach to improve the quality of the design, monitoring and evaluation of FSD-projects. This should distinguish this manual from similar manuals which exist, but which either explain the methodology of PCM or the technicalities of FSD.

The idea for such a manual was triggered by a review of evaluations of SDC's FSD programmes and projects. This Meta-evaluation was conducted in 2005 (Summary see Annex I-1) to further analyse the findings and conclusions of a CGAP Donor Peer Review on aid effectiveness in Microfinance in 2002.

> The CGAP Peer Review addressed aid effectiveness not by concentrating on constraints at the country level (governance, macroeconomic instability, etc.), but by focusing on what donor agencies can most directly influence, i.e. their own procedures, practices, processes and systems. The review concluded that the “*SDC Policy for Financial Sector Development (FSD) reflects good practices*“, but identified shortcomings with regard to the 'accountability for results'. "*Limited systematic emphasis on results and impact and uneven monitoring prevents SDC from appreciating the impact of its investments, both in terms of effectiveness and in comparison with other agencies*“. The above-mentioned meta-evaluation of SDC confirmed the underlying reasons stated in the review, i.e. weaknesses in the planning, monitoring and evaluation processes. This also prevents a systematic feed-back of ‘lessons learned’ from the operational level to the conceptual, strategic level, which is necessary to continuously improve SDC's operations in FSD.

2 Purpose

This PCM manual provides **minimal quality standards and guidance** for designing, monitoring and evaluating FSD-projects in line with SDC’s FSD policy (2007). It is a binding orientation and working aid to be considered in FSD operations supported by SDC. The manual highlights specific FSD requirements for the management of PCM processes in FSD and explains general methodological aspects of PCM to the extent necessary. It is customized to the needs of SDC staff and shall be an important tool to enhance the quality in delivering SDC's support to FSD, in promoting regular reporting and feedback processes with partners and within SDC, and in measuring results. The manual does not outline detailed procedural steps and responsibilities since these vary across SDC as a whole and keep changing.

> In this manual, the term *FSD-**project*** is used for all types of interventions and activities of SDC in Financial Sector Development, i.e. projects, programmes, sector-support, credit-components in non-financial programmes, etc.

The manual offers comprehensive information for the reader to select the information that is relevant for a particular task or situation. However, it is not meant to be followed meticulously like a 'cookbook'.

The SDC Meta-evaluation (2005) shall provide one of the benchmarks against which SDC, in 2011, intends to review whether PCM-practices have improved, with the availability and use of the manual being possible reasons for such a positive change.

3 Audience

The manual addresses programme staff of SDC at Headquarters and in Cooperation Offices as well as the partners with whom they plan, monitor and evaluate FSD-projects. Improved PCM practices require that information flowing from partners to SDC and from Cooperation Offices to Headquarters is complemented with qualified feedback.

The manual is designed in particular for staff who are not necessarily specialized in FSD, but it can also be useful for specialists due to its particular feature of linking general PCM-methods with FSD-aspects.

4 Objectives

The manual has a two-fold objective, i.e.:

- **Improved quality of cooperation**, which comprises:
  - Clarity of purpose of intervention, i.e. a mutual mission of the involved partners
  - Improved competence and methodological know-how in PCM for staff responsible for FSD-interventions
  - Improved quality of strategic and operational management of cooperation in FSD
  - Enhanced dialogue within SDC and between SDC and its partners
  - Enhanced institutional learning in SDC's partnerships and within SDC.
- **Enhanced accountability for results**, i.e. improved evidence of results achieved through FSD-interventions.

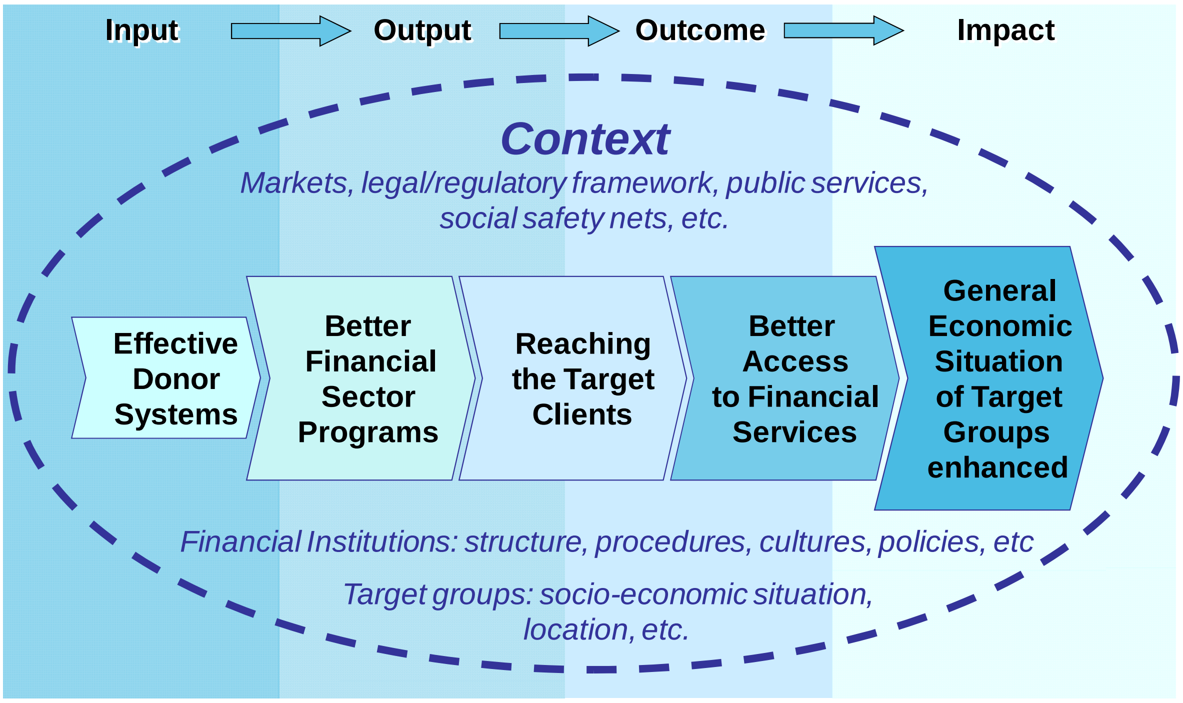
  The approach to enhanced *'Accountability for Results'* focuses on improving:

  a) **Quality of the donor system**, i.e. inputs provided by the donor and

  b) **Capacity to provide evidence of the results achieved** on the different levels of output – outcome – impact.

The 'input – impact' continuum or '**quality of aid continuum**' (CGAP) on the following page shows that the manual shall be a means to improve both the quality of aid at the entry point of the continuum, i.e. *effective donor systems* and the measurement of results along the continuum.

Quality of Aid Continuum



5 Structure and Use of the Manual

The manual is:

designed as a reference guide arranged in modules with supplementary annexes, to facilitate the day-to-day business of managing FSD-interventions.

providing a comprehensive overview of issues for the reader to select those relevant for a particular task, but is not a 'cookbook'.

focusing on the specific aspects of FSD-projects. It does not replace the general PCM guidelines and manuals of SDC, but builds on them.

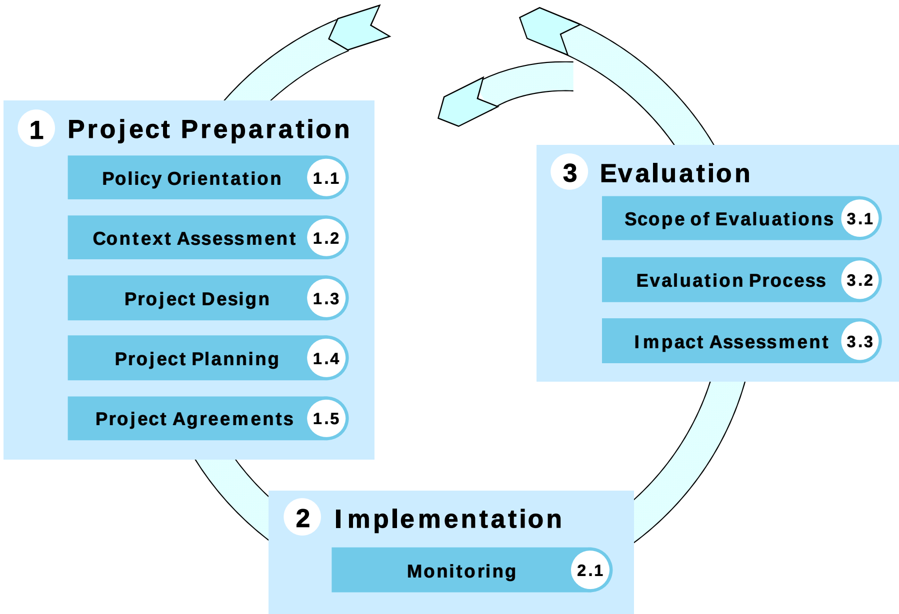
The modules are:

organized along the project cycle distinguishing the three phases *(1) Project Preparation - (2) Monitoring - (3) Evaluation*.

covering basically self-contained topics, but including references to other modules wherever useful for a good understanding.

see figure next page

3 phases of PCM and contents of manual



Modules include:

1 **Key Messages and Good Practices** (main text) concerning

A) General Aspects of Project Cycle Management

B) Specific Aspects of FSD-interventions

2 **Additional Information** (in boxes) such as:

- Short descriptions of useful tools
- Checklists
- Useful links to other sources and further information

3 **Annexes,** with more detailed information such as:

- Detailed checklists or formats
- Description of the most relevant tools
- Comprehensive description of examples

Policy Orientation of SDC in FSD

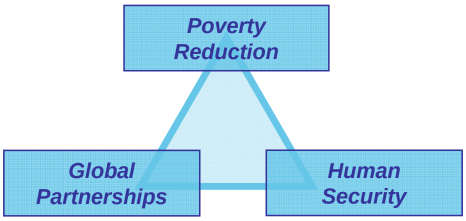
Content of Module

1 Introduction

The three dimensions of SDC's overall strategic orientation are:

- Poverty reduction,
- Human security and
- Global partnerships.

Strategic Orientation of SDC



The concept of Financial Sector Development, on which this manual builds, aims at translating SDC's overall strategic orientation into operational practice. Therefore, these three dimensions are a bottom-line for designing FSD-projects.

More specifically, the **SDC Policy for Financial Sector Development Policy (Update 2007)** is the key reference for designing, implementing and evaluating FSD-projects.

2 Levels of Intervention

Macro – meso – micro – level: SDC structures its activities in Financial Sector Development along the three levels as defined by the **CGAP "Good Practice Guidelines for Funders of Microfinance" (2006)** (see figure next page).

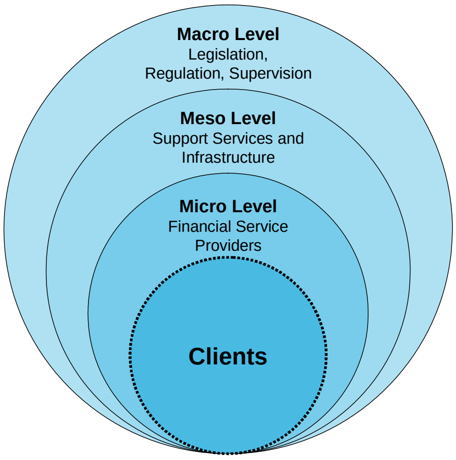
- **SDC activities *in financial sector development* focus on the micro level**, i.e. supporting the development of retail financial institutions serving a growing number of poor households and small enterprises on a sustainable basis, **particularly in rural areas.**

- SDC also facilitates and supports **activities on the meso level** such as professional training programmes and access to other support services (e.g. auditing, rating, technical consultancy). The collaboration and mutual learning among existing Financial Institutions (FI) is a major area of attention for SDC.

- An SDC involvement **on the macro level** is basically possible in countries where SDC is among the main donors supporting the development of an inclusive financial sector. In such cases, SDC cooperates particularly closely with local partners (notably the Government) and other donors (Alignment and Harmonisation).

For a successful project, the **developments on all three levels have to be observed** and **taken into consideration**, because the development of sustainable financial services for the poor, the small enterprises and the marginalized depends on the well-functioning of the financial sector as a whole.

Levels of Intervention according to CGAP: "Good Practice Guidelines for Funders of Microfinance", 2006



Partners at:

Macro level: central banks, ministries of finance, supervisory bodies;

Meso- or market level: service providers (audit, rating, training, credit bureaus, technology, etc.), professional associations and networks;

Micro level: Financial service providers such as financial and non-banking financial institutions, NGOs, savings and credit cooperatives, money lenders, and others;

Client level: poorer strata of population, people living in more remote areas, small enterprises, etc., i.e. in general people and entities that have no access to financial services.

3 Outreach

Access to financial services for all being the overriding goal, SDC aims at increasing the outreach in terms of clients reached, geographical areas covered (breadth) and in terms of depth: low income people, small businesses, marginalized groups.

SDC is looking for partners who **share its vision**, who are ready to **innovate** and who aim at the provision of **cost-covering** financial services that **meet the needs** of the target group: the poor, the small enterprises, the rural community and others.

SDC focuses on the long-term (sustainable) access to **safe savings** products, on reduced **transaction costs**, financial services specifically adapted to **rural** needs and on **insurance** products.

4 Sustainability and Entrepreneurial Approach

The financial sector as an integral part of a country's economy needs to follow socio-economic principles and rules, and entrepreneurial approaches to be sustainable. Therefore, SDC projects have to:

- Build on the present and expected **performance of the partner institution**(s);
- Be **limited in time** and communicate the exit strategy to the partners;
- Base the cooperation on a **mutually-agreed contract and performance indicators**.

5 Subsidiarity

SDC, alone or with other donors, engages in financial sector development only if:

- It has the **necessary know-how and capacity**.
- There is **no risk of crowding out the private sector** or other initiatives, or of disincentives for savings promotion.

Content of Module:

A General Aspects

A 1 Rationale for Context Assessment

The context assessment is a preliminary step for the decision on the desirability of a project and for its design.

- **Context assessments provide answers** to the following typical questions:
  - **Justification of the project idea, activity**
    Does the "idea" fit the needs of the target group, correspond to a genuine demand? Is it adequate in the particular context?
  - **Analysis of success factors and risks**
    Will the prevailing conditions on all levels allow reaching the objectives?
  - **Sustainability**
    Will the project have a lasting, positive effect? What needs to be done to ensure that the effects last beyond the duration of the external support?
  - **Alternatives**
    Are there more convincing alternatives and which ones? What are the trade-offs (cost-benefit)?
- **Context assessments are used at different stages** for different purposes:
  - **Design / Planning**: The **quality of a project design** strongly depends on the context assessment. It basically provides all information relevant for planning the project (see Module 1.3: A1 & B1) and can serve as baseline for monitoring. The planning phase is the *most crucial and significant moment for a context assessment*. If an initial, adequate assessment of the context is not possible, it is recommended to start the project with a well-designed action-research or a pilot phase to complement the context assessment.
  - **Implementation / Monitoring**: **Adaptations of the project activities or of its design** may be required due to changes in the context. Therefore, regular *context monitoring* is needed in terms of:
    - Legal, political, economical and social framework conditions
    - Competitors and the financial sector as a whole
    - Needs and behaviour of the target groups.
  - **Evaluation and Impact**: **Relevance and effectiveness of the project results** need to be measured relative to a given context. At the same time, the evaluation has to consider changes in the context compared to the design stage and the influence of the context on the project implementation and its results.

A 2 *Mandate for Context Assessment*

In the design phase the context assessment is preferably done *by people familiar with the relevant context*, but *not directly responsible for the design* and implementation of the project. Ideally, existing assessments performed by other donors / agencies and country studies are integrated where available.

During implementation, context monitoring has to be conducted *by people responsible for the implementation* of the project. It can be validated by externals and/or supplemented by external assessments during evaluations.

B FSD Aspects

- **Steps recommended for the assessment** of the financial sector:

1 Financial Sector Analysis
2 Target Group Analysis
3 Institutional Analysis
4 Frame Work Conditions at Macro Level
5 Interpretation and Conclusions

> ***Important reference:***
> ⇒**CGAP Good Practice Guidelines for Funders of Microfinance** (Oct. 2006, 2nd ed.)
> www.cgap.org/publications

- **What aspects should be covered in the assessments?**

The following tables provide checklists of the most crucial aspects for each of the steps. A more in-depth analysis is usually not indicated.

> ***Do not forget while planning a Context Assessment***
> - What do we or others already know?
> - Synergies with existing projects of SDC and other donors?
> - Cost-benefit ratio for getting more information?
> - How to make information accessible to others?

B 1 *Financial Sector Analysis*

A sector analysis is a must to identify needs and the potential for additional services. The task can often be limited to verifying and appraising already existing information.

Aspects	*Issues to be assessed*
Providers of financial services	- Type of financial institutions: i.e. banks, non-bank financial institutions, NGOs, savings and credit groups, money lenders, traders and shop keepers. - Quality of manpower, management and governance.
Services offered	- Credits, savings, payment transfers, insurance, etc. - Effectiveness and efficiency of services: outreach, price of services
Clientele / people served	- Urban-rural, men-women, rich-poor, individuals-groups, corporate sector, small businesses, farm enterprises, etc.

Aspects	Issues to be assessed
Market	- What share of the market is covered? What is the market potential? - Major providers, level of competition (e.g. oligopoly, etc.) - Is there a stock exchange or a bond market? - Who provides financial services to low-income households, small enterprises and agriculture, to women and other marginalized groups?
Support organizations	- Do relevant training institutions, networks, credit bureaus, insurance schemes or other local initiatives exist?
Major donors and investors active	- Type and magnitude of support, objectives and level of professionalism.
Sources for refinancing	- Local, regional, international funds, investors, creditors - Access to guarantees and apex organizations.
Role of Central Bank	- Do the Central Bank and/or the Finance Ministry play their role of regulator, supervisor, and of policy maker? - How are the FIs regulated and supervised? Does the regulatory framework contain provisions for savings and credit cooperatives, or non-bank financial institutions?
Gaps and potentials	- Region/area of town or country underserved, group of population without access, magnitude of gap/problem. Are there existing institutions that could close this gap on a cost-covering basis? What would be necessary so that they do it? - Is there a necessity to adapt the legal framework for the good functioning of the sector? Do we have the know-how and links to work towards the necessary changes?

B 2 *Target Group Analysis*

For the later choice of the “right” partner institution and instruments, a minimum understanding of the composition and functioning of the local society is a prerequisite. Done with care it allows to minimize future negative effects and to later on assess the impact.

Involve existing and / or potential clients in the assessment by means of:
Focus group discussions, participatory appraisals, on-the-spot visits, wealth ranking and household surveys. SDC normally plays an accompanying role only in this process. It is the FI which has to be or become aware of the situation and allow SDC to monitor the same.

Aspects	Issues to be assessed
Household and regional economy	- Economic activities, seasonality of cash flow (income), savings potential, debts, assets. - Is there economic potential for the individual, the family, the enterprise, the area?
Social aspects	- Gender relations in the family: Who controls and decides what (budget, business, type of expenditure, etc.)? - Social status of women, men, youth and the poor in society.

