Microfinance • Capital Development

MID-TERM EVALUATION

Enhancing Access to Financial Services (EAFS) Nepal

January 2012

EVALUATION TEAM	
Team Leader	Joan Hall
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MID-TERM EVALUATION: *Enhancing Access to Financial Services (EAFS) – Nepal*

Design: UNCDF Partnerships Unit.

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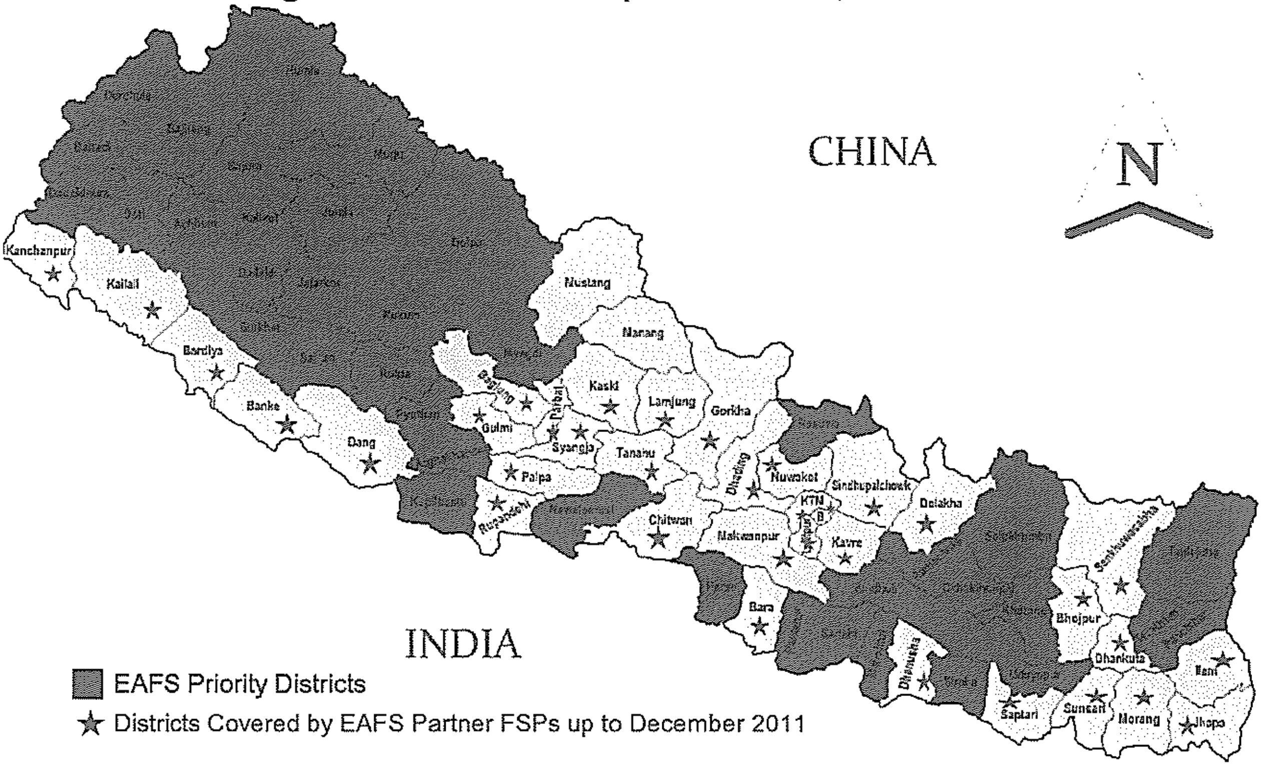
Annex 6: Completed Evaluation Matrix including an additional column summarizing findings and analysis by sub-question.
Annex 7: Completed 'Management Response' including the main recommendation and suggested key actions