Aspects	Issues to be assessed
	- Existence of social structures to build on. - Social links and aspirations of groups and the community.
Access to services and infrastructure:	- Access to financial services: proximity, timeliness, quality and appropriateness. - Access to information, technology and innovations, markets, transportation, energy, schooling (literacy) and health services.
Property rights, law enforcement	- Ownership of land, succession rights, functioning of administration, law and order situation.
Need assessment	- What are the target group's perceived needs or problems with regard to access and quality of financial services? Cross-check whether the assessment corresponds to reality and does not just reflect a list of wishful-thinking - not an easy task in the financial sector!
Gaps and potentials	- Do the needs of the target group relate to gaps and problems identified in the financial sector analysis, and to which ones? - Does the size of the target group or of the potential clients allow for the development and maintenance of a new financial institution or of new financial products (financial sustainability, cost-benefit)? - Are services other than financial services needed first, or is a combination with financial services needed to allow for a profitable use of financial services? Who can deliver such services? - What will/could be the benefits of financial services for the target group?

Special Tools for Poverty Assessment

In addition to international or national income standards which should be taken into consideration as a first step, the following tools can be useful:
- The poverty assessment tool and the poverty audit:
  see www.cgap.org/p/site/c/template.rc/1.11.2745

Both are relatively sophisticated and time-consuming tools developed by CGAP.

- Progress out of Poverty Index (PPI), CGAP-Grameen and Ford Foundations:
  see www.progressoutofpoverty.org

A quite robust and well documented tool, which needs some imagination and local know-how, but easy to handle especially if a scorecard already exists for the country concerned (see web; new countries are regularly added). Asks 10 simple questions relevant to poverty in a particular environment: e.g. do you have a warm meal every day? Do all children aged 6 to 15 attend school? The tool can also be used for follow up of clients and as a proxi for impact assessment. Existence of national expenditure surveys or some other surveys of reasonable quality is a precondition for developing the poverty scorecard.

B 3 Institutional Analysis

The institutional analysis is a core element of the context assessment. It has to assess whether the values, mission and other organisational characteristics of potential partner organisations are suitable to reach the intended objectives efficiently and effectively.

- **A detailed analysis of one or several possible partners is necessary** once the financial sector has been analyzed. This is usually done together with a potential partner and on the basis of already existing information. The institutional analysis has to be tailored to the type of partner – government, network or enterprise - and to the age of the institution. Not all questions given below are relevant on all the different levels. For enterprises, both on the micro- and the meso-level, a more thorough analysis is recommended.
  If the initial analysis shows that **additional information** has to be collected, this is best done **by means of specialists**, i.e. rating agencies, auditors, legal experts, etc. depending on the task.

Aspects	***Issues to be assessed***
Common Goal	- What are the longer-term vision, mission and strategy of the partner? - Are they more or less coherent with SDC's goals?
Governance	- Who governs and what is the role and capacity of the entity? - Is ownership clarified and legalized? - How does politics influence decisions and in what aspects?
Management	- Capacity, instruments (organizational procedures, management information system, business plan, etc.) and succession strategy - Discipline and transparency - Collaboration with the Board, i.e. the policy-making entity
Manpower	- Human Resource Policy, manpower market and training possibilities
Financial health	- Performance indicators, longer term projections and equity base (capital adequacy)
Social objectives	- Who is the institution's clientele? What is its mission? - How good is the institution's understanding of what is needed to reach and serve the respective target group? - What is the institution's risk apprehension with regard to agriculture and the poor? - What is the institutional commitment to client protection and social performance? To what degree are the client protection principles respected?
Products	- Type of products, adaptation of products to customers' needs and potential? - Interest and innovation capacity to serve the targeted clientele in an optimal way, pricing policy, type of good (i.e. public or private)
Gaps and potentials	- Common understanding of where to go, mutual transparency, openness and interest to learn and to change are preconditions for cooperation - Potential for innovation and improvement are an asset.

- **Guidelines and Tools for the Assessment of Retail Financial Institutions and Network Organizations**

  For retail financial institutions, detailed guidelines, partly tailored to the type and size of the institution, exist (see box below).

  For networks see **'Format for Appraisal of Network Support Organizations, Technical Guide'** CGAP 2007, www.cgap.org/p/site/c/template.rc/1.9.3002

Appraisal of Retail Financial Institutions (FIs)

- **While collecting information, look for existing results and data!**
- **Minimum requirements** to look at:
  - Outreach, number and type of clientele (poverty level)
  - Portfolio quality
  - Financial sustainability, profitability, liquidity and capital adequacy
  - Efficiency

- **Performance monitoring and appraisal tools** recommended for FIs:
  - PEARLS Monitoring System, World Council of Credit Unions (WOCCU), Madison 2002, especially for savings and credit cooperatives
    www.woccu.org/pearls
  - ACCION CAMEL Technical Note, USAID, 1998
    builds on the criteria for commercial banks
    www.mixmarket.org/sites/default/files/medialibrary/10011.150/CAMEL.pdf
  - Appraisal Guide for Microfinance Institutions, A Technical Guide, CGAP 2008
    www.cgap.org/p/site/template.rc/1.9.2972
  - Social Performance Indicators: Social Performance Task Force or Mix Market
    www.sptf.info/page/social-performance-indicators or
    www.themix.org/standards/social-performance
  - Compliance with Client Protection Principles in Microfinance: Smart Campaign, global initiative 2009 – 2011 with secretariat at Center for Financial Inclusion, ACCION International
    www.smartcampaign.org

- **Rating and Benchmarking**
  In general, audit reports and, if available, ratings allow for a good insight into FIs.
  - The specialised ***rating agencies*** conducting financial and social microfinance ratings are:

Micro-Rate:	www.microrate.com	Planet Rating:	www.planetrating.com
M-Cril:	www.m-cril.com	Microfinanza:	www.microfinanzarating.com

  - The **Rating Initiative** is a multi-funder initiative that promotes a global microfinance rating market and co-funds the first two ratings of FIs. It also prepares an annual assessment of the global microfinance rating market.
    www.ratinginitiative.org
  - The ***Mix Market*** allows for an international comparison (benchmarking) with a significant number of regularly reporting FIs.
    www.themix.org

B 4 *Framework Conditions at Macro Level*

Irrespective of the level of intervention chosen in Financial Sector Development, policies and framework conditions at the macro level and changes in the particular context do influence the expected results of a project and its activities.

Make use of existing country studies for a first appreciation. Supplement them with high-level discussions, and **validate information with relevant actors** (financial institutions and other donors) in the financial sector. SDC's policy to concentrate on a relatively small number of countries, and its long-term cooperation perspective and practice normally allows it to have access to much or all of the required data.

Aspects	*Issues to be assessed*
Financial Sector policy and rules and regulations	- Requirements for becoming or remaining a bank or a non-bank financial institution (i.e. legal and capital requirements, rules and regulations). - Conditions for collecting savings or making transfer payments. - Are interest rates fixed by regulator? If so, how high are they? Critical issues: usury and cost coverage. - Foreign exchange regulations, reserve policies and their taxation.
National policies	- Economic and political stability, inflation rate. - Law enforcement and security situation. - Development strategies with regard to regional and socio-economic disparities. - How independent are the Central Bank and the supervisory authority?
Gaps and potentials	- Political instability, wars and/or hyper-inflation are adverse situations for entering into financial sector activities. - Playing a significant and positive role in the development of the financial sector in a country and/or working together with other like-minded donors might put you in a position to influence the policy environment and especially financial sector regulations.

B 5 *Interpretation and Conclusions*

In the final step, look at the coherence of the findings, the relevance of a particular type of project, possible partners, risks and potentials.

Aspects	*Issues to be assessed*
Level of intervention	- At what level should SDC intervene: at the level of a target group, a financial institution, with financial infrastructure (support services), in the market or the regulatory environment or with a combination of the options? ***Note***: SDC usually intervenes at the level of financial institutions, of support services and of the target group (micro, meso and/or client levels).
	- What type of support is appropriate: Institutional support (capacity building, TA), financial support (credit lines, equity), risk-sharing?
Donors / social investors	- Who are the like-minded donors and funders (incl. social investors) that are already active in the field and could be interested in cooperating?
Partners	- Who are the qualifying partners: their qualifications, mission and vision, their potential and outlook? What are the profiles and motivations of the owners?
Means	- What would be needed in terms of know-how, budget and time frame from SDC to make a difference in the sector? (order of magnitude)
Risks and potentials	- Political and economic stability. Real interest of the government and/or the partners, shared vision and objective; availability of know-how and potential to learn, to change and/or to grow. Good governance and qualified management.

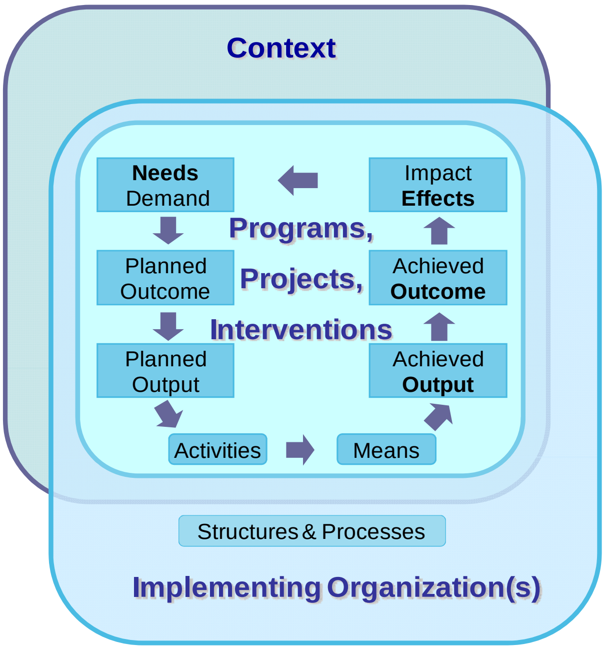
For SDC, the context assessment is the basis for its decision making process regarding type and scope of a project. At the same time, SDC has to assess whether it has a comparative advantage for the particular type of project and in the geographical area concerned, and whether there are any synergies with other SDC activities in the region. (see Module 1.3 B1 for answering these questions.)

Content of Module:

A General Aspects

A 1 Designing a Project

Planning a project or programme primarily means designing an intervention that will ultimately fulfil existing needs. These needs, gaps or demands depend on - and have to be identified within - the specific context. As shown in the figure, an appropriate project design has, at the same time, to consider the capacity of the implementing organization(s). Therefore, designing a project should be an ***iterative process*** in which support is fine-tuned to the context (actual needs) and the capacity of the implementer(s) (human, institutional and financial resources as well as relevant experience) to achieve the expected results (output, outcome, impact) on all targeted levels of intervention, i.e. micro-meso-macro.



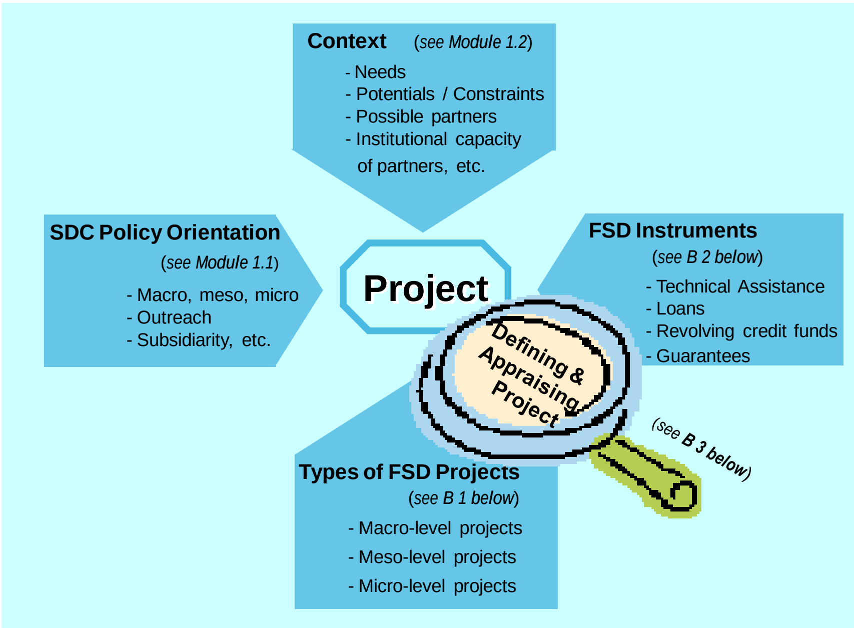
For designing a project, different methods are available (e.g. logframe approach). Whatever the method chosen, it should in one form or another cover the **basic steps** outlined in the figure shown here, and consider the following aspects:

- **A comprehensible logic** between the identified **needs** and the planned **results** of the pproject is established (see figure above). It shows the **means-end logic** of how the results shall be achieved and indicates key assumptions with regard to the causal effects within the socio-economic, political, institutional and legal framework (i.e. 'result chain logic').
- **Involve all relevant stakeholders** early on in the project identification process to ensure realistic objectives and to set the basis for good local ownership. The latter is crucial for the effectiveness and sustainability of a project.
- **Clear, realistic and verifiable objectives** and intervention strategies on all levels, shared among stakeholders. To crosscheck the feasibility of the objectives, measurable performance indicators need to be agreed upon with the stakeholders, and assumptions and risks relevant for achieving the results have to be assessed carefully.
- **Consistency of project design and strategy with SDC's Financial Sector Policy**.

B FSD Aspects

B 1 Designing a FSD-Project

The art of defining a good project strategy means combining and fine-tuning the different elements shown in the figure below in such a way that the project provides an optimal response to the identified needs in the given context. This implies an iterative process in which the evolving project strategy is continuously checked against the four key criteria mentioned below.



A detailed checklist for the appraisal and selection of FSD project strategies is given in Annex 1.3.1.

1 **Relevance**, comprising two essential issues:
- Rapid expansion of outreach so that significantly more so-far-not-served and underserved people can access financial services that meet their needs on a lasting basis at affordable costs.
- Chances that the targeted population can be reached by the services and can use these services for their benefit.

2 **Sustainability**: It should be ensured that the project results (e.g. increasing number of active clients) and outcomes (e.g. an increasing number of clients expand their small enterprises) continue upon completion of the project. Sustainability comprises institutional, financial, social and environmental aspects.

3 **Consistency with SDC's financial sector policy**: The project must be in line with the goal, strategic orientation, operational principles and instruments as well as priorities of SDC, as reflected in its Policy for Financial Sector Development.

4 **Scope and SDC's comparative advantage:** A project is only justified if SDC has the particular knowledge and expertise and, in addition, may create synergies under the conditions of effective donor alignment and harmonisation, and does not crowd out other potential stakeholders, in particular the private sector.

B 2 *Main Types of FSD-Projects*

Based on the identified needs, the context assessment and SDC's comparative advantages, one (or a combination) of the following main types of projects is selected on macro-, meso- and/or micro-level. The lists below indicate **typical characteristics** of the main types of FSD-Projects and mention specific requirements and established 'good practices'.

1 *Macro-level Projects*	
Objective(s)	- Improved regulatory and supervisory framework and general policy framework. Equity requirements, interest rate policy (liberalisation), framework for deposit-taking FIs, etc. - Improved legal framework for financial transactions, such as general contract and property laws and collateral laws.
Typical type of support	- **Advice** in developing/reviewing financial sector laws and regulations and in establishing efficient and non-bureaucratic supervisory mechanisms. - **Contribution to sector policy dialogue** and providing appropriate fora for learning and exchange. - **Advice** in improving selected legislation and law enforcement, relevant for financial transactions.
Specific Requirements	- Financial sector reforms aiming at greater breadth and depth require very specific expertise and sufficient leverage (i.e. require collaboration with key donors), due to their political nature. - Potentially time-consuming interventions with little guarantee for success, as progress is largely determined by national political conditions.
'Good practice'	- Close collaboration and long-term dialogue with relevant government authorities to promote the role of the government as an enabler (i.e. not as a direct provider). - Effective donor co-ordination and harmonisation (International Finance Institutions, bilateral donors with recognized FSD capability).

2 *Meso-level Projects*	
Objective(s)	- Strengthen or facilitate creation (where necessary) of microfinance networks and associations to stimulate professional exchange and strengthen lobbying power, especially with regard to the regulatory and supervisory framework. - Promote services for accounting, audit, rating, information technology, human resource development, market research, etc. - Facilitate market development for essential services to FIs, i.e., payment and clearing systems, credit bureaus, apex organisations, guarantee funds, stock exchanges and other elements of financial and capital markets.
Typical type of support	- **Capacity-development and/or financial support** for strengthening sector associations and developing service provision. - **Risk-sharing** in the development of markets for support services. - Promote **transparency** and **financial literacy**.
Specific Requirements	- Utmost caution is required when funding or creating apex funding institutions, and credit guarantee schemes, since many of them fail. - Ensure that most FIs have access to appropriate services from the service providers supported.
'Good practice'	- Subsidies to networks and research programmes with a 'public goods' character may be justified if they are time-bound and linked to clear performance indicators.

3 Micro-level Projects

3.1 'Up-scaling' (strengthening of FIs) and 'Greenfield' (creation of new FIs)

Objective(s) ***a) Up-scaling*** ***b) 'Greenfield'***	- Support microfinance service providers with a vision and potential for economic viability and large-scale outreach, also to poor people. Help them to get formalised and, eventually, regulated. - Creation of a new FI where no FIs are present or willing to extend their services to SDC's target groups or where a competitive and innovative new FI can induce rapid market development.
Typical type of support	- Human and institutional capacity development and technical assistance. - **Risk-sharing** to pilot test new products and product delivery mechanisms. - **Facilitate access to funds:** in the domestic capital markets or from regional/international microfinance funds and private investors, or from SDC. - **Equity** in exceptional cases where the FIs offer very innovative products to poor clients and where the FIs act as market innovators to be followed by other FIs. Need for high potential to attract other funders and/or collect savings.
Specific Requirements	- Proper assessment of partner FIs, (e.g. realistic perspective for financial self-sufficiency; shared mission of rapidly expanding outreach *per se* and/or depth of outreach, as well as socially responsible behaviour). - The 'Greenfield'-approach requires long-term support and high capital outlays for the new institution to mature into an economically viable operation, unless an international microfinance group (e.g. ProCredit Holding, Opportunity International, ACCION, FINCA International) creates a new micro bank according to its 'ready-made' management systems.
'Good practice'	- Long-term commitment but with a clear exit strategy. - Support adjusted to the (stage of) institutional development of the FI and linked to clear performance indicators. - Transparency and accountability by insisting on regular financial- and social performance reporting (in line with international reporting standards, national regulations and CGAP norms), annual external audits, regular ratings, etc.