Basic Geographic and Demographic Data

Country Area	147,181 sq km
Population	According to preliminary census report 2011, the population of Nepal reached 26,620,809 in the year 2011, which shows an increase of population at the rate of 1.4 percent per annum. The highest growth rate is found for Terai region (1.75), followed by Hills (1.3) and Mountains (0.62).
Languages	Nepali (official) (47.8%), Maithali (12.1%), Bhojpuri (7.4%), Tharu (Dagaura/Rana) (5.8%), Tamang (5.1%), Newar (3.6%), Magar (3.3%), Awadhi (2.4%), other (10%), unspecified (2.5%) (2001 census)
Religion	Hindu (80.6%), Buddhist (10.7%), Muslim (4.2%), Kirant (3.6%), other (0.9%) (2001 census)
Project Location	National; programme supports financial service providers working in 63 of 75 districts at the time of the MTE
Source	Nepal Census 2011; and CIA Factbook: Nepal and EAFS project documents

Programme Activities Map as of Dec 31, 2011



PROGRAMME DATA SHEET

PROGRAMME DATA SHEET

Programme Title (long)	Mid Term Evaluation of Enhancing Access to Financial Services Project, Nepal
Programme Title (short)	MTE of EAFS, Nepal
Programme Number (Award ID)	UNDP: 00049650 UNCDF: 00056791
Programme Atlas Code (project ID by donor)	UNDP: 00060717 UNCDF: 00069750

Financial Breakdown (by donor)

Commitments:	Currency	Amount
Total project size	USD	$9,966,065
UNCDF	USD	$1,500,000
UNDP	USD	$1,500,000
Funding gap		$6,966,065

Delivery to date (in USD, per donor)

	2007	2008	2009	2010	2011	Total
UNDP			121,082.35	388,564.47	434,715.00	944,361.82
UNCDF			0	457,846.86	578,995.00	1,036,841.86
Total			121,082.35	846,411.33	1,013,710.00	1,981,203.68

Total project budget:	USD 3,000,000

Executing Agency	
Implementing Agency	Nepal Rastra Bank, Nepal
Approval Date of Project	03 Oct 2008
Project Duration	Nov 2008 - Dec 2012
Project Amendment	None
Evaluation Date	November 2011

Other current UNCDF projects in-country	Local Governance and Community Development Programme (LGCDP)
Previous UNCDF projects (if relevant)	Decentralization and Financing Services (DFDP)
Previous evaluations (if relevant)	

Dates of audits	March 2011 for EAFS project

Evaluation Start Date: November 2011

Composition of Evaluation Team:

Team Leader – International: Joan Hall

Team Member – National/Regional: An Singh Bhandari

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
BAFIA	Banks and Financial Institutions Act
BDS	Business Development Services
CBS	Central Bureau of Statistics
CMF	Centre for Microfinance
CGAP	Consultative Group to Assist the Poorest
CPAP	Country Programme Action Plan (UN document)
CTA	Chief Technical Advisor
DTA	Deputy Technical Advisor
EAFS	Enhancing Access to Financial Services
EOP	End of Project
FIF	Fund for Inclusive Finance
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FNGO	Financial NGO
FSP	Financial Service Provider
FSS	Financial Self Sufficiency
FUG	Forest User Group
GDP	Gross Domestic Product
GON	Government of Nepal
IFAD	UN International Fund for Agricultural Development
INGO	International Nongovernmental Organizations
IP	Innovative Partner
LDC	Least Developed Country
M&E	Monitoring and Evaluation
MEDEP	Microenterprise Development Programme (UNDP)
MF	Microfinance
MFI	Microfinance Institution
MFSP	Microfinance Service Providers
MIS	Management Information System
MoF	Ministry of Finance
MRAA	Microfinance Regulation Authority Act
MSMEs	Medium, Small and Microenterprises
MTE	Mid-term Evaluation
NEFSCUN	Nepal Federation of Savings and Credit Cooperative Unions Ltd.

example, a national financial literacy campaign.

7. The expected outcome of the EAFS project, as per the project document, is to "increase the use of formal financial services (credit, savings, etc.) from profitable financial institutions (banks, microfinance institutions, etc.) by urban micro, small, and medium enterprises and urban and rural low income households."[1] To meet this objective, the EAFS project was envisioned as a USD $30 million project in its original design, with 5 components. Due to the withdrawal of the WB and decline in funding, the project was reduced to 2 of the original five components, with a budget of US$ 3 million. The project is implementing component 1: A Fund for Inclusive Finance, and component 5: Public Information campaign. Changes were not made to the original project document to reflect this reduction in activities, instead, annual work plans are used as a reference point for the project implementation.