3.2 'Down-scaling' (assisting banks in reaching down-market)

Objective(s)	- Deepened outreach of fully operational banks to small enterprises and/or poor households on a long-term, profitable basis. - Employment generation through development of SME lending operations. - Increased competition by encouraging banks to go down-market and, thereby, forcing FIs to become more efficient while margins are declining.
Typical type of support	- **TA and training** support to banks in areas such as product development, costing and marketing, customer relations with the new clientele, etc. This includes the understanding of the household, farm and small enterprise economy.
Specific Requirements	- Banks willing/committed at the highest levels (board, management) to diversify their clientele towards small enterprises and poor households in a socially responsible manner. - More appropriate approach, particularly for small enterprise finance and in more mature financial markets where significant bank branch networks exist.
'Good	- Demonstrate the profitability of selected products for a new clientele to all

practice’	bank levels, including the board, to secure full support in rolling out new products. - Support product development and management procedures in line with those of other product lines, and help train a core group in charge of product testing.

3.3 ‘Linkage‘ (linking self-help organizations with financial institutions)	
Objective(s)	- Reduced risks (through "social collateral") and financial transaction costs.
Typical type of support	- **Facilitation of links** between existing or newly created self-help organizations (e.g. ROSCAs in Kenya, self-help groups in India), their associations, NGOs or other types of semi-formal financial service providers on the one side, and formal FIs on the other side (strategic alliances, like service company models).
Specific Requirements	- Work through existing networks, as far as feasible. - A minimum branch network of the FIs is required so that the self-help organizations or their associations can reach a branch within an acceptable travel time.
‘Good practice’	- Avoid undermining the balance between savers and borrowers of the self-help organizations through e.g. credit lines. - Let informal financial intermediaries set their own pricing policies and encourage them to be transparent about their pricing.

B 3 Main Instruments for FSD

SDC has the following **four main instruments** for supporting FSD projects partly on all levels, i.e. micro, meso and macro.

1 Performance-based Grant Support

1.1 Technical Assistance and Training Grants	
Objective(s)	- Overcome constraints in the human and institutional capacity of the partner institutions for achieving self-sustained operations. This instrument applies to FIs, sector associations, service providers for FIs and regulatory authorities.
Specific Requirements	- The partner institutions should themselves assess their key TA and training needs and priorities. ToR and the corresponding profile for the service provider(s) should be developed jointly. - The partner institution should co-finance the TA and training according to its financial capabilities to ensure commitment to the process. It should thus have the right to (co)select the TA and training provider(s). - The TA / trainer provision agreement should clearly specify the targets, the cost-sharing and the obligations of the donor and the partner institution, including reporting requirements.

1.2 Learning Platform and Applied Research Grants	
Objective(s)	- Strengthening FIs, sector networks / associations, credit bureaus, government agencies and so forth in developing innovative solutions. - Exchanging experiences and developing common understanding for joint action.

Specific Requirements	- Peer-to-peer training can be effectively supported for members of a sector association. - Exposure visits to other FIs or supervisory authorities in other countries. - Applied research can provide the necessary information for follow-up action, for example, market research and client satisfaction surveys; studies on client indebtedness; capitalization of experiences for dissemination; etc.

1.3 Risk Sharing Grants	
Objective(s)	- Risk-sharing on all levels, e.g. for the testing of innovations. - Trigger/allow a FI to offer a product that it would otherwise either not be able to offer or, if so, only at too high a cost or with an unknown risk, by sharing the risks with the FI.
Specific Requirements	- Clear contractual obligations of both parties, with a time frame and clear definition of the events that trigger risk sharing, and under what conditions and procedures.

2 Loans	
Objective(s)	- Refinancing the outreach expansion of the FI, if the FI has no access to loans from domestic banks and other refinancing sources, incl. savings mobilisation.
Specific Requirements	- Only FIs which are at least operationally self-sufficient are credit-worthy. - Loans should not be subsidised as a general rule, as this may discourage savings mobilisation and financial sector integration. Subsidised loans are only justified in the build up of an immature FI as long as the sub-loans are priced at (near) market rates. - Loans should preferably be in local currency. The donor should at least ensure that poor borrowers do not bear a foreign exchange risk. Ideally the donor should encourage a domestic bank, for instance with a credit guarantee, to lend to the FI in domestic currency. - The loan agreement should clearly specify the expected target groups, the lending conditions, the obligations of both parties, including reporting requirements.

Special case:	***Revolving Credit Funds - to be avoided, in principle!***
Objective(s)	- Provision of funds for specific lending operations where a professional lender is not available and where no other viable options exist, e.g. for time-bound action research to promote innovation.
Specific Requirements	- Professional management is a must. If the credit component is under a rural integrated project, specific FSD expertise must be ensured. - Needs to be institutionalised as early as feasible, and ownership must be clear from the onset. If not, such funds consistently fail in reaching their targets. - Need for clear contractual obligations of both parties and clarification of risk-sharing and ultimate ownership and purpose of the funds.

3	(Wholesale portfolio) Guarantees
Objective(s)	- SDC shares the risk of a bank willing to wholesale first-time loans to (a) micro / rural financial institution(s) with no previous commercial refinancing track record. Common purposes for (commercial) banks are to test new markets through specialised intermediaries prior to a direct engagement or to develop pro poor financial service providers as a new clientele for wholesale lending, money transfers etc.
Specific Requirements	- Guarantees should be demand-oriented and cover not more than 60% of the risks so as to keep the bank motivated in managing the guaranteed loans professionally. - Wholesale loan portfolio guarantees are far more cost effective and pragmatic than retail loan guarantees. As a general rule, the latter should be avoided. - Wholesale loan portfolio guarantees should improve access to commercial refinancing in domestic currency and should lead to lasting relationships between banks and other FIs. - Clear contractual obligations of both parties and clear definition of the events that trigger guarantee payments, and under what conditions and procedures.

4	Equity
Objective(s)	- This instrument is used in rare and well justified cases only (SDC is, in principle, not an investor). Objectives for SDC becoming a shareholder are: - To contribute to the shaping of the development mission of an FI and to facilitate the mobilisation of additional (local) funds.
Specific Requirements	- Responsibility sharing with strong control. Qualified representation on the board essential. - Strategy and modalities for an SDC exit to be conceived at the moment the engagement is taken. - Often to be combined with a technical assistance grant. - SDC Working Aid for Equity Participation must be considered (Annex 1.5.3)

A General Aspects

A 1 Elements of Planning

Once the project strategies have been selected (see Module 1.3: B1), the operational modalities of the project need to be planned, namely:

1 Allocation of resources

2 Basis for performance measurement

3 Exit strategy.

The SDC guidelines on preparing entry proposals ('Eintretensantrag'), project documents and credit proposals ('Kreditantrag'), provide general guidance for this step of project planning.

1 Resource and Activity Planning

Adequate funds, time and human resources are critical for the success of a project. Planning means to ensure that the resources required can be mobilised in terms of quantity and quality. The basis for resource planning is the definition of key activities, or at least areas of activity, expected results and an implementation schedule. In an iterative process, the timing of key activities and the required inputs (human, financial, technical) from all parties involved need to be identified and incorporated into an operational plan.

2 Performance Indicators

To measure the performance of the project, i.e. progress of key activities and achievement of results, throughout implementation and ultimately during evaluations, clear and objectively verifiable performance indicators need to be agreed upon in the planning stage. Thus, a situational analysis is required, preferably including baseline data, to monitor essential change processes.

Wherever possible, indicators should be drawn from existing information to avoid that the partner institutions are taken up by extra reporting requirements. Where several donors are involved, coordination for harmonizing reporting is a must.

3 Exit Strategy

The withdrawal of external (donor) support already has to be considered as part of the project planning.

B FSD Aspects

B 1 Allocation of Resources

Some principles and good practices to be considered when planning resources and activities for micro-, meso- and macro level interventions:

- ✓ **Subsidise operations of FIs and meso-level organizations only on a temporary basis** with a regressive scheme and don't undermine market incentives. A more lenient approach may be justified on the macro level, because the services of a regulatory authority can be looked at as a 'public good'.
- ✓ **Link co-financing to transparent and measurable performance indicators** of the partner institutions as part of collaboration contracts (see Module 1.5: B1, point 6). For instance, achievement of financial self-sufficiency is important not only for FIs but also for audit, rating, training, or IT companies operating on the meso level. The number of poor people served on a sustainable basis is another indicator to be considered.
- ✓ **Clarify social objectives** and responsibilities at the partner and SDC level. There is no contradiction between reaching financial *and* social goals, i.e. the so-called 'double bottom line' *can* be met.
- ✓ **Set the right incentives for the partner institutions (at all levels) to reach the joint targets** including its social mission as effectively and fast as feasible. For instance, part of a loan could be converted into a grant if the partner FI achieves joint targets on time or ahead of time. Incentives for macro-level projects may be linked to compliance with policy conditionality as set down by the Bretton Woods Institutions.
- ✓ **Offer resources to a partner institution according to its own organisational logic** in terms of timing and availability of management resources to ensure that the partner institution takes the lead and develops full ownership. An oversupply of resources may overtax the capacity of the partner institution and is likely to send wrong signals.
- ✓ **Define realistic targets** which provide for contingencies for unforeseeable events, i.e. no 'blue-prints', leaving sufficient flexibility to respond to changes.
- ✓ **Have an adequate time horizon** to ensure that the results can be reached on a sustainable basis, particularly the lasting access of SDC's target groups to client-oriented financial services offered by financially self-sufficient FIs. New FIs usually require between 3 and 7 years reaching financial self-sufficiency. In a rural context, they may require even more time. Consider that political events (e.g. general elections, parliament approval of new legislation, etc.) and administrative requirements have a significant influence on the timing of macro-level projects.
- ✓ **Allocate resources for regular joint reviews** with the implementing organization(s) to adjust the project to changing conditions, as required.
- ✓ **Disbursement pressures** due to administrative requirements of the donor must be resisted. Be aware that too many foreign re-financing sources, besides other negative effects, may hamper domestic savings mobilisation.

B 2 Performance Indicators

For agreeing on realistic targets during planning and **for measuring performance** during implementation **(monitoring)** and during **evaluation**, the definition of verifiable, transparent performance indicators at the outset of the project is important.

For a <u>list of proposed Performance Indicators</u> see **Module 2.1 - Monitoring** - of this manual.

An international consensus has been reached regarding a set of **minimum financial performance indicators for retail FIs**. They are integrated in the 'Monitoring System of SDC' (Short version: see Annex 2.1.1 or www.intercooperation.ch/finance/download/#monsystem) or in the 'Core Performance Indicators for Microfinance' (Draft by Richard Rosenberg): www.microfinancegateway.org. Likewise, there is widespread agreement on outreach and institutional performance indicators for retail FIs.

Over the last few years, donors and social investors have shown an increasing commitment to improve transparency with regard to the development (pro poor) results in financial sector development. A common framework and indicators have evolved to also measure and report on the **social performance** of financial institutions, complementary to their financial performance. The process has been led by the 'Performance Task Force', see www.sptf.info/page/social-performance-indicators. Dimensions taken into account include mission (design), activities (process) and results (output, outcome, impact). The agreed upon indicators have become part of the Mix Market (Microfinance Information eXchange) reporting: www.themix.org/standards/social-performance.

A specific initiative which SDC has been promoting to enhance transparency on social performance is the work of CERISE with the platform ProsperA : www.cerise-microfinance.org. The tool (social performance indicator audit) pays special attention to the outreach to the poor and excluded, the adaptation of services and products to the target clients, economic and socio-political benefits for clients and their families and the institutions' social responsibility towards staff, clients, community and environment. It is fully compatible with the Social Performance System report of the Mix Market, user-friendly and cost efficient.

The work to measure and report on social performance continues to **evolve.** Challenges are the wide-spread use of common indicators agreed under the Task Force, standards and transparency for social investment funds, and the consolidation of a combined set of financial and social performance indicators.

Performance indicators for macro-level projects are difficult to standardize, due to the complexity of the objectives, the difficulties in attribution of effects and due to variations in the socio-economic and political context. For companies operating at the **meso-level**, general performance indicators for private sector operations exist. They have to be selected according to the type of organization (member organization, share holding company) and the services (training, audit etc.) promoted.

Good Practice

- ✓ Wherever possible, derive indicators from existing information which the FI or others are reporting to their investors, to the supervisory authority (if regulated) and to MIX (www.themix.org).
- ✓ Chose proxy indicators, if direct indicators are too costly and/or difficult to collect.
- ✓ Indicators must be incorporated from the onset. They are part of the contractual agreement. The more developed the partner institution, the more complex the performance tools that can be applied.
- ✓ Ensure appropriate co-ordination and communication mechanisms, if more than one implementing institution is involved, i.e.:
  - Foresee joint reporting and performance reviews.
  - A competent and motivated 'project steering committee' may play an important role.

B 3 Agreed Exit Strategy

An exit strategy is required from the onset of the project and needs to be clearly communicated with the partner to make mutual expectations transparent.

In the case of strengthening the retail capacity of a FI, the **exit strategy** should comprise a **shared vision** with the FI, clarifying what objectives should be achieved in what time frame and by what means. This implies the following features:

1 **The medium-term business plan** (three to five years) of the FI must demonstrate the gradual achievement of financial self-sufficiency through clear time-bound targets on:
   a. Outreach expansion in depth and coverage;
   b. Gradual improvement in key indicators for efficiency, productivity and profitability (i.e. administrative cost ratio, number of clients per field staff, financial self-sufficiency, equity in relation to debts/savings etc.);
   c. Introduction of up-graded and new financial products;
   d. Improvements in product delivery systems to reduce transaction costs for both the FI and its clients;
   e. Governance and ownership.

2 **The targets are jointly reviewed** by the FI and the donor at regular intervals to ensure timely corrections, if required (see Module 2.1: B1).

3 A clear and **transparent incentive/disincentive system** (monetary, as well as non-monetary incentives; e.g. facilitation in mobilising investors, etc.) for the FI to follow the exit strategy as fast as feasible. The incentive/disincentive system has to be part of the contract (see Module 1.5: B1 & B2) and should not cause any negative side-effects or moral hazards.

Content of Module:

A General Aspects

Project design and decision-making follows an iterative process. If the preliminary project design convinces the SDC Cooperation Office, it prepares the first documentation (i.e. entry proposal) for a preliminary decision by Headquarters. This **entry proposal** is used to check whether the project idea or concept receives basic approval from the SDC decision-making body. The complete project design, described in a **project document**, is finalised only after this initial step. Often the project document is developed parallel to the preparation of the final documentation for decision-making, i.e. the **credit proposal**. Ultimately, the project document serves as basis for the collaboration agreement, and is attached to the latter.

The formal project decision-making process of SDC comprises **three steps**

1 Preparation of **Entry Proposal**

2 Preparation of **Project Document**

3 Preparation of **Credit Proposal**

(see Annex 1.5.1 for examples of the mentioned documents)
(see SDC Intraweb *for Guidelines on Credit Proposals)*

For all these steps, it is important to be clear on:

- Who prepares the proposal?
- Who decides (according to proposed financial commitment)?
- Who needs to be involved in the consultation process, and when?

Once the project has been approved, contracts with implementing organizations need to be prepared as legal basis for the implementation of the intervention.

B FSD Aspects

In this step of the PCM-process, the particularities of FSD-projects are mainly with the contracting process. Agreements with FIs and service providers on the meso-level will differ partly from 'classical' project agreements, since the implementing partner is usually an enterprise operating according to private sector principles. Therefore, agreements with FIs need to follow the principles below.

B 1 Principles of Contracting

In the process of contracting, the following principles need to be adhered to:

1) Clear joint objectives and rationale for co-operation, mutually agreed with partners.

2) Clear ownership agreement on grants (notably fixed assets financed), loan funds and sub-ordinate debt.

3) Clear understanding of how to achieve the objectives operationally within a realistic time-frame.

4) Well-defined exit strategy, specifying conditions and possible incentives.

5) Rights and responsibilities of both partners explicitly defined.

6) Agreement on an efficient and effective monitoring and reporting system for a performance based implementation (see Module 2.1: B1). In general, annual external audits, to be carried out by an independent and professional audit company. The partner institution submits a copy of the audit report and the management letter.

7) All agreements and amendments only in writing, i.e. no gentlemen's agreements.

8) Regular joint reviews by steering committee or appropriate joint supervisory body.
   ⇒ Scope of review depends on importance of co-operation for the FI and its degree of professional maturity.

B 2 Agreements with Financial Institutions

Generally, the agreements with partner FIs state the terms and conditions of the support provided by SDC to these FIs within the scope of an FSD project.

Main Generic Contents of an Agreement

	Topics	*Issues to be covered*
1	**Preamble**	Overall development co-operation goals.
2	**Co-operation framework**	Objectives and targets with agreed and verifiable performance indicators.
3	**Reporting**	**For regulated FIs:** preferably little or no extra reporting than what the supervisory authority demands. **Not yet regulated FIs:** should be encouraged to comply with the reporting requirements set by the supervisory authority as soon as feasible. *Refer to minimum performance indicators in Module 1.2: B3 (p. 12) and 2.1: B2 (p. 35).* **Frequency of reporting** has to be fixed according to the type and magnitude of support and the internal procedures of the institution.
4	**Annual external audit reports and management letters**	
5	**Joint review of progress**	At regular intervals. This underlines the partnership and allows the partners to review progress made in the light of rapidly changing market and overall financial sector framework conditions. Changes, if required, can be agreed upon in time by signing an addendum to the agreement.
6	**Built-in incentives (if appropriate)**	For good performance: financial (i.e. conversion of loans into grants or equity) and non-financial (i.e. public relations)
7	**Duration**	Reasons for earlier termination and procedures for amendments.
8	**General covenants and signature of authorised representatives** (preferably with the board of the FI).	

B 3 *Specific Contents of Agreements*

In addition to the main generic contents of a contract, **agreements need to be designed according to the specificities of the instrument used.** Templates for the most common financial instruments (**grants, loans and wholesale guarantees**) are provided in Annex 1.5.2. The following table presents the main issues to be considered when applying one of these instruments or equity participation.