   Table 1 below outlines the goal, objectives, expected outcomes and outputs of the project.

Table 1 – Enhancing Access to Financial Services – Goal, Outcomes and Expected Outputs

Objective	Description
UNDAF 2008 – 2010 outcome C	Sustainable livelihood opportunities expanded, especially for socially excluded groups in conflict-affected areas.
Overall EAFS Goal	Expand access to financial services (both in terms of quantity and quality) for small businesses and low income households (excluded and vulnerable groups), in a sustainable way.
Expected Outcome	Increase the use of formal financial services from profitable financial institutions by urban MSMEs and urban and rural low income households
Output 1	Fund for Inclusive Finance (FIF) established by November 2008 and operated / managed till Dec. 2012
Output 2	At least nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services (reaching 330,000 new active loan clients) by Dec. 2012.
Output 3	10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other INGOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012
Output 4	Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided
Output 5	Project operation and management

1.1.2 Scope and objectives

1. The scope of the mid-term evaluation (MTE) is to provide an assessment of progress at the mid-point of the EAFS project as per the UNCDF Special Projects Implementation Review Exercise (SPIRE) framework and the objectives of the ToR of the MTE (See Annex 1: MTE ToR). The specific objectives of this MTE are:

[1] Project Document, p. 1.

- To assist the recipients, beneficiaries, and the concerned co-financing partners, to understand the **efficiency, effectiveness, relevance,** and likely **sustainability of results;**
- To assess the level of **satisfaction of programme stakeholders** and beneficiaries with the results;
- To assess whether UNDP, UNCDF and its partners are **effectively positioned** to achieve results;
- To contribute to UNDP, UNCDF and partners' **learning** from programme experience;
- To help programme stakeholders assess the value and opportunity for broader **replication** of the programme;
- To help programme stakeholders determine the need for **follow-up** on the intervention, and general direction for the future course;
- To understand socio economic characteristics of end users of EAFS partners (i.e. clients) so to understand if and how project contributed to reaching the intended audience (vulnerable and excluded groups) and enhanced access to financial services
- To ensure **accountability** for results to the programme's financial backers, stakeholders and beneficiaries;
- To inform formulation of the next phase of programming and future direction beyond the life of the project;
- To comply with the requirement of the programme document/funding agreement and UNDP and UNCDF Evaluation Policy.

1.1.3 Methodological Framework

2. The MTE used the Special Projects Implementation Review Exercise (SPIRE) framework. SPIRE is based on 5 evaluation criteria developed by the Organization for Economic Co-operation and Development (OECD) and the United Nations (UN), those being: relevance, efficiency, effectiveness, impact and sustainability. The framework creates a standard intervention logic/results chain for UNCDF's 2 practice areas (inclusive finance and local development), with the accompanying evaluation questions focusing on key aspects of the UNCDF results chain. This standardized framework allows for comparison across programmes and intervention areas. Each of the 8 SPIRE questions has sub-questions that can be adapted for specific programme evaluations.

3. The methodology of the MTE consisted of, in brief:
   - A review of the IF intervention logic and its application in EAFS
   - Adjusting the SPIRE sub-questions to EAFS
   - Preparation of the inception report
   - Obtaining feedback from stakeholders UNDP and UNCDF on the inception report
   - Document review of programme design and operational documents, donor publications, among others (see Annex 3 for an illustrative bibliography)
   - Structured interviews with programme donors, implementers (NRB and EAFS staff), other government representatives) ((e.g. National Planning Commission (NPC), RMDC), staff of other UNDP programs (MEDEP)), staff of beneficiary organizations (FSPs), other IF actors, and clients of FSPs (see Annex 2a for a list of people interviewed)
   - Visits to programme site areas, including Eastern, Central, Mid-western, and Western Development Regions (see Annex 2b for a list of sites visited)

Every effort was made to triangulate information from written and verbal sources. For a detailed description of the methodology, please see the main document.