Grant Agreement	• SDC uses performance based grant agreements to fund technical assistance and training, learning platforms and applied research, and to share specific risks of innovating FIs. • Technical assistance and training grants (mainly human and institutional capacity building) are normally provided on a cost-sharing basis according to the financial capacity of the receiving FI. This ensures quality control of the services by the recipient FI. • Time-bound and regressive subsidies for branch expansion can be granted in order to share the up-front investment costs of outreach expansion into a poor rural area. • The experimental costs in developing and testing new financial products and new product delivery mechanisms can be shared by SDC so as to motivate the partner FI to enter into new market segments with limited risk. • Grants and subsidies need to be factored into the annual operational budget of the institution supported. ***Template for Grant Agreement in Annex 1.5.2.***

Loan Agreement	• Responsibilities of borrower/the FI: Fund utilisation according purpose agreed upon, conditions for using funds (e.g. on-lending on full cost-covering basis). Repayment of full loan amount (with or without interest) to SDC • Responsibilities of SDC: Transfer of funds according conditions and disbursement procedures of the Loan Agreement. • In the case of a more infant/immature FI: Sub-loan management policies, procedures and eventually even forms (e.g. client loan agreements). • Technical assistance package, if applicable. • Loan repayment to SDC may be backed-up by a State guarantee. • A loan agreement in local currency means that SDC, and not the end clients are bearing the exchange rate risk. • Special case of **Revolving Credit Funds:** SDC aims at avoiding Revolving Credit Funds wherever feasible. If, under special circumstances, such a fund is justified, the following are key issues to be considered: (1) Legal identity of the partner (ownership, governance and responsibilities); (2) Professional credit-delivery policy, capacity and monitoring system. Considering the usually transitional character of the instrument, laying down an exit strategy in the agreement is a must. ***Template for Loan Agreement in Annex 1.5.2 with differentiation between "mature" and "immature" (start-up) FIs.***

'Wholesale' Guarantee Agreement	• The beneficiary of an SDC 'Wholesale' Guarantee normally is a local commercial bank that provides a local currency loan to the partner FI serving SDC target groups. A complementary objective of the guarantee instrument is to facilitate the development of domestic capital markets (regular business/lending relationships between commercial banks and pro-poor financial institutions). • Clear definition of the guarantee event is important to avoid moral hazard. • At the very least, the local commercial bank must bear 40% of the risks of lending to its client(s). ***Template for 'Wholesale' Portfolio Guarantee Agreement in Annex 1.5.2.***

Equity Investment Agreement	• Only in exceptional cases where other investors cannot yet be mobilised. Only on a temporary basis with an exit strategy for the moment when other investors can be mobilised. • Responsibility sharing with strong control: representation on board. • Fix specific contents, like capital share, profit allocation, loss-sharing, etc. • Technical assistance package, if required. • SDC guidelines on equity investments (***Annex 1.5.3***: Document t.110.0/t.300-8, in German only). ***No template can be provided. Agreements to be designed for a specific case and situation, considering good practices.***

Combinations of the different agreements mentioned above are possible, e.g. a Loan Agreement can include provisions for a conversion into a Grant or Equity Investment Agreement, depending on the particular objectives of the FSD project concerned. Likewise, Loan-, Guarantee- and Equity Agreements can be combined with a Grant Agreement.

Content of Module:

A General Aspects

A1 Purpose and Definition

The purpose of monitoring can best be described as "*Keeping in Touch with Reality*".

Monitoring means the continuous systematic observation of specified indicators which allows the stakeholders in charge of the project to make informed decisions, steer and form the intervention in order to reach the objectives in the best way possible.

A2 Key Elements of a Monitoring System

To design a monitoring system, the following elements need to be considered as a minimal requirement.

❑ **What needs to be monitored?**

Basically, three **fields of observation** need to be distinguished:

- **Results** to be achieved (i.e. performance monitoring). This shows whether a project or an institution is on track in reaching the set objectives on the different levels, i.e. output and outcome.
- **Context** monitoring: Observation of the assumptions on which the project strategy is built and of new risks and opportunities that may implicate changes in the project design or in the implementation.
- **Process** monitoring for analysing why results are achieved or not achieved. This helps to identify potentials and shortcomings in the capacity of the implementers and to define corrective measures.

❑ **How to monitor and collect the information?**

- **Who needs what information for what purpose?** The implementing organizations primarily require information for the management of their operations as a whole, whereas donors focus more on the support project and on information for strategic steering. There is, of course, an overlap of these requirements so that donor requirements to a great extent should be covered by information collected by the implementing organization. If support is provided for institutional development, it makes sense to look at the whole institution and not just at the supported activity of the institution, and thus select information accordingly.
- **What kind of information is needed?** Since we cannot observe everything, monitoring is the art of **selecting the relevant information** out of the abundance of available information. Practical quantitative or qualitative indicators are needed, which describe the achievement of a situation or a change in situation objectively.

Both **facts and interpretations** are necessary. Objective figures and facts provide the basis for discussing the subjective impressions and experiences, which often contain important insights into the processes that lead to the results.

- **When is information gathered and used by whom?** The frequency of information collection depends on the purpose of monitoring (e.g. activity monitoring can be daily, outcome monitoring annually) and, according to their role, the various stakeholders have a different focus of monitoring and thus different needs in terms of type and frequency of information.
- **How is information processed for reporting?** The information collection needs to be organized in such a way that information can be aggregated from lower to higher levels. To avoid unnecessary work for the supported organizations, reporting requirements of different donors should be harmonized and should help to improve the partner's own monitoring and reporting.

B FSD Aspects

For any project, monitoring systems with clear and measurable indicators are a prerequisite for steering projects systematically and an important source of information for evaluations. The particular situation in FSD-projects (on the micro level) is that **FIs as 'financial enterprises' must have their own systematic, reliable monitoring system with a minimal set of standardized financial performance indicators**, irrespective of external support. This is an indispensable prerequisite for their operations. For example, a FI must have regular, daily information on the cash/liquidity situation to allow for new lending or saving withdrawals or to fulfil the legal requirements. Either such a system exists or else the FIs need to be supported in developing it.

B 1 Monitoring Requirements for FSD Projects

On the part of SDC, the **type, amount and frequency of information** required for the monitoring of FSD-projects, depend mainly on 1) the level (macro, meso, micro) on which a project works, 2) the type of support, and 3) the function or role that SDC has in the project (shareholder, main funding partner, etc.). Therefore, the focus of project monitoring varies according to the partner institution and type of support. The following tables show the foci and provide some reference for possible indicators.

The financial commitment of SDC determines its involvement in monitoring. The bigger the funds at risk, the closer the performance will be monitored. A minimal requirement for monitoring FIs is the provision of a yearly financial statement and a short report with agreed-upon performance indicators related to the type of support (e.g. advancement of the product to be developed or its usefulness).

The indicators for monitoring the projects are defined in the planning stage and depend on the objectives to be reached (see Module 1.4: B2). They also serve as reference for evaluations. In line with the possible development of the project and its context, the initially set indicators may need to be supplemented or revised to adapt the monitoring to the changed reality.

Focus of Monitoring and Performance Indicators

1 *Macro-level Projects*

Typical Objective(s)	
Improved regulatory and supervisory framework and/or capacity to implement the same.	
Typical focus of monitoring	**Commonly suggested performance indicators**
- Quality and advancement of policy development processes	- Participatory approach: Number and type of FIs participating in the dialogue. - Reference to good practice, engagement of high level administrators.
- Quality of regulated and supervised FIs	- Number and type of FIs being supervised; number of on-the-spot visits; amount of trust into the sector: results of FIs (amount of deposits, capital adequacy and liquidity).
- Important changes in the context	- Political support, policy environment, personnel situation: related changes must be reported.

2 *Meso-level Projects*

Typical Objective(s)	
Strong apex-organizations and markets for essential financial-sector support services	
Typical focus of monitoring	**Commonly suggested performance indicators**
- Quality and advancement of processes of institutional development - Quality and adaptation of services - Important changes within the institution and its environment (risks, opportunities)	- Percentage of market covered; rate of cost-coverage (financial self-sufficiency). - Turnover, number of members/clients, etc. Improvement of financial sustainability and/or outreach. What type of FIs are reached. - Management, Board, internal and external rules and regulations: important changes must be reported.

3 *Micro-level Projects*

Typical Objective(s)	
Broadening and deepening sustainable access to financial services	
Typical focus of monitoring	**Commonly suggested performance indicators** (see also table below for a "Minimal Set of Indicators", page 6 and Annex 2.1.1)
- Outreach with emphasis also on social performance	- Number of active clients; geographical coverage - Poverty outreach - Adaptation of services to the clients' needs and possibilities (client protection)
- Financial health/sustainability of FI	- Portfolio quality, Profitability

- Institutional performance	- Security - Capacity building, board activities, exchange with others. Changes in management and *board* composition or status. - New product developments, client surveys, etc.
- Changes in the context that might affect the FI's operation	- Competitors, political and economic stability, regulation.

Most of this information should be readily available, because FIs will produce it as part of their own monitoring system. See, for example, FRAME: A tool providing a 'Framework for Reporting, Analysis, Monitoring, and Evaluation' of FIs in different languages under www.seepnetwork.org.

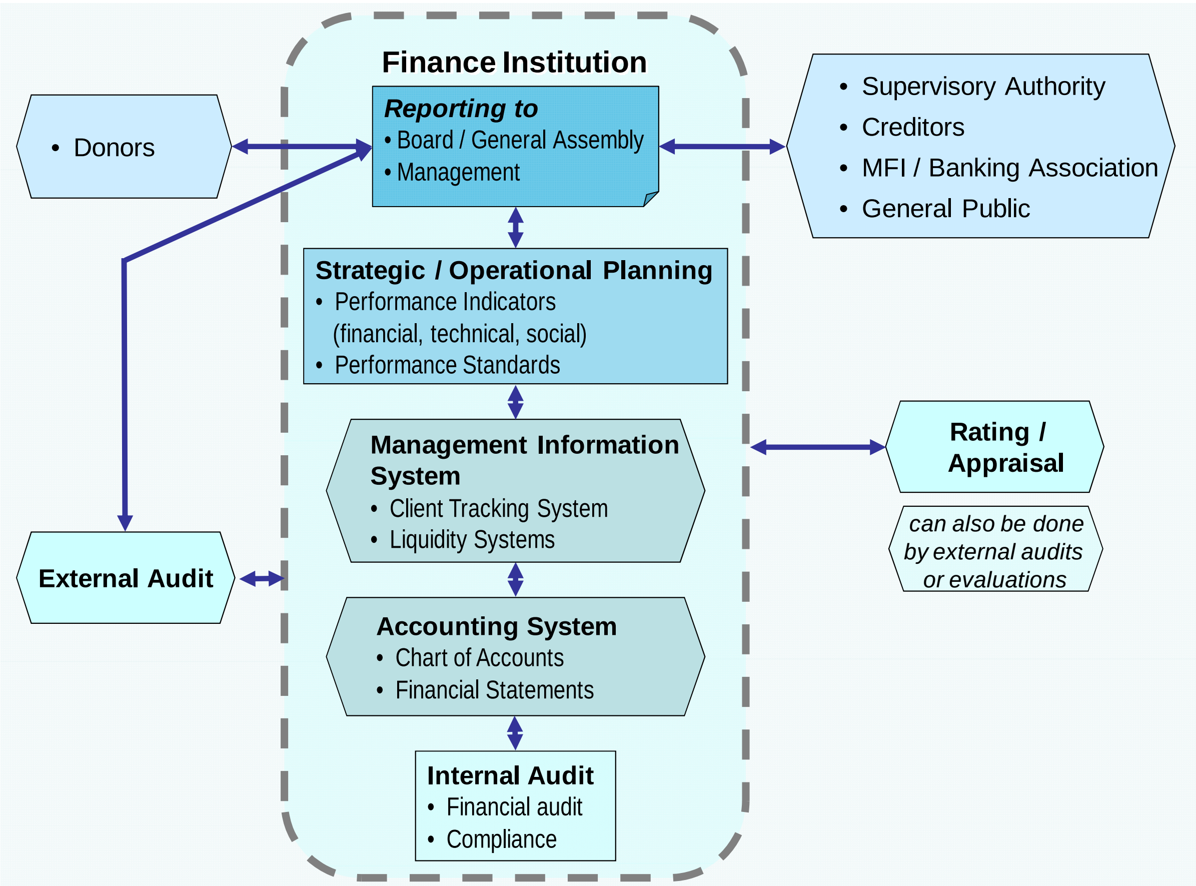
Good Practices

- ✓ To the extent possible, indicators as a basis for decision-making have to be monitored by the FIs and client groups (i.e. through participatory monitoring). It is important that an institution internalises review processes (e.g. on gender in staff development, service attitude towards clients, etc.) and builds capacity to analyse the information and translate it into the necessary adjustment of operations.
- ✓ Monitoring reports are always addressed to a decision-making body (e.g. Directorate, Board, Donor). To ensure that the monitoring information is used for decision making and thus steering of the operations, these bodies need to prepare a response to the reports.
- ✓ SDC shall accept, as much as feasible, financial- and social performance data generated by the MIS of the FI or enterprise concerned. It may suggest that the FI expands its MIS in line with up-coming or existing reporting criteria of the supervisory authority, even if the FI is not yet licensed.
- ✓ As important as the data are trends. To allow for trend analysis it is helpful to ask for timelines (data at different points of time) for some very specific indicators.
- ✓ Important changes in the organisational set up or in the context, which might affect future results, should be mandatory in reporting.
- ✓ Reporting on a yearly or half yearly basis should include a chapter on special actions (remedies) taken and lessons learned. Quarterly reports (if any) are usually just financial progress reports and focus on some particular highlights or difficulties. Depending on the sequence of reporting, content may differ.

B 2 *Monitoring Requirements and Tools for FIs*

An internal control and reporting system is a precondition for any FI to ensure sustainable operations. Formal FIs also need it for reporting to supervisory and/or regulatory bodies, and ultimately, it is useful for all FIs when cooperating with / looking for (new) funding agencies and/or partners. For evolving FIs, technical assistance (and possibly co-financing) is often required to strengthen and upgrade their monitoring system.

Key Internal and External Control and Reporting Systems of FIs



For details of the instruments shown in the figure, see Annex 2.1.2

❑ **Minimal Set of Key Financial and Social Performance Indicators for a FI:**

Focus of monitoring	Key performance indicators
- **Outreach** with emphasis on social performance	- **Number of active clients** (or number of accounts with movements in a certain time frame): differentiated by borrowers and depositors and type of clients (women, rural) and products (terms, economic sector, etc.). - **Poverty outreach**: Number of poor (as defined) people reached as a percentage of total number of clients. Average loan disbursed or outstanding balance per client or account, as a proportion of gross national income per capita: differentiated by borrowers and depositors. A more useful average stems from grouping deposits and credits according to size. - **Adaptation of services**: drop-out rates, client survey results - **Geographical coverage**: number of branches, field staff, etc.
- **Financial health Sustainability**	- **Portfolio quality**: Portfolio-at-risk (PAR) beyond a specified number of days (usually between 1 and 30 days), or loans at risk (<10 %) In both cases, additional information is needed on o the write-off policy/value of loans written off o the loan loss reserve ratio o the amount of rescheduled loans. - **Profitability**: **Return on assets or return on equity** if FI is not subsidised. For a subsidized FI, the revenue has to be adjusted for grants and the expenses for inflation (loss of real value), for financial and in-kind subsidies. (Financial Self-sufficiency >100 %). **Interest rate margin / portfolio yield** **Operating expense ratio** (or cost per client) **Asset composition** (percentage of earning assets) **Active borrowers per loan officer** or active clients per field officer. - **Security**: **Capital adequacy ratio**: to what extent does the FI's capital (incl. quasi capital) cover the outstanding loans and therewith possible losses. (min. 8 %, recommended 15 %) **Liquidity**: relation of liquid (current) assets to current liabilities or volume of deposits

For more details and definitions, see 'Microfinance Consensus Guidelines', "Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance", September 2003, and "Disclosure Guidelines for Financial Reporting by Microfinance Institutions", July 2003, both under www.cgap.org/p/site/c/template.rc/1.11.2744. Or the SDC Monitoring System for savings / credit operations under www.intercooperation.ch/finance/download/#monsystem.

For social performance measurement: www.sptf.info/page/social-performance-indicators

A General Aspects

A 1 Purpose of Evaluations

Evaluations are:

- **Systematic and objective assessments of ongoing or completed projects, programmes or policies.** They analyze actual achievements (results) and appraise them against the plans / concepts and the actual implementation on the basis of selected questions. They look at the context to assess the relevance of the results and the possible influence of changes in the context on the project implementation.

- **Essential tools for the management of development cooperation**. They are used both as a **tool for PCM**, where the focus is on the improvement of implementation and on providing the rationale for the continuation or discontinuation of a project, and as a **tool for strategic steering,** where the focus is on the periodic adjustment of policies and strategies and on the relevance of projects and programmes.

- **Serving different purposes**. Depending on its objective, an evaluation serves one or several of the following purposes:

> ***Purpose of Evaluations:***
> for further details refer to Annex 3.1.1 and SDC Manual 'External Evaluation', page 9.

  - **Accountability**: Producing evidence of results achieved (i.e. effectiveness) at the level of outputs and outcomes and in selected cases of impact; Showing the efficiency and relevance of (Swiss) development cooperation to political decision-makers and to the public.
  - **Learning**: Systematic learning from experiences by capitalizing experiences and drawing conclusions to guide future decisions regarding projects, programmes or policies.
  - **Quality improvement**: Identification of improvements in the approaches, methods and tools used for the implementation.
  - **Decision-making**: Support to making decisions regarding completion or continuation of projects by outlining options and consequences.

> ***Clarification of Purpose*** among all involved partners, incl. all concerned SDC-units (COOF, Country Desk, Thematic Services FSD) is essential as it has a number of implications with regard to:
> - Objective and scope
> - Type of evaluation
> - Approach, method
> - Selection of evaluators
> - Responsibilities for the design and implementation.
>
> A **checklist of issues to be considered** when commissioning an evaluation is given in Annex 3.1.2.

A 2 Types of Evaluations

- **The type of evaluation is basically defined by its purpose**. Depending on the specific purpose, the *timing* (ex-ante, accompanying, ex- post), *perspective* (external, internal, self-evaluation), and *focus of assessment* (accountability, learning/ improvement) will be different.

The SDC Guidelines on Evaluation and Controlling distinguish 4 basic types:

- **Independent Evaluation**
- **External Evaluation**
- **External Review**
- **Self-evaluation**

Characteristics of the four types:
see SDC Intraweb – Processes – External Evaluations:
'Criteria for Categorizing SDC Evaluations'

- **Choosing the appropriate type of evaluation** is an important step in commissioning an evaluation. If the emphasis is on *accountability*, the independence of the evaluators may be a key criterion, if *improvement of quality* is the issue, the evaluator's understanding of the project and its context and a strong participation of the project staff are more important. **Internal reviews** and **self-evaluations** are useful to complement the external view of evaluators with detailed inside views, strengthen the participation, and stimulate internal reflection. They are usually conducted prior to the external evaluation. Tools for self-evaluations range from simple SWOT-analysis to client satisfaction surveys, focus group discussions, and to participatory organisational appraisals.

B FSD Aspects

The assessment of evaluations of FSD-projects (Meta-Evaluation, June 2005) and the importance of demonstrating the effectiveness of development interventions has lead the thematic service for FSD to put the emphasis in the evaluation of FSD-projects on:

- **Accountability**, whereby results achieved at the level of outputs and outcomes and the relevance and efficiency of interventions are of particular interest.

- **Learning / Improvement of quality**, with a focus on capitalizing experiences and assessing delivery mechanisms (strategies, approaches, tools) as a basis for adjusting overall strategies, approaches and policies. Evaluations shall provide a systematic feedback of 'lessons learned' from the operational level to the conceptual, strategic level.

A few, but important, FSD-specific aspects to be considered while commissioning an evaluation are:

- **FSD-evaluations have in general to look at the whole undertaking**, not just at the project activity or the support component because, with the exception of macro-level projects, FSD-evaluations usually deal with an entrepreneurial activity where the survival of the institution as a whole is absolutely essential to achieving the project objectives.

- **Outreach and reaching the target group on a sustainable basis** is at the centre of the evaluation because SDC's support in FSD has the ultimate goal of broadening and deepening the access to financial services, an objective shared by all development oriented funders of FSD.

- **Social and environmental responsibility** should be considered and assessed as integral elements of good governance in responsible enterprises or governments.

- **Trend analysis and benchmarking with other institutions** of similar age and business should be an integral part of the evaluation. In general, related data is regularly collected in the financial and entrepreneurial sector (see also Module 2.1), in the ideal case, according to international standards. This data should be verified and used for the evaluation.
- **Context analysis as well as a closer look at the immediate environment** is particularly important, since the financial sector is in general extremely sensitive to political and economic developments.
- **Joint evaluations are recommended** where other sponsors are involved in supporting the same organization, not only for reasons of efficiency and of work load on the project partners, but also for providing an opportunity for mutual learning and harmonization.
- **A clear distinction should be made between evaluations of FSD interventions** and assessments such as the analysis of either organizational capacity of financial institutions (FIs), or of cooperation arrangements, or backstopping support for FSD projects. These assessments involve some elements of a result oriented evaluation, but are mainly concerned with the organizational set-up.

Content of Module:

A General Aspects

A 1 Mandating

- **General aspects and detailed procedures for commissioning an evaluation** are given in the guidelines of **SDC** published in the **Intranet**: Processes ▸ Strategic and operational processes ▸ External evaluation ▸ Important moments in cooperation ▸ Preliminary examination and decision

The results of the FSD Meta-evaluation, 2005 (see Annex I-1) point at the importance of evaluations for improving the result-orientation of FSD-projects and for showing the effectiveness of aid (accountability). Therefore, this manual places particular importance on the Evaluation Modules with additional emphasis on the General Aspects.

- **Getting the mandate right can make a difference** in
  a) the **quality** of the evaluation and
  b) the **absorption of results** by the involved partners.

The most important aspects of mandating are:

Key Questions	*To be considered*
Who is mandating?	The responsibility within SDC for mandating depends on the purpose and type of evaluation.
How to establish the Terms of Reference?	Circulating the draft ToR to all parties involved is mandatory to establish a consensus on the focus of the evaluation, ***but*** should not result in a long list of questions accommodating all concerns indiscriminately.
How to select the evaluator?	A clear concept for the evaluation is an important basis for defining the profile of the evaluator(s).
Is the evaluation mandate clear to all?	An explicit '*clarification of mandate*' between the evaluators and the mandating unit is essential to ascertain a mutual understanding of the ToR. The evaluators should have a chance to identify the 'hidden agendas' of various stakeholders.
When to plan and how to time the evaluation?	Planning well ahead allows mandating qualified evaluators. The timing of the evaluation should be adjusted as much as possible to the schedule of the evaluated organisation / project.

For a more detailed checklist, refer to Annex 3.2.1

A 2 Terms of Reference

Frequently observed short-comings of ToR indicate that the following aspects need to be accorded particular attention for writing clear and comprehensive ToR (based on the 'Meta-evaluation of FSD-evaluations', SDC June 2005).

Typical Structure and Content of Evaluation ToR

1. Background, Rationale
2. Purpose
3. Objectives and Key questions
4. Scope: issues, actors, geographical areas, levels (micro-meso-macro) to be assessed
5. Methodology
6. Profile, composition of evaluator team
7. Timeframe, logistics
8. Reporting

Criteria for assessing quality of ToR, see Annex 3.2.2

Key aspects of ToR	***to be considered***
Purpose	To be specified unambiguously and mutually agreed by project partners
Addressees	Mention explicitly who will use the evaluation results. Indicate for which audience the report needs to be written, i.e. terminology used, level of subject-specific knowledge anticipated, institutional context.
Objectives	Focused, limited in number and as specific as possible. Only a limited number of key questions per objective. ***Note*** that long lists of questions are easy to establish, but bear the risk that the evaluators decide on the focus, and not the mandating organization!
Description of context	A description of the sector, the institutional landscape and the activities of other stakeholders in the sector, namely other donor agencies, should be asked for explicitly.
References / linking the evaluation to relevant SDC-policies	Assessing the coherence of project design with relevant policies, strategies and generally accepted concepts is important for the improvement of strategies and operations.
Effects	Also ask for the observation / assessment of unintended effects.
Synthesis of 'lessons learned'	Should be an explicit task to ensure that evaluations contribute to the further development of policies and strategies

A 3 Standards for Implementation

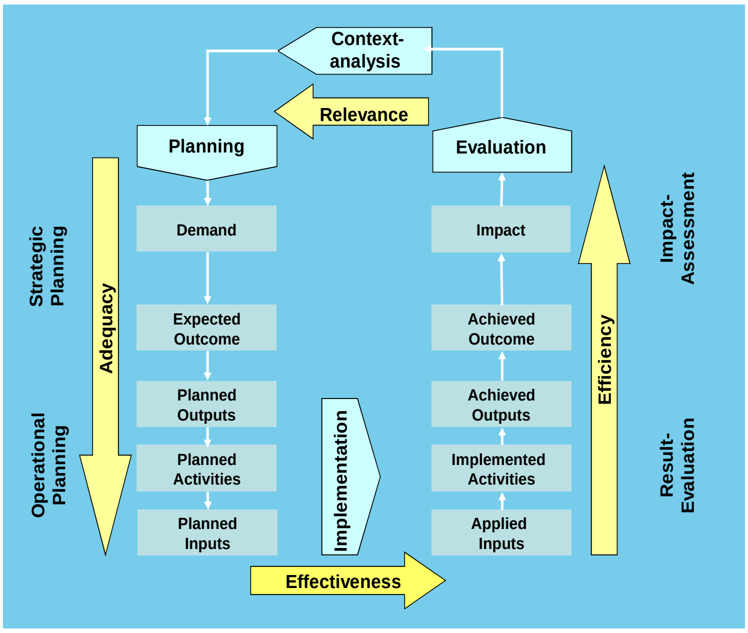
Applying evaluation standards as developed by evaluation societies **helps to ensure the quality of evaluations**. We recommend consulting such standards while planning an evaluation. The mandating agency and the evaluators both have a responsibility in this.

> ***Key Aspects of Evaluation Standards (acc. to SEVAL)***
>
> - **Utility:** information requirements of stakeholders are well considered.
> - **Feasibility of implementation:** evaluation is realistic, well conceived and cost-effective.
> - **Correctness:** legally and ethically correct, and taking into consideration the integrity of all involved.
> - **Accuracy:** producing valid and usable / relevant information.
>
> *See* ***www.seval.ch/de/standards/index.cfm***

A 4 Sequence of Evaluation and Criteria

An evaluation is basically a 'mirror' of the planning as shown in the figure below. In principle, it is conducted in **three steps** which correspond to the basic evaluation questions "*What did we achieve*?", "*Are we doing the right things*?", and "*Are we doing things right*?". These questions comprise the typical evaluation criteria efficiency, effectiveness, relevance and sustainability.

1 **Evaluating achieved results** against planned results shows how *effective* implementation was. The increasing demand for *aid effectiveness* requires a stronger focus on both *outputs* and *outcomes.* The assessment of *impact* is not part of an ordinary evaluation as it involves special methodologies and arrangements (see Module 3.3: A3). The information for this step of the evaluation should largely be available from the project's monitoring system.



2 **Assessing** the **rationale and scope of the project** means, relating *achieved results* to the *context*, namely to the *actual demand or needs*. This relation determines how *relevant* the project, respectively the intervention strategy is, and leads to the following questions:

- **Rationale**: Is the applied project strategy the most suitable (effective, efficient) one to achieve relevant results, i.e. to cater to the identified needs.

- **Scope**: Does the project work on the right levels (macro, meso, micro) with the right instruments? Is the project strategy too broad, unspecific, or too narrow, leaving out essential elements?

Thereby, the *actual* context and the changes since the planning of the intervention need to be considered to ensure a consistent evaluation of the original project strategy.

3 **Assessing** the **project design** and the **quality of implementation**, including the quality of the SDC-support, involves the comparison of the project with SDC's sector-specific strategies and with good practice or 'state of the art' in the particular sector.

A 5 Good Practice

✓ **Relevance, effectiveness, efficiency, sustainability** are used as standard criteria.

✓ **Quantitative and qualitative results** are **assessed explicitly** and **evaluated against set objectives**, which are ideally available in the form of a logframe.

✓ **Building on existing monitoring information,** drawn from the monitoring system of the project for assessing achievements.

✓ **Feed-back processes** during the implementation of the evaluation are essential to cross-check the external view of the evaluators with the insights and experiences of the actors involved, e.g. through discussion of working hypothesis at an early stage or feed-backs on preliminary findings and conclusions towards the end of the evaluation.

B FSD Aspects

B 1 Evaluation of Results

Key aspects that need to be focused on in the evaluation of results depend on the level of the SDC intervention (macro-, meso- and/or micro levels) and the objectives planned and agreed upon between the contracting partners. The following tables provide a list of typical aspects and questions to be taken into consideration, as the case may be.

1 Macro-level Projects	
General considerations	Macro-level projects have a huge potential to make a difference in FSD. Prerequisites are: government commitment, selection of the right point in time, and allowing for a sufficient time frame to show results.
Efficiency	Is the necessary know-how and specific expertise available within the project? Is the institutional set up and capacity in line with the project's objectives? Do or will the control and regulatory function correspond to good practices? Does the collaboration with other donors and knowledgeable entities allow for leverage? Is accurate data on the sector available?
Effectiveness	Is the project evolving according to plan? Are the changes introduced going in the right direction with regard to increasing outreach (breadth and depth), competition and security within the financial sector? Do the capital and other requirements also allow for and promote financial institutions other than commercial banks? How are risks of small enterprises, farms and poor households perceived and accounted for? Is trust built up and is there

	a provision to securitize savings? Does the national interest rate policy give the right incentives and allow for cost recovery? What is the policy for loan provisions and their taxation?
Relevance	Are the project activities helping to lift some of the key hindrances for a good functioning of the financial sector and/or for opening up access to financial services for all? Is there political support?
Sustainability	Are changes in the political environment or specifically in the financial sector taken into account or foreseen? Is the government authority monitoring the effects of its policy and making the necessary adaptations? Does regular and qualified controlling take place?
Lessons learned	What are the lessons to be drawn? Are changes needed in the design of the project or the planning?

2 Meso-level Projects	
General considerations	There are two types of partners at the meso level: networks for lobbying, exchange and mutual learning and independent entities, or apex organizations which offer support services to the financial institutions in the market.
Efficiency	**Networks** *): Is there active participation by the members and is the network working towards cost coverage? Is there ownership? **Support services:** Is there an entrepreneurial approach and behaviour on the side of the service provider? Is there a real demand for the service and is it affordable for the FIs? Does it replace a more expensive solution? Is the potential demand of the service large enough to keep the service alive?
Effectiveness	**Networks** *): Is there a value added for the members, such as mutual learning, international linkages, replacement of an internal service, e.g. training, improved negotiating capacity, etc.? Does it make a difference? **Support services:** Does the service have the quality necessary to make a difference on the demand side? Does it improve transparency and in general the functioning of the market?
Relevance	Does the service fill a critical gap, correspond to a need? Does it add to the good functioning of the FIs, especially the ones serving the target group?
Sustainability	Does the service organisation or the network have a long-term strategy and the capacity to adjust its services to a changing market/demand? Are the services cost-covering, can they reach financial self-sufficiency including the building of a capital stock?
Lessons learned	What is worth being documented and followed up for possible use elsewhere? Are changes needed in the design or planning of the project?

*) See also **'Format for Appraisal of Network Support Organizations, Technical Guide'** - CGAP 2007, www.cgap.org/p/site/c/template.rc/1.9.3002

3 *Micro-level Projects*	
General considerations	For the evaluation of a FI, the existing data serves as an entry point (see Module 2.1: Monitoring: internal and external control and reporting systems of FIs). **Quality**, accuracy and appropriateness **of these data** need, however, **to be verified**. Age of the FI and the environment it is operating in are, in general, critical for the results, their interpretation and for benchmarking. Trends (3 to 5 years) and early warning indicators are normally more telling than current data.
Efficiency	Has the support of SDC allowed increasing the number of active clients or number of active accounts and the area covered within the last three to five years, and in what relation to the money invested? Has competition in the market increased? Have the prices or operating costs for the financial services gone down?
Effectiveness	For SDC, effectiveness usually means outreach to the target group. Number of low income and poor clients, small businesses, farm families, women served, as defined in the planning phase (for poverty level, see Module 1.2: B2). Number of **drop-outs** or people who do not join as clients (reasons). Product adaptation to client needs: conditions, administrative hurdles and follow-up policy.
Relevance	Has the supported FI made a positive difference, or will it make one for the target population, the geographical area covered, the country with regard to access, quality and number of services, and a possible/observed positive impact on the clients, their families, and the community? Are there any negative effects, such as over indebtedness of clients etc.?
Sustainability	
• **Financial**	- **5 parameters** are of major concern for financial sustainability: Portfolio quality, profitability, financial self-sufficiency, capital adequacy and liquidity. (For the indicators, see Module 2.1: B2) - Capital structure and source of funds: dependencies, possibilities of growth. - Financial provisions and projections for the future: market developments, new competition, access to financial resources (refinancing and equity), economic and political developments, and possibilities of cost reduction.
• **Institutional**	- **Organizational structure and internal organization**: Clarity of responsibilities; flow and management of information (MIS); documentation of processes and procedures. - **Quality of manpower and management capacity**: Investment in human resources (training), career and succession planning. Salary and other incentive systems. - **Innovation capacity and risk management:** Client screening, product development, cost reduction measures, non-formal guarantees, etc. - **Ownership and governance:** Is the ownership clarified and documented? Does the governance body play its role of supervision and strategic guidance? Are the board members qualified and motivated for their job? No predominance of political or personal interests? - **Legal and regulatory support:** Is it functioning well, are there gaps to be filled or adjustments to be made? - **Growth potential and strategy:** Human resources, technical and adminis-

3 Micro-level Projects	
	trative capacities.
• **Social**	- It is important to check whether the social mission is kept up and has the support from the highest level of the FI (board and management). Has it been translated into product/service development adapted to the needs of clients? Are client protection measures taken into account? Are the personnel management and policy issues oriented to and serving the target group and the community? Do social standards prevail in HRD?
• **Ethics and Environment**	- Especially in the case of credits to small and medium enterprises, aspects of environmental damages and of unethical activities should be brought to notice.
Lessons learned	Effectiveness of innovations, tools and procedures? Are there steps to be taken by the FI and/or SDC for the improvement of future results; is the exit strategy realistic; do the design and planning need adaptation?

Standards for evaluating accomplished results are either levels of achievement defined in the planning documents or benchmarks generally agreed upon. For projects on the micro level, i.e. for Financial Institutions, minimal sets of performance indicators and related standards exist for the financial, institutional and social performance of FIs.
See Module 1.4: B2 and 2.1: B2 or www.microfinancegateway.org or www.cgap.org.

B 2 Evaluation of Project Design

References for assessing the project design are the 'Specific Requirements' and the 'Good Practices' for different types of FSD-Projects as given in the Module 1.3 / B 3 and the objectives and principles spelled out in the '*SDC-Policy for Financial Sector Development".*
For the evaluation of the **quality of implementation** the following aspects need to be considered:

1 FSD-instruments supported by SDC are applied according to 'Good Practices' mentioned in Module 1.3 / B 3;

2 Good practice of general project cycle management (PCM) is followed; and

3 Quality and quantity of SDC support is adequate.

4 Value added created thanks to the project design and its implementation?

Impact Assessment 3.3

Content of Module:

A General Aspects

A1 Definition of Impact Assessment (used by SDC)

- Impact assessments evaluate positive and negative, primary and secondary long-term effects produced by a project, directly or indirectly. These effects can be intended or unintended.
- Impact assessments have to take into account that the relevant context usually is a dynamic, complex system with a multitude of variables influencing the impacts. This implies a number of methodological challenges regarding the attribution of the observed effects (impacts) to particular causes, namely project interventions.

A2 Purpose of Impact Assessment

Impact assessments mainly serve three, closely interlinked purposes, i.e.:

- Checking relevance and effectiveness of specific intervention strategies, policies and instruments.
  ⇨ *Learning*
- Demonstrating effectiveness and relevance of development cooperation on a level beyond immediate project results.
  ⇨ *Accountability*
- Testing the underlying development hypothesis on which development cooperation builds (e.g. microfinance contributes to sustainable poverty reduction).
  ⇨ *Research*

A clear distinction between impact assessments and evaluations respectively reviews is necessary. While the latter are periodically used for the steering and improvement of individual projects or programmes on the operational level, impact assessments are a more strategic tool (see Module 3.2: A4 figure). They are selectively applied to produce insights needed for developing and/or improving instruments, strategies and policies, at the level of SDC and the international community, i.e. for steering on the strategic level. This distinction in the use of impact assessments compared to evaluations and reviews is also necessary due to the particularities of the methods applied.

A3 Methods

In principal, three methodological approaches for impact assessments can be distinguished: (*Sources*: 'Evidence from Impact Assessment' - Is microfinance a good poverty alleviation strategy? SIDA 2004: www.sida.se/sida/jsp/sida.jsp?d=118&a=3340&language=en_US and USAID's Private Sector Development Impact Assessment Initiative: www.microlinks.org/ev02.php?ID=13197_201&ID2=DO_TOPIC)

1 Scientific Methods (experimental and quasi-experimental)

- Seek to provide evidence that effects can be attributed to causes through experimentation. Given the difficulty that experimental design is virtually unfeasible in the social sciences, quasi-experimental approaches are usually employed, i.e.:
  - Relate to baseline study if such exists;
  - Compare outcomes and impacts of intervention with a simulation of what would have happened without the intervention;
  - Control group approach where a 'before - after' comparison is made between a group that receives support and one that does not.

2 Qualitative Methods

- Inductive approach, i.e. focusing on key informants and on recording by notes or images. Usually the data analysts are directly involved in the data collection.
- Build on and emphasize the importance of observation and the value of subjective interpretation.

3 Participatory Learning and Action Research

- Case studies relying on extensive narrative descriptions by beneficiaries of programmes and on other evidence to assert that activities have caused certain outcomes and impacts.
- Use multiple sources of information including direct observation, interviews, and documents.

In practice, these approaches are often combined in a balanced way to get a comprehensive picture.

Challenges / Methodological Problems

- **Attribution gap** of effects to the project activities.
- **Non-random programme placement**: The placement of a programme in a particular area introduces a specific bias in terms of impact.
- **Non-random participation**: Likewise, the selection of beneficiary groups influences the results in terms of impact, making it difficult to attribute impacts solely to the type of activity.
- **Representative participation / Profile of control group**: question of bias, reason for non participation, comparability of environment, etc.
- **The impact study** basically has to **relate to the development goal** that has been defined and agreed upon during planning and has to look at other impacts as additional effects.