1.2 Evaluation Results and Recommendations

1.2.1 Overview of current implementation status of the project

4. The current status of outputs is given in the Table 2 below:

Table 2: Planned Outputs vs. Current Achieved Outputs

Outputs and Output Targets	Implementation status to date (Oct 31, 2011)
Output 1: Fund for Inclusive Finance established by November 2008 and operated / managed till Dec. 2012	The FIF is established and functioning, although it is not an independently managed fund as envisioned in the project document. It has one instrument: grants. It has 2 funding windows, one for "strategic partners" and one for "innovative partners". Decisions on fund allocations are made by the Project Executive Board (PEB), whose members are NRB MF Dept. staff assigned to the project, UNCDF, UNDP, Ministry of Finance (MoF), Nepal Bankers Association, Nepal MF Bankers Association, Federation of Nepalese Chambers of Commerce and Industry (FNCCI). The PEB meets quarterly.
Output 2: At least nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services (reaching 330,000 new active loan clients) by Dec. 2012.	18 FSPs[2] have signed grant agreements (called "performance-based agreements, or PBAs) and have received at least one tranche of funding.[3] The project reports that 186,496 new clients have been reached. Some of these clients may be double-counted, i.e. reached by more than one EAFS FSP.
Output 3: 10,000 Saving and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012	2,666 SCGs have been linked to EAFS FSPs, with 60,054 members at Oct 2011.
Output 4: Technical assistance (TA) on project implementation, monitoring and evaluation system and public information campaign provided	TA has been provided to FSPs in the areas of: VSLA training, MIS assessment, MFI ratings, SCG linkage training and related tools developed, MIX Market training, Financial Literacy, Market Research and Product Development, Microinsurance, and Business Planning. The TA approach is currently being revised to provide TA more rapidly and more tailored to expressed needs of FSPs.
Output 5: Project operation and management	The project is being managed competently by NRB with assistance from UNDP and UNCDF. NRB's ownership has

[2] The project document states "at least 9 FSPs" will obtain technical assistance, and the original selection of FSPs included 10. However, by a decision of the PEB, the selection criteria for choosing FSPs was made less restrictive in order to accommodate lower performing FSPs in the Far Western and Mid-western departments, since these regions were not covered by the better performing FSPs (Source: 6th PEB Meeting 19 Feb 2010, p 4).

[3] One FSP has merged with another, so the current count at MTE is 17 FSP partners.

	created positive synergy amongst government departments, NPC, FSPs and clients.

The current status of financial expenditures is given in Table 3 below:

Table 3: Expenditures by donor as a Percent of Budget, all Years (USD)

Sources	Budget (2009, 2010, 2011)	Expenditures (2009, 2010, 2011)	Percent of Budget Expended
UNCDF	1,123,033	901,967	80%
UNDP	972,146	903,081	93%
Total	2,095,179	1,805,048	86%

1.2.2 Overall assessment of project results to date against the original theory of change described in Section 1

5. The intervention logic/development hypothesis underlying UNDP/UNDCF's approach for this project is that improvements in the enabling environment for inclusive finance, supported by catalytic investments in Financial Service Providers (FSPs) and supporting industry infrastructure, will strengthen selected FSPs, thus improving their ability to provide appropriate products and services to previously unbanked and marginalized populations. The intervention logic of the project, given the context of Nepal at the time of the project's formulation, seems valid, given the number of poor people in Nepal, the number of marginalized and excluded populations, the residual effects of the conflict, the lack of assets and borrowing opportunities of poorer households, and the demand for microfinance.

6. The intervention logic changed as a result of funding shortfalls. By agreement between stakeholders (UNDP, UNCDF, Nepal Rastra Bank), the project was refocused on the micro/retail sector, i.e. the microfinance providers.

1.2.3 Key findings of the evaluation mission as per the main Evaluation Questions

7. This section briefly summarizes the main findings from the analysis of each of the 8 SPIRE evaluation questions and their sub-questions (see Annex 6: Evaluation Matrix) and MTR objectives (See Annex 1: MTE ToR).

SPIRE Question 1: (Relevance) To what extent does the programme design meet UNCDF's Inclusive Finance intervention logic and meet the needs of the partner country?

8. EAFS meets the needs of the partner