A4 Skills / Resources (for data collection and analysis)

Impact assessment studies which fulfil a minimal methodological and scientific standard require considerable skills, are usually time consuming, and costly. Ideally they can rely on base line data for comparison or at least on a control group with its advantages and disadvantages (e.g. danger of biased, non-random selection).

Therefore, the purpose and adequacy of the exercise should always be carefully clarified. Impact assessments need to be well planned. Usually, implementation after the termination of a project or at intervals of 5 to 10 years makes sense.

If a full-fledged impact assessment is not possible, there exist instruments that can and should be used more regularly and still allow for a good proxy measurement with regard to impact. They are usually more qualitative than quantitative, or a mix of both. Examples are household surveys, market research, participatory appraisals and case studies.

B FSD Aspects

Methodologically, the financial sector does not require specific approaches for impact assessment. The key questions are the same as in other sectors: What impacts are expected and shall be measured on what level? Are there positive or negative impacts which were not foreseen or intended?

An advantage of the FSD is that many of the tools used for monitoring (e.g. PPI, SPI, client satisfaction or client-exit surveys) can serve as a valuable (data) base for impact assessment, if the related data is systematically and reliably collected. However, special attention has to be paid to the fungibility of loans (money) and to the diversity of financial services and service providers that are used in a particular context by poor people.

> Client Satisfaction Survey:
> www.seepnetwork.org/Resources/646_file aimstools.pdf
>
> Client Exit Surveys:
> www.seepnetwork.org

The FSD-specific aspects, therefore, mainly relate to the type of impact expected on the different levels. The following tables provide a selection of typical impacts.

Examples for Impact in Financial Sector Development

1 Macro-level Projects
• Increased competition in the market: Cost and interest rate reduction, search for a new group of clientele (deepening), and new products. • Stability (security) of the financial institutions and the sector as a whole has increased (fewer cases of bankruptcy, etc.). • Economic growth including the poor, low income families, small businesses, etc. (GDP, employment rate, poverty reduction index, etc.).

2 Meso-level Projects

- Effects of the services at the level of the FIs:
  - Has the quality of services and the outreach of FIs increased (increased capacity on the level of the FIs)?
  - Does the target group benefit from the taken measures in the short and in the long term and, if so, how?
  - What are the side effects (cost structure, dependency, exclusion of a certain group of people and enterprises, etc.)?

3 Micro-level Projects

- How do the services affect positively and negatively the target group, the poor, women, small enterprises, and the like: Increase of income, assets and debts; aspects of over indebtedness and of vulnerability; schooling of children and access to healthy food; empowerment, social status and new dependencies? How significant is the impact in relation to the problem identified? What is its influence on national and/or regional level?
- What is its significance with regard to outreach (breadth)?
- Was there an influence on other FIs, on the market, and on the national-policy level?

Annex

A Manual on Managing Cooperation in Financial Sector Development

Strategic and Operational Project Cycle Management

Note: In Annex 1.1.1 & 1.5.1 & 1.5.2 reference is made to *supporting documents* which are embedded as attachments in this pdf-file. To provide an overview of these documents, a *cover page* (for a print version) and a *list of contents* is also embedded as a separate document.

Summary of Meta-Evaluation of Financial Sector Projects & Programmes

1 Objectives

- Assess strengths and weaknesses of evaluations with regard to process, approach, structure, and linkage to the PCM-process, etc.
- Assess how the planning, monitoring and evaluation processes and instruments complement each other.

2 Findings and Conclusions

- *Purpose of evaluations* is in most cases on the *formative* aspect, i.e. on improving a next phase.
  a) puts focus on the improvement of the PCM-process at project level,
  b) gives little consideration to “accountability for results”.
- *Causes for an inadequate result-orientation of evaluations and projects* are:
  a) no clearly defined or identifiable, quantitative results,
  b) insufficient clarification of responsibility for measuring and achieving results among project partners,
  c) weak context assessments which prevents an adequate evaluation of the projects' relevance
  d) the apparent weakness of projects in applying available FSD monitoring tools systematically.
- *Quality of PCM-processes* is weak in terms of linking the project level with the strategic level, i.e.:
  a) principles of the FSD policy are hardly used as reference for the evaluations
  b) evaluations provide little systematic information for the further development of the strategy
  c) feed-back loops between the monitoring and evaluation of projects and the level of strategy and policy, all important for institutional learning, are hardly made by the project evaluations.
- The *underlying causes* are found *in institutional conditions of SDC* rather than at the level of tools. The “thin capacity and unclear role of the FSD team” (CGAP-review), prevents a systematic and binding involvement in the design and evaluation of FSD interventions to ascertain compliance with FSD principles and to capitalize project experiences for strategic purposes. Whereas the main responsibility for the quality of FSD interventions is with the line-units of SDC, these units do not always have sufficient expertise and ”incentives to build expertise are limited” (CGAP-review).

3 Recommendations

- *Define minimal standards for Terms of References for evaluations* as key to improving the quality of evaluations and the feed-back loops / link between project and strategic level
- *Enhance competence and capacity of those responsible for planning and monitoring FSD-interventions* as a means to improve the result-orientation, in particular the design of projects along established principles and good practice as well as the application of principles of good monitoring.
- *Institutionally, strengthening the role of FSD focal point* in supervising FSD-interventions, to improve the quality of projects and the link between the project and the strategic level and by doing so, strengthening the institutional learning.

SDC Policy for Financial Sector Development – *Summary of Up-date 2007*

Note: for full version see document "SDC Policy for Financial Sector Development 2007" https://intraweb.deza.admin.ch/en/Home/Organisation/F_Bereich_Themen_und_Fachwissen/Thematische_Leitdokumente/Wirtschaft_und_Beschaeftigung/Politiken_Leitlinien_und_Strategien

Summary

Financial sector: function and relevance

The financial sector of a country comprises all individual and institutional players in the financial market, both on the supply and on the demand side, along with the market's legislative and regulatory framework. Well-functioning financial markets are an essential factor facilitating the generation of income, employment and asset building by small enterprises, farmers and poor households (notably women). Such financial markets can contribute to SDC's efforts to alleviate poverty effectively, provided that SDC's target groups are also able to access essential 'non-financial' services like education, health, physical infrastructure, market information, etc. Still, only a small proportion of the economically active, yet poor population in developing countries has access to formal financial services. The key development role of the international community is therefore to facilitate the rapid outreach of institutional financial services to large numbers of poor people.

SDC financial sector policy: rationale, goal and strategic orientation

The policy offers strategic guidance to SDC decision-makers at head office and the co-operation offices, executing Swiss, international and national agencies, and consultants so as to ensure coherent and effective financial sector development (FSD) projects. It also guides SDC positions in multilateral organisations. Guidelines, tools and other instruments supplement it.

SDC supports its partners in their development, while aiming at sustainability and maximum depth and breadth of outreach (access), by strengthening financial sectors at four levels:

- Demand side: helping clients in strengthening their social capital and financial literacy, and thus their bargaining position, so as to facilitate their access to institutional financial services.
- Supply side: supporting financial institutions that have the potential to significantly expand their services to SDC's target groups on a cost-covering basis and share the development vision in becoming viable institutions to maximise their breath and depth of outreach.
- Infrastructure: supporting networks and associations of financial institutions, training institutions, rating agencies, credit bureaus, auditors, transfer and payment systems, information-technology and technical-assistance providers, etc., so as to strengthen FSD.
- Policy, regulatory, and supervisory framework: supporting regulatory and supervisory institutions and financial sector reform where framework conditions impede FSD.

SDC gives priority to rural areas and to capacity development in its FSD projects, and intervenes particularly at the first three levels mentioned above.

SDC financial sector policy: operational principles and instruments

Demand-side measures

- SDC does not intervene directly on behalf of its target groups, but through dedicated and skilled support organizations (e.g. member-based associations, self-help groups) that help the target groups to empower themselves through the choice and effective use of diverse, client-friendly and reliable financial services.

- Realizing synergies with other development programmes, notably in the fields of small enterprise development and rural development. Very poor people in particular can only use financial services effectively in combination with access to essential 'non-financial' services.

Supply-side measures

- Support is provided to financial institutions with a clear vision of providing SDC's target groups with lasting access to financial services that are financially and institutionally viable or have a clear plan for reaching such status. Revolving credit funds should thus generally be avoided, as they tend to fail to cover costs, have a limited client outreach, and face a trade-off in pursuing a mix of a wide range of social, economic and project-specific objectives.
- Application of "good practice" management and a "client first" attitude that appropriately addresses the needs of the clients. Particular attention is paid to savings mobilization as a client service and with respect to a healthy liability structure including savings deposits.
- Considering the lack of banks catering to poor rural clients, the 'up-scaling' approach is still very relevant in the South. Microfinance service providers with a vision and potential for economic viability and large-scale outreach are strengthened, thereby leading to their potential transformation into regulated institutions. SDC may offer them capacity development, technical assistance, risk capital instruments (e.g. grants or guarantees) and facilitated access to domestic capital markets or to international social investors so as to improve their governance and financial leverage.
- This 'linkage' approach of bringing self-help groups, their associations, or other types of semi-formal financial service providers together with formal financial institutions (strategic alliances) helps reduce both risks and financial transaction costs. SDC may facilitate linkage processes through institution building of self-help groups and their associations on the one side, and that of financial institutions on the other side. It may underwrite risks by guaranteeing the financial institutions a percentage of their loan portfolio.
- The 'greenfield' approach of creating new financial institutions is only justified where no institutions are present or existing ones are not willing to extend their services to SDC's target groups in a financially and institutionally sustainable manner. It normally requires long-term support and high capital outlays. SDC may cover part of the start-up costs and facilitate the access to (social) investors.
- The 'down-scaling' approach can be a promising strategy, particularly in small enterprise finance and in more mature financial markets where significant bank branch networks exist (e.g. in Eastern Europe). The commitment and strategies of banks to target small enterprises and/or poorer market segments is essential for down-scaling. Support to fully operational banks to deepen outreach to SDC's target groups on a long-term, profitable basis may cover technical assistance, training and access to long-term refinancing sources.
- In the course of financial sector deregulation of former socialist systems, SDC may assist in the restructuring of development and agricultural banks and apex institutions, if they assume strategic roles vis-à-vis retail financial institutions serving SDC's target groups in terms of refinancing, guarantees, equity participation, securitization, etc.

Support of the financial sector's infrastructure

SDC may support the infrastructure with technical assistance, the organization and (co-financing) of national and international partnerships, exchange visits, traineeships, quality analytical work, seminars and conferences. It includes improving the quality and flow of information between financial institutions, their clients, investors and the general public.

Support of the financial sector's policy and regulatory framework

Financial sector reforms for greater breadth and depth are needed to create more competition for improved services at lower costs. This requires not only banking laws conducive to development of finance institutions, but also efficient, non-bureaucratic supervisory mechanisms. SDC may engage in policy dialogue and in innovation and reform processes of the regulatory and supervisory environment, in close co-ordination with other bilateral and multilateral donors.

General operational principles and priorities

SDC's interventions comply with the following main operational principles and priorities:

- Based on a sector-wide analysis, country-specific strategies are designed to take into consideration local priorities, partnerships, and SDC's comparative advantages.
- SDC aims at capitalising potential synergies in its FSD operations with interventions in agriculture, small enterprise development, (functional) literacy and integrated approaches, without compromising the need to institutionally separate financial and non-financial services.
- Capacity development is essential at all levels for the strengthening of financial sectors. An institutional perspective and joint planning of capacity development measures enhance ownership and integration into the partners' own strategies and resource plans.
- Recognition of the strategic importance of savings mobilisation, as savings promotes the autonomy of the target groups, the financial institutions and the national economy.
- SDC supports the development, testing and dissemination of innovative banking technologies adapted to local conditions that help rural financial institutions to reduce the relatively high transaction costs and risks associated with services to the agricultural sector.
- Importance is given to the capitalisation, exchange and dissemination of practical experiences and good practices.
- The quality of the planning, monitoring, and evaluation practices and the "accountability for results" in SDC's financial sector operations will be enhanced, building on internationally recognised methods, indicators, and in-depth institutional dialogue with SDC's partners. Importance will be given to both financial and social (development) performance.

SDC's main comparative advantages in FSD

SDC sees its main comparative advantages as follows:

- Rural finance, capitalising on synergies with complementary rural development activities.
- Proximity to partners and understanding of local contexts.
- Ability to work in multi-partner arrangements at retail, infrastructure, and policy levels.
- Ability to take risk and to engage early or to stay on in an institution's development process.
- Supporting innovation and experimentation.
- Development cooperation with a long-term perspective.
- Diversity of instruments that can be used flexibly according to local needs and conditions.
- Capacity development at all levels.

Example of a Due Diligence Exercise (Terms of Reference)

Criteria to be looked at and questions to be asked:

a) Eligibility criteria for financing under the Project (*bullet points*)

b) Additional issues and questions to be addressed as part of the Due Diligence exercise (*italic*)

1 Clients

- A demonstrated commitment to serve those who have no access to formal financial institutions in the statutes and business plan, and carried out in their operations.
- A demonstrated commitment to reach those in underserved areas (within the single economic space of Bosnia & Herzegovina).
- More than 1,000 clients outstanding for individual lending and more than 3,000 clients outstanding for group lending and increasing growth each year.

Describe the key leader or leaders who principally determine the MFI's vision and operations. Comment on any notable strengths or weaknesses of the leadership that are apparent.

How does the MFI's performance compare to their stated mission? Has the MFI achieved its mission? How realistic is the MFI's business plan regarding outreach to underserved clients and underserved areas based on their performance, to date?

2 Loan Products and Lending Practices

- Maximum first loan disbursed of less than 2 times per capita GDP (based on IMP numbers for 1999)
- Average first loan disbursed size of less than 1.5 times per capita GDP (based on IMP numbers for 1999)

These would be subject to review during the mid-term review and possibly modified based on economic growth trends and client demand.

List all the loan products and comment on the requirements that accompany each product. What lending methodologies does the MFI utilize (specify individual vs. group by money disbursed, outstanding balances and active clients). Describe the MFI's key lending policies, client assessment, collateral, collection, etc.

What types of collateral does the MFI require? Does the MFI tend to over-collateralize loans (taking into account the MFI's mission and that target clients include war-affected people)? Calculate the theoretical interest yield for the MFI expressed as an APR, and the cost to the client for each loan product (using the CGAP computation methodology).

Are internal controls for loan approval and processing adequate? Is it ensured at both HQ and branch level that any lending decision requires the written approval of at least two persons and it is a third person who enters inputs into the loan tracking/accounting system?

Describe the internal controls in place with regard to cash management and to segregation of duties concerning credit decisions. How formal are these procedures?

How are credit operations audited for fraud? What controls are in place to ensure that loan funds do not get disbursed to related companies/relatives of the employees of the MFIs?

Does the institution monitor dropout rates? If so, how? Does it investigate reasons for client dropout and factor this information into its product design? If not, is this regarded as a future issue?

Does the MFI currently offer, or plan to offer, any new products or services? Comment on the implications for the institution's business plan projections and competitiveness/viability.

3 Institutional / Management

3.1 Legal Structure / Governance

- Legally registered as a micro credit organization
- Board of directors independent of management i.e. have no relatives on the staff.
- The Board members possess necessary skills and experience to carry out their responsibilities.
- Board members have no loans from the MCO and do not conduct any illegal business.
- The Board meetings are on a regular basis.
- The Board receives needed information from institution on time.
- The Board minutes are in place with description of meeting and relevant decisions.

Review and comment on the quality of the institution's statutes. Do the statutes include term limits, a system for rotating off the Board and a method of Board member assessment?

Describe the structure and selection of the board of directors. Describe the quality of the relationship between the MFI's managers and its board. Characterize the level of control exercised by the board. What is the policy, if any, on which issues the board gets involved and which it leaves to management. Provide recommendations as to overall governance and accountability issues.

3.2 Human Resource Management

- Management team possesses the skills needed for successfully running the institution.
  Lower level staff are strongly supported by management, by adequate information as well as informed about the institution's policies and procedures in institution, including staffing policies and procedures
- Transparency in the selection of staff and quality of staff training.
- Adequate staff compensation policy.
- Sufficient investment in staff training and professional development.
- Clearly defined and implemented staff performance evaluation process with merit based compensation strategy.

Attach the current organisational chart and explain whether lines of authority and roles and responsibilities are clear and appropriate to the size of the institution.

Comment whether the MFI has qualified and experienced management, with well defined policies and written procedures for management of all financial risks

Comment on the quality and motivation of credit officers, on staff turnover, and on institutional dependence on international staff/outside consultants.

3.3 Information System

- Computerized accounting system in accordance with international accounting standards and appropriate domestic regulations.
- System must be capable of producing appropriate reports and financial information in a timely, reliable and applicable manner.

- Accounting procedures must be clearly documented.
- Audited financial statements before disbursement. For the first round this will mean 2000 audited financials - no disbursement will be made until the 2000 audited financials are completed and unqualified. They will also need to correspond with the draft audited financials used by the due diligence team.
- Computerized database able to provide timely (at least weekly) reports on total loan portfolio, including the portfolio classification.
- All systems must meet basic conditions of quality and security, with back-up procedures and be capable to meet the needs of a growing institution.

Review the latest two audit reports and management letters (where available). Follow up and comment on the measures that the institution has implemented as a response to the management letter.

Where relevant, review the Independent MIS Assessment Report, carried out by MEDA Consulting Group, to ensure all relevant recommendations have been actioned or are being actioned.

3.4 Planning and Budgeting

- Strategic plan for three to five years
- This plan must include institutional goals and strategies for reaching goals, based on reasonable assumptions, internally coherent and adaptable to real MFI possibilities. The plan is updated as needed and used in decision-making process.
- Budget projections based on reasonable assumptions, regularly updated and used as a key tool in decision-making process
- For the last financial year a completed comparison of plan vs. actual budget performance

What policies and controls are in place with regard to investment decisions? (Acquisition of a company, institution, purchase of a building, creation of a daughter company, etc.) When making an investment decision in fixed assets, has the FI considered the different options available (e.g. leasing vs. purchase), and has it made the decision based on a cost benefit analysis?

Review the accuracy, reliability and timeliness of regular management reports. Were management reports reviewed by the Board and the management team for appropriate decision making?

3.5 Internal Controls / Manuals

- Internal control system in accordance with the nature and size of the institution with clear procedures for guarding against inaccuracy, incompleteness, and fraud. This will include defined responsibilities and duties, separated functions, cross checking and double signing.
- Internal Audit function, as appropriate for nature and size of institution.
- All procedures and policies documented in manuals and circulated to staff including credit or operations, administrative and internal control staff.

In the absence of an internal audit function, what are the key tools to ensure appropriate and key internal controls are in place?

4 Financial Performance

4.1 Asset Quality - Annual

- Classification of loans at 30, 60 and 90 days and rescheduled loans
- PAR less than 5% after 30 days (i.e. outstanding principal balance of all loans with one or more payment(s) more than 30 days late divided by the Gross Portfolio Outstanding.
- Loan Loss Reserve of not less than 2% of the outstanding portfolio
- Write Offs less than 3% of the average outstanding portfolio
- Rescheduled loans less than 5 % of the outstanding portfolio

Review the MFI's policies associated with assessing portfolio risk, aging schedules, classification methods and loan loss provisioning. Comment on their write-off policy. Does the MFI adhere to accepted accounting standards. Comment on whether policies and procedures for the classification and aging of loans are adequate.

Comment whether the MFI has appropriate policies and procedures for branch lending and portfolio management.

4.2 Profitability

- Positive ROA adjusted for inflation and in-kind subsidies (not cost of funds) based on 31 December 2000 audited financial statements.
  This will need to be calculated so as not to overstate income. For MCOs that take an up-front fee/interest, an accrual basis for calculating income will be required.

Provide profitability and efficiency trends analysis of the MFI using the adjustment methods as outlined in the CGAP Technical Tool Series NOA/July 1999. For the cost of funds adjustment factor, use 6 months OM FIBOR+6 percent p.a. For the inflation adjustment factor, use the simple average of the official inflation rates in the two entities in 2000. Provide detailed comments on all adjustments.

Provide an income statement and a balance sheet before adjustments for inflation and subsidies for the four most recent semi-annual periods with detailed comments.

State whether the MFI uses cash or accrual method of accounting.

Provide detailed explanatory notes for the interest calculation and for policy with regard to stopping and reversing the accrual of interest income on non-performing loans.

- Business Plan showing improving trend in this AROA
- Business Plan also showing improving trend in Operating Efficiency

Does management effectively balance the goal of achieving financial sustainability with the need for institutional development and reaching out to low-income clients?

Comment on the financial sustainability of the MFI over the longer term.

How committed is the management to efficiency? Do high interest rates hide unnecessarily high operating costs?

How profitable is the MFI vs. other MFIs in the country and the industry's benchmark?

4.3 Liquidity

- Last year's (2000) cash flow projection against actual cash flow
- One year future (2001) cash flow projection
- Liquidity Management Policy in the operations manual

Describe the liquidity policies and procedures used by the MFI. Assess the long-term liquidity of the MFI and in your opinion, the liquidity position of the MFI in short to medium term.

Assess the capacity of current financial management with regard to cash flow management. In the current practice of the MFIs, liquidity management is limited to basic cash flow management. This should, however, be based on cross-checked cash flow projections. Comment on the completeness and accuracy of implemented cash management principles. Would the MFI have the professional capacity for liquidity management, if it were transitioning to commercial sources of funding or to deposit-taking?

4.4 Capacity Adequacy and Balance Sheet Structure

- Equity / Risk Assets ratio not less than 15%

Checklist for Appraisal and Selection of FSD Project Strategies

Criteria	*Questions / issues*
Relevance	The **key question** is, whether the project '**makes financial markets work for the poor**'? Does it stimulate the financial sector such that significantly more so far not served or underserved people can access financial services which meet their financial needs on a lasting basis at affordable costs? **More specifically** this means whether **the project is instrumental for the following:**
a) Outreach expansion	***Depth** expansion:* - Reaching lower market segments through new innovative products or through existing products at reduced transaction costs which meet the particular needs of the poor and very poor (e.g. daily available financial transaction at the doorstep). ***Breadth** expansion*: - Reaching existing clientele at a much bigger scale through branch network. Expansion or new innovative product delivery mechanisms (e.g. mobile phone banking). - Leading to increased competition that will ultimately result in lower rates for the clients and/or improved quality of services.
b) Target group orientation	- Reaching the target groups of SDC? (see **poverty assessment tools** module 1.2 / B 2) - Improving the management of household cash flows. - Reducing financial risks and vulnerabilities through savings and micro insurance. - Generating higher income (e.g. quick micro loan to seize sudden income opportunity). Leading to better nutrition, health, education, empowerment of women at the household and community level, etc.
c) Gender aspects	- Giving women control over the household finances. (*Note*: Women may even suffer from repayment obligations for loans misused by male family members) - Establishing services and products tailored to the specific needs of women.
d) Client retention	- Leading to increased client trust and retention, growing demand for financial services, gradually reducing transaction cost, etc.
e) Subsidiarity	**Does the project:** - only offer services that cannot be generated in the domestic market at comparable costs? - not compete with local or national service providers? (i.e. no crowding out of the private sector).
Sustainability	**The project is instrumental for the following:** - Capacitating partner FIs to offer the new services and products at affordable and competitive conditions after the termination of the project. (Note: Sustainability of FIs is strongly influenced by market forces that are a reflection of the overall socio-economic and political environment as well as the regulatory framework.)
a) Institutional	- Improving institutional sustainability, i.e. the FI has a qualified and dedicated management and motivated, competent personnel offering client-oriented services by means of appropriate management systems. Good governance with a board ensuring maximum transparency and accountability towards the clients, the staff and the investors.

b) Financial	- Improving financial sustainability, i.e. FI covers all operating and financial costs and generates sufficient profit to build up necessary financial resources and to invest in its expansion of its branch network to maximise outreach. E.g. the FI can develop alternative refinancing sources, particularly savings mobilization and loans from domestic banks, as a result of its increased creditworthiness, so that it no longer depends on cheap donor credit lines.

c) Social	- Improving social sustainability, i.e. FI shows a social responsibility towards the:
	  - Clients: financial products offered meet their financial needs and are affordable for them. Clients are not brought into financial difficulties.
	  - Staff: are treated fairly without gender, race and social discrimination and paid according to market rates.
	  - Local community: if the clients succeed in their livelihood conditions, the local community benefits as well. This includes the support of clients' activities that are socially and environmentally appropriate within their local communities.

Consistency with SDC's financial sector policy	**The project is instrumental for the following:** - Promoting/following market-oriented and business principles and approaches since FSP is part of **private sector promotion** - Promoting **institutional capacity-building:** Lack of professional retail capacity constitutes the single most important constraint for outreach expansion in many developing countries. Therefore, all projects should focus on institutional and human capacity-building so as to facilitate the growth of strong FIs that can expand rapidly their retail capacity. - Promoting **an enabling environment,** since FSD-projects are particularly sensitive to changes in the socio-economic and political environment and of the regulatory and supervisory framework. E.g.: an interest rate ceiling imposed by government would render the expansion of outreach and breadth of financial services in rural areas impossible. - Promote the social capital of the target groups in dealing with FIs. - Relevant for rural finance, i.e. supporting outreach in rural areas.
Scope and comparative advantage of SDC	To determine the scope of SDC support, the following aspects need to be considered: - Financial envelop: How many FIs and/or other implementers, number of intervention strategies and levels can be envisaged for support? - Comparative advantages of SDC for a particular context or intervention? - On which partnerships can SDC draw? What is their track record at the sub-national or national level or even in the wider region? - Which FSD-related synergies with other interventions in other sectors at the sub-national or national level, particular expertise at SDC or in Switzerland are possible? - Alignment and harmonisation: How does SDC support fit with local strategies? How can SDC increase its scope through complementarities with other inventions and donors? Mutual exchange and sharing of experience among donors and with the policy-makers are preconditions for exploiting synergies for larger development impacts? I.e. how can the project along the imperatives of donor.

Good Practice Examples for Entry Proposals, Project Documents and Credit Proposals for FSD Projects

To provide some guidance for the elaboration of Entry Proposals, Project Documents and Credit Proposals, good practice examples for Financial Sector Development (FSD) projects are provided *in the attachment to this introductory note.*

The examples were chosen with the aim to represent each step of the formal decision-making process within SDC and selected types of engagements represented in SDC`s Financial Sector Development Portfolio. The following statements aim at guiding you to the most suitable example:

- You are looking for representative examples for **the whole chain** of key documents in the SDC decision making process:

  The *"Access to Rural Financial Services in the Vinnitsa Region of **Ukraine**"* project is documented with its Entry Proposal, Project Document and Credit Proposal. The Ukraine Rural Finance Project is a not too complex case representing a quite common type of FSD project, namely a financial services component within a larger rural development programme. It avoids a credit fund, an instrument that is rarely successful.

- You are looking for an Entry Proposal, Project Document or Credit Proposal for a **credit or financial services component** within a larger multi-purpose development programme.

  Here again, the *Ukraine Rural Financial Services* project is a good example.

- You are looking for a good practice example of an **Entry Proposal** in the field of **microinsurance,** also representing a **Public Private Development Partnership (PPDP)** in FSD.

  The *Draft Proposal "Microinsurance: Learning, Innovation, Pilot Activities"* covers SDC`s PPDP with Zurich Financial Services and the International Labour Organization ILO.

- You are looking for an **Entry Proposal** for a complex, **sector wide, multi-donor (harmonized) project** in FSD.

  This type of project is represented with the Entry Proposal for the ***Pakistan*** *"Financial Sector Development Programme".*

- You are looking for a **Project Document and Credit Proposal** for the support of a **regional network** to strengthen microfinance institutions in several countries.

  Have a look at the Credit Proposal and Project Document for PAMIGA, Participatory Microfinance Group for **Africa.**

- You are looking for a **2nd. Phase Credit Proposal** of an FSD project aiming at a more efficient, sustainable and **inclusive financial system.**

  This type of credit proposal and project is represented with "*PROMIFIN: Financial services programme for low-income groups" (in **Central America**).*

Templates for Agreements with Financial Institutions

To provide guidance for the elaboration of agreements and to ensure coherence with SDC's legal requirements, templates for the three most common types of agreements SDC is concluding with financial institutions, are provided *in the attachment to this introductory note.*

The templates contain all essential articles and annexes of such agreements. Thereby the articles entitled "Anti-corruption clause", "Verification", "Applicable Law and Arbitration", and "General Conditions" reflect a legal standard for all SDC agreements and must be used with the wording given in the template. The other articles and the annexes also need to be included in all agreements, but their contents may require adaptation to the particular situation of each FSD project. Following are some specific explanations for each template:

1 Grant Agreement

- Article 6 entitled "Ownership of fixed assets" is only required, if SDC is co-funding a substantial share of fixed assets of the FI. Initial ownership control over the fixed assets allows SDC to transfer ownership to the FI as an incentive for meeting the agreed performance indicators at the conclusion of the partnership.
- Annex 2 is a concise and operationally useful summary of the SDC project document with a sufficiently detailed budget breakdown to serve as operational and financial monitoring tool, apart from the reporting requirements of the FI specified in Article 5.

2 Loan Agreement

- Article 6 entitled "Technical Assistance" is required only when SDC is offering TA in addition to loan funds. In this case, annex 5 should specify the TA offered. If the TA is substantial, the template for Grant Agreements may be used in addition as a separate agreement, or else the two templates (Loan & Grant Agreement) need to be merged into one single agreement.
- Annex 2, Part II applies to infant/immature FIs only.
- The reporting requirements in Article 5 and Annex 4 are comprehensive and may be reduced, as required.

3 'Wholesale' Portfolio Guarantee Agreement

- The template refers to the Financial Institution (FI) as the direct partner of SDC and the "financial service providers" as the borrowers/clients of the FI. "Financial service providers" are formal or informal FIs. The terminology is used to distinguish them clearly from the FI (which in most cases will be a commercial bank).
- The reporting requirements in Article 5 and Annex 3 are comprehensive and may be reduced, as required.
- Annex 4 regarding institutional support offered to the "financial service provider(s)" may be identical with or similar to Annex 2 of the Grant Agreement(s) between SDC and "financial service provider(s)".

It is recommended to consult with a local lawyer prior to the conclusion of an agreement to check its compatibility with local law. The Focal Point E&I at SDC head office can be consulted for content related issues (hans.ramm@deza.admin.ch).

Using the templates: Shaded boxes (   ) in the templates indicate where specific information needs to be inserted. *Guiding notes* provide ideas regarding the type of information needed. *Explanatory notes* on selected issues are given below the relevant sections. These **notes** are written in *italic, blue font* and can be **shown** by **activating** the ¶ *- icon* and **hidden** by **de-activating** the ¶ *- icon* (MS Office 2003: see menu bar 'Standard' / MS Office 2007: see menu 'Start' – 'Paragraph').
The notes will *not* be printed unless the printer options set for the documents are changed.

SDC Working Aid for Equity Participation (available only in German)

ARBEITSHILFE: Kapitalbeteiligungen an Finanzinstitutionen: WANN? WIE?

1 Einleitung / Zielsetzung

Im Rahmen der Förderung des Privatsektors ist die Kapitalbeteiligung (KB) ein mögliches EZA-Instrument für die DEZA, damit die Kapitalbasis einer Institution verbreitert und gesichert werden kann. Erfahrungen haben gezeigt, dass KB gegenüber anderer Instrumente, wie Darlehen oder Schenkungen, in gewissen Bereichen Vorteile geniessen (Mitbestimmung, Mitverantwortung), aber in ihrer Anwendung komplizierter als andere sind (Haftung, Ausstieg). Sie verdienen daher besondere Beachtung und das Erstellen dieser Arbeitshilfe.

KB sind für Finanzinstitutionen (z.B. Kleinbanken, Stiftungen) von besonderem Interesse und kommen auch hauptsächlich dort zum Einsatz. Deshalb entsteht diese Arbeitshilfe im Rahmen der DEZA-Sektorpolitik Finanzwesen und beschränkt sich auf KB an Finanzinstitutionen. Beim Einsatz von KB ist die Weisung 4B („Rotationsfonds und Kapitalbeteiligungen" vom 1.1.98) zu beachten.

Ziel dieser Arbeitshilfe ist (a) die Erläuterung der strategischen Überlegungen zum Einsatz von KB an Finanzinstitutionen (Wann?), und (b) die Erstellung einer Anwendungshilfe (Wie?) bei deren Einsatz.

Zukünftige Erfahrungen und Erkenntnisse mit KB werden regelmässig aufgearbeitet und in die Arbeitshilfe integriert. Im Bewusstsein der Besonderheit von Image, Signale und Rolle einer staatlichen Entwicklungsagentur wird bei der nächsten Anpassung dieser Arbeitshilfe, die hier nicht weiter angesprochene Möglichkeit indirekter KB über Finanzierungsinstitutionen, eingehender behandelt. Erfahrungen werden in Zusammenarbeit mit dem BAWI aufgearbeitet, in Hinsicht auf zu schaffende Institutionen (z.B. Treuhandfonds), die sowohl für die DEZA, wie für das BAWI zum Einsatz kommen könnten.

2 Wann Kapitalbeteiligungen?

Heutige Erfahrungen und Erkenntnisse der DEZA und anderer Geber zeigen, dass KB an Finanzinstitutionen dann gerechtfertigt sind, wenn dadurch (i) spezifische entwicklungspolitische Ziele erreicht werden können, (ii) die mit anderen, weniger aufwendigen Instrumenten nicht erreicht werden können.

Am Beispiel einer Verbreiterung der Kapitalbasis kann eine KB als eines von mehreren möglichen Instrumenten gesehen werden: ebenso können die in der nachfolgenden Illustration aufgezeichneten möglichen Unterstützungsmassnahmen theoretisch mit jedem der genannten

Instrumente finanziert werden. Die Wahl des Instruments hängt schlussendlich von der Zielsetzung ab. Praktische Erfahrungen haben ausserdem gezeigt, dass eine Mischung der Instrumente und der Massnahmen erfolgversprechend sein kann: neben einer KB zur Verbreiterung der Kapitalbasis einer Finanzinstitution ist zum Beispiel ein Beitrag für technische Zusammenarbeit (Ausbildung, usw.) in Form einer Schenkung denkbar.

Massnahme (*Beitrag an:*)		Instrument
Kapitalbasis/-kosten		Kapitalbeteiligung
Garantiefonds		Schenkung
„human resources“ Entwicklung		Darlehen
Kreditlinie		

Entscheidungskriterien für den Einsatz einer KB sind insbesondere: begründetes Bedürfnis der DEZA, gestalterisch und unternehmerisch mitzuwirken (insb. durch Einsitz im Verwaltungsrat) und/oder Notwendigkeit der Bereitstellung von Risikokapital (Aussicht: Wertzuwachs und verbessertes Image des Kapitalnehmers), z.B. zur Förderung der Innovation. Der Einsatz einer KB sollte im Bewusstsein der potentiell schwierigen Zielkongruenz entschieden werden: eine KB ist für einen öffentlichen Kapitalgeber wie die DEZA, eine Gratwanderung zwischen privatwirtschaftlich-unternehmerischen Zielsetzungen und entwicklungspolitischen Anliegen. Die Schwierigkeit besteht v.a. in der gemeinsamen Zielsetzung und dem Risiko einer späteren Abweichung der initialen Zielorientierung der Institution. Ferner ist bei einer KB eine Kosten/Nutzen Überlegung notwendig: stehen Wirkung und Aufwand in einem angemessenen Verhältnis, v.a. im Vergleich mit möglichen Alternativen?

3 Wie vorgehen bei Kapitalbeteiligungen?

Auf folgende Punkte ist beim Einsatz von KB besonders zu achten:

3.1 Voraussetzungen (siehe Beilage 1:Checklist)

3.1.1. Umfeld

Bei KB besonders zu beachten sind: (i) die Angemessenheit der Rahmenbedingungen (wirtschaftlich, politisch und gesetzlich) und (ii) das Wachstumspotential der zu bedienenden Zielbevölkerung.

3.1.2. Träger/Partner:

Partner sollen bereits bestehende, formelle oder sich formalisierende Institutionen sein, die eine solide und transparente Organisationsstruktur besitzen und deren Schlüsselpersonal sich über gute Qualifikation und marktwirtschaftliches Verhalten ausweist.

3.2 Vorgehen

3.2.1. Vertretung

Beteiligungen der DEZA sind immer Minderheitsbeteiligungen (Kapital und Stimmen). Eine grössere Einflussnahme ist durch Allianzen mit gleichgesinnten Teilhabern zu erreichen.

Die DEZA kann sich grundsätzlich an verschiedenen Gremien der Institution engagieren und auch durch Dritte vertreten lassen.

- Eine Beteiligung in Entscheidungsgremien (z.B. Verwaltungsrat) ist in Betracht zu ziehen wenn (a) eine längerfristige Beteiligung vorgesehen ist und (b) zusätzliches Know-how erwünscht ist, und die DEZA das nötige Fachwissen in Form einer Drittperson kontraktieren kann. Von der

Einsitznahme einer/eines DEZA Mitarbeiterin/Mitarbeiters ist abzusehen (Kontinuität, Machtposition, Verantwortung).

- Eine Teilnahme an Ausführungsgremien (z.B. Geschäftsleitung) ist zu erwägen v.a. im Hinblick auf den Aufbau (Ausbildung) des Kaders oder auf Teilnahme in Entscheidungsgremien (Kreditkomitee) in einem politisch schwierigen Umfeld.
- An Teilhaberversammlungen (z.B. Aktionärsversammlung) nimmt die DEZA mit einem/r eigenen MitarbeiterIn teil. Sie vertritt dabei die Interessen der DEZA. Falls nötig kann sie sich von einer Fachperson unterstützen lassen.
- Die Vertretung der DEZA durch Dritte in Ausführungs- und Entscheidungsgremien: die von der DEZA bestimmten Personen vertreten die Interessen der Unternehmung (Unternehmungsziel). Sie informieren die DEZA frühzeitig, wenn diese den Interessen der DEZA zuwiderlaufen. Die von der DEZA designierten Personen übernehmen unternehmerische Verantwortung für die sie belangt werden können.

3.2.2. Haftung

Die Verantwortung, bzw. Haftung hängt von der Beteiligungsform und dem Institutionentyp ab: je nach Fall kann die DEZA für finanzielle Verpflichtungen gegenüber Dritten (Gläubiger, Aktionäre, oder Verpflichtung bei einer Kapitalerhöhung mitzumachen) behaftet werden. Die Haftpflicht der DEZA kann ebenfalls gefordert werden, wenn z.B. ein/e MitarbeiterIn (oder VertreterIn) der DEZA durch seine/ihre Tätigkeit einen Schaden hervorruft oder erleidet . Da die Fragen zur Haftung sowie zu den rechtlichen Bestimmungen zur Vertretung der DEZA zur Zeit durch die Sektion Rechtsfragen noch eingehender geklärt werden, sollte letztere rechtzeitig konsultiert werden.

3.2.3. Kapitalerhöhungen, Kapitalrückflüsse, Ausstieg

Die DEZA eignet sich marktwirtschaftliches Verhalten an und ist bereit, an Kapitalerhöhungen teilzunehmen, Verluste mitzutragen und Anteilsreduktionen in Kauf zu nehmen. Das Vorgehen bei Kapitalrückflüssen (Veräusserungen und Dividenden) wird im Kreditantrag und im Vertrag festgehalten. Ausstiegsszenarien (vgl. 3.2.4 Dauer) und Verhalten der DEZA in Problemfällen werden vor Vertragsunterzeichnung festgelegt. Insbesondere wird dabei im Vertrag auf die Ausstiegsbedingungen (Verkauf- oder Transfer von Aktienpaket, inkl. Preisvereinbarung), die Rückzugsklauseln und die Quellenbesteuerung (meistens nicht rückzahlbar) geachtet.

3.2.4. Dauer

Die DEZA begrenzt den zeitlichen Einsatz der Mittel im Voraus (5 bis max. 10 Jahre).

3.2.5. Monitoring / Controlling

Die VertreterInnen der DEZA in den Gremien der Institution überprüfen die Geschäftstätigkeit des Unternehmens regelmässig und halten die DEZA über den Fortgang auf dem Laufenden. Falls die DEZA im Verwaltungsrat nicht vertreten sein sollte, vereinbart sie mit der Unternehmung ein regelmässiges Monitoring (operationelles Audit) durch Personen ihrer Wahl. Die DEZA sichert sich den Zugang zu allen wichtigen Informationen/Daten und Berichten und behält sich das Recht vor, jederzeit eine externe Finanzkontrolle einzusetzen.

Beilage 1: Appraisalhilfe für den Einsatz von Kapitalbeteiligungen

CHECKLIST zu Kap. 3.1.

3.1.1. Umfeld

- Stimmen die Rahmenbedingungen (politische Stabilität; wirtschaftliches Potential)?
- Besteht ein erwiesenes Wachstumspotential der zu bedienenden Zielbevölkerung?
- Erlauben die gesetzlichen Rahmenbedingungen (Bankengesetzgebung, etc.) das wirtschaftliche Bestehen einer Finanzinstitution?
- Ist eine ausländische KB von Gesetzes wegen erlaubt?
- Ist die DEZA mit den relevanten Gesetzen des Landes vertraut (Aktienrecht, etc.)? oder muss sie sich von einer Fachperson in diesen Fragen beraten lassen?

3.1.2. Träger/Partner

- Eine KB kommt nur in Frage mit formellen oder sich formalisierenden, bereits bestehenden Institutionen
- Die zu unterstützende Institution muss bewiesene Qualifikation (capacity) der Schlüsselpersonen (Professionalität des Managements) aufweisen
- Sie muss eine solide und transparente Organisationsstruktur aufweisen; die Aufgabenteilung zwischen Entscheidungs- und Ausführungsorganen muss klar sein
- Eine KB verlangt marktwirtschaftliches Verhalten seitens der Partner und der DEZA
- Die DEZA stellt an ihre Partnerinstitution Minimalanforderungen. Insbesondere achtet sie auf:
    - Transparente Buchhaltung oder Bereitschaft, eine solche einzuführen
    - “Track record” (geschichtlicher Nachweis der Entwicklung der Organisation)
    - Personalpolitik: Aus- und Fortbildung, Anreize, Karriereplan
    - Bilanz, Cash-flow, Erfahrungen, Projektionen (realistischer Businessplan)
    - Markt, Kundschaft, Zielorientierung
    - Innovationsgrad
    - Grad der Eigenleistungen
- Ein Eintrag der DEZA in die Statuten der Institution ist zu vermeiden (besser in Reglementen)

Beilage 2: LESSONS LEARNT DER DEZA

- KB im Sinne einer Entwicklungsstrategie (Aufgabe) sind eigentliche Risikobeteiligungen (sog. Risikokapital). Je höher das Risiko, desto grösser der Bedarf nach Entwicklungsgeldern oder anders ausgedrückt, je geringer das Risiko, desto eher finden sich „andere" Investoren auch für ein Projekt mit entwicklungspolitischer Zielsetzung.

  Das Risiko ist besonders gross bei einer neuen Firma (start ups), zu erwartender (politischer) Einflussnahme, instabilen wirtschaftlichen und politischen Rahmenbedingungen, mangelhafter Gesetzgebung und Fehlen eines funktionierenden Rechtsstaates.

- Unternehmerisches Handeln statt Projektdenken: KB bedeutet in erster Linie, MitbesitzerIn eines Unternehmens zu sein. Dabei herrschen die Spielregeln des freien Marktes vor. Diese unterscheiden sich von den Spielregeln eines Projektes. Die DEZA hat keine eigene unternehmerische Erfahrung. Deshalb muss sie diese entweder einkaufen (z.B. Fach-KonsulentInnen) oder ihre Interessen über andere kompetente (und der DEZA bekannte) Mitteilhaber im Unternehmen vertreten lassen.

  Als direkte Mitinhaberin eines Privatunternehmens muss die DEZA sich über das Verständnis ihrer Rolle und ihr Image als Regierungsorganisation Gedanken machen. (Projiziertes Bild nach aussen und nach innen.)

- Beteiligt sich die DEZA am Kapital einer Unternehmung muss vorgängig:
  - eine Ausstiegs (Exit)-Strategie festgelegt und vertraglich festgehalten werden;
  - eine mögliche Beteiligung an Kapitalerhöhungen geklärt und die nötigen Mittel hierzu vorgesehen werden;
  - die Rolle und Verantwortung als Teilhaberin in Führungsgremien geregelt werden.

- Die Führungsgremien sollen mit erfahrenen Fachkräften besetzt sein, die die Interessen der Institution und die Zielerreichung im Auge behalten. Die DEZA setzt sich mit den entsprechenden (mehrheitsfähigen) Vorschlägen und/oder durch direkte Vertretung mit einer Fachperson für ein professionelles und unabhängiges Führungsgremium ein.

  Ist die DEZA mit einer Person vertreten, müssen zuerst Kompetenzen und Verantwortung geklärt sein (die Haftung für allfällige Fehler/Handlungen dieser Person übernimmt die DEZA).

- Im Interesse der DEZA und der Unternehmung soll ein professionelles Monitoring und Audit (finanziell und operationell) sichergestellt werden. Die DEZA nimmt beim Auftauchen von Problemen eine proaktive Rolle ein, um Zwangssituationen möglichst auszuschliessen.

- Verknüpfung von wirtschaftlichen und entwicklungspolitischen Zielsetzungen: Dies ist meist eine Gratwanderung, sei es auf personeller und/oder auf wirtschaftlicher Ebene.

  Die Kombination der zwei Zielsetzungen erfordert Transparenz bezüglich geleisteter (entwicklungspolitisch motivierter) Subventionen und Kapitalinvestitionen, die Rentabilität suchen.

  Ein Zusammengehen von KB mit technischer Zusammenarbeit ist nicht auszuschliessen.

SDC Monitoring System for Savings and Credit Operations - 2004

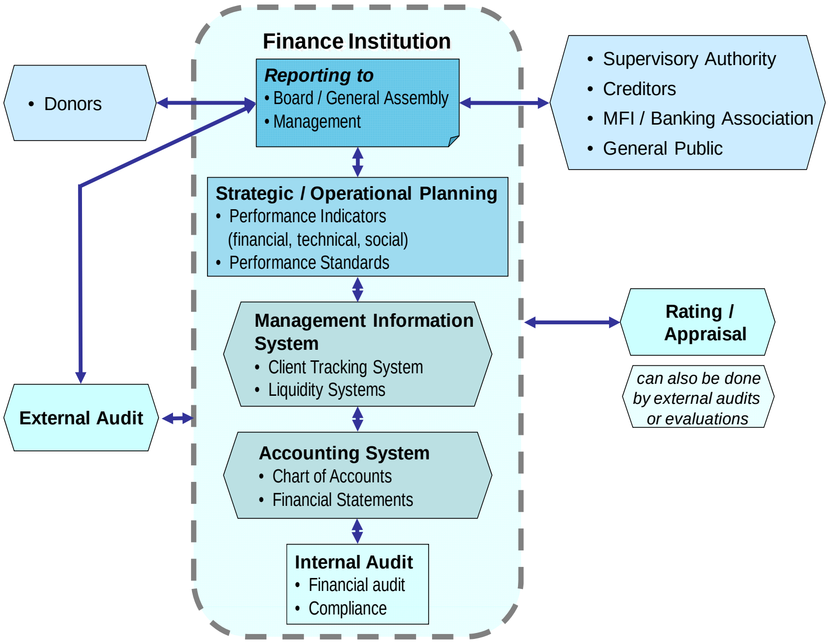
This tool has been elaborated by Intercooperation on behalf of SDC's backstopping mandate on finance, in order to monitor SDC's projects in the area of financial sector development. It can be used both to follow the evolution of savings and credit operations, with respect to their outreach and depth, and to measure the financial performance of the institution or project. Complete and up-to-date financial statements (balance sheet and income statement) are a precondition to use the present tool.

For the projects and organisations themselves, the monitoring system can be used as a management instrument to help the directors and board members take the right decisions. The tool has been field-tested by microfinance institutions in India and Bolivia. It has also been adapted to other instruments (CGAP, MBB) that aim at promoting transparent and accurate data and indicators on the performance of microfinance institutions around the world.

The monitoring system is a package of two complementary documents (follow the link below). A short version of the monitoring tool is available for those micro finance institutions, which do not have a comprehensive Management Information System yet. However, if the necessary information is available, we highly recommend using the long version monitoring tool.

www.intercooperation.ch/finance/download/#monsystem

Instruments for Internal and External Control of FIs



1 **Accounting**: The accounting system is the most essential management system for all FIs to record all financial transactions. It follows the chart of accounts prescribed by the regulating authority that follows international accounting standards (IAS) in most countries.

2 **Management Information System (MIS)**: The MIS provides the key operational information required for management, particularly the client tracking system that records the performance and status of the clients' account.

3 **Operational & Strategic Planning**: A FI requires a reliable and fairly accurate planning (and budgeting) system to assess its current situation and to project the desirable future situation, as defined by the mission and expressed by financial statements and selected financial and social performance indicators.

4 **Reporting**: The performance of a FI is assessed mainly through standardised reports (based on the computerised MIS) at regular intervals in order to provide the necessary operational and strategic information for the management at middle and top level, the Board (strategic steering) and the supervisory authority. At the same time selected reports are used to inform business partners, potential investors, donors and the public.

5 **Internal Control & Audit**: Any licensed FI must have an independent control & audit division that reports directly to the Board. It's function is to check on a sample basis that the operational divisions comply with the operational policies and procedures of the FI and that the financial account balances match with the actual cash/bank balances agreed by the clients. It acts as a 'watchdog' by deterring fraud and identifying not yet or not fully recognised risks. Furthermore, it identifies areas for improving operations and risk management.

6 **External Audit (and Management Letter)**: Any formal FI has to be audited annually by a qualified auditor. The auditor usually prepares a Management Letter with key recommendations on problem areas and risks and how to address them. Consecutive annual audits check to which extent management has implemented previous recommendations.

7 **Off- and on-site Supervision**: The supervisory authority monitors on a monthly basis (liquidity requirements even on a daily basis) a set of financial data (mainly the financial statements) in order to assess the performance of a FI and its compliance with prudential norms (e.g. capital adequacy, adequate loan loss provisions, etc.). Occasionally, records and transactions are checked on the spot in order to crosscheck the accuracy of the financial information received.

8 **Rating**: A rating from a recognised rating agency is like a quality label. A FI may need a rating when mobilising creditors and investors and for trust building and public relation purposes.

Checklist for Commissioning Evaluations

To ensure that an evaluation is well perceived and planned and that it eventually serves the intended purpose for all actors concerned, the following issues should be considered **before commissioning an evaluation**:

What is the focus?	Do we need to document achievements (accountability) or is the aspect of learning / improvement of project important? Do we want to concentrate on learning at project/programme level, or is the evaluation relevant for informing the development of strategies and policies in FSD?
Who should have the lead?	Depending on the focus, the lead may be with the COOF and the programme management (e.g. external review) or rather with the Department / Division head or even with E+C Division (e.g. external & independent evaluations).
Who are the addressees?	Who should get which information as a result of the evaluation? For which purpose or decisions will the audience use the information? What are specific interests of the addressees in the evaluation?
Who should evaluate?	Is it an internal review which implies a self-evaluation? Do we need a really independent, external view on the project? Is it useful to combine a self-evaluation with an external assessment to maximize learning while still maintaining a critical distance?
When to evaluate?	What is the best timing of the evaluation? Is there sufficient time to prepare the evaluation, i.e. discuss with partners the need and focus of the evaluation, find qualified evaluators?
What are others doing?	Are other donors active in the same field planning evaluations? Would it make sense to organize a joint evaluation?

See also SDC Intraweb:

Processes ▸ Strategic and operational Processes ▸ External Evaluation ▸ Milestones of Cooperation ▸ Developing Concept Papers and Terms of Reference ▸ EU-Guidelines *and* Criteria for Assessing (ToR)

https://intraweb.deza.admin.ch/en/Home/Processes/Strategic_and_operational_processes/External_evaluation

Checklist for Mandating Evaluations

Who is mandating?	The SDC-guidelines (see SDC-Intraweb > Processes > External Evaluations) specify which organizational unit within SDC is responsible for mandating, depending on the purpose and type of evaluation. Are all the units involved clear, who is in-charge and how and when they are involved in the process of mandating (e.g. commenting the ToR, definition of evaluators profile, commenting recruitment of evaluator)? - Project/program management, - COOF - Geographical Desk - FSD-thematic services - E+C
How to establish the Terms of Reference?	The organizational unit in-charge of commissioning the evaluation is taking the lead in establishing the ToR. Circulating the draft ToR to all involved units (see above) is mandatory, ***but*** this process may not result in a long list of questions accommodating all concerns indiscriminately. It should rather help to establish a consensus on the focus of the evaluation. **Consulting the involved partners** in this process as a principal of partnership is important and helps to reduce the inherent fear and related resistance against being evaluated.
How to select the evaluator?	The profile of the evaluator(s) should be defined on the basis of a clear concept for the evaluation. Important questions for identifying the profile are: Which particular expertise is required in terms of FSD aspects (i.e. type of FSD-interventions to be evaluated)? Is, in addition, expertise for assessing institutional and/or PCM-aspects needed? Can we expect these competences from the same evaluator or do we need to set up a team? Which methodological skills (evaluation, moderation, communication) are required? How important is a particular knowledge of the local context? How relevant is the independence of the evaluator, versus a certain insight into/ familiarity with the project/programme?
Is the evaluation mandate clear to all?	An explicit 'clarification of mandate' between the evaluators and the mandating unit is mandatory to ascertain a mutual understanding of the ToR, namely regarding focus, priorities and methodology of the evaluation. The evaluators should have a chance to identify the 'hidden agenda' of various stakeholders. For demanding, comprehensive evaluations where sophisticated methodology is indicated, an inception report may be appropriate.
When to plan and how to time the evaluation?	Evaluations usually can be planned well ahead, e.g. as part of annual planning or even planning of a phase. Starting the commissioning of evaluations early allows mandating qualified evaluators. Adjusting the timing of the evaluation to the schedule of the evaluated organisation / project increases acceptance and prevents a hurried, superficial involvement of staff.

Checklist for Establishing Terms of Reference

Criteria	Assessment				Comment
	yes	partly	no	unclear	
Background and Topic of Evaluation					
Description of background and topic of evaluation is clearly elaborated.	☐	☐	☐	☐	
The link between the intervention to be evaluated and its context is described.	☐	☐	☐	☐	
Key documents related to the evaluation are available or their location is indicated.	☐	☐	☐	☐	
The motivation for evaluating the intervention is clear.	☐	☐	☐	☐	
The legal basis for the mandating of an external evaluation is explained.	☐	☐	☐	☐	
Evaluation Mandate					
The objectives of the evaluation are defined unambiguously.	☐	☐	☐	☐	
The evaluation questions are clear and formulated unambiguously.	☐	☐	☐	☐	
Existing, ongoing or planned studies related to the evaluated intervention are mentioned.	☐	☐	☐	☐	
Tasks and products/deliverables of the evaluation are defined explicitly.	☐	☐	☐	☐	
The further use of the evaluation results is mention adequately.	☐	☐	☐	☐	
The addressees of the evaluation results are mentioned along with their role/position.	☐	☐	☐	☐	
The intended measures for the dissemination of the evaluation results are explained.	☐	☐	☐	☐	
Organisation of Evaluation					
The time available for the evaluation is commensurate with the task.	☐	☐	☐	☐	
The conditions for producing an interims report are realistic and adequate.	☐	☐	☐	☐	
The conditions for producing the final report are realistic and adequate.	☐	☐	☐	☐	
The budget for the evaluation is realistic and adequate.	☐	☐	☐	☐	
Information concerning the mandating organization is sufficiently detailed.	☐	☐	☐	☐	
Arrangements for the follow-up of the evaluation process (e.g. steering group) are explained.	☐	☐	☐	☐	
Specific Aspects of the Evaluation: (to be defined by mandating party)					
	☐	☐	☐	☐	
	☐	☐	☐	☐	
Further Issues					
Criteria for assessment of offers are transparent.	☐	☐	☐	☐	
Expectations regarding scope and details expected in the offer are clearly described.	☐	☐	☐	☐	
The period for submitting the offer is according to tender rules and is adequate.	☐	☐	☐	☐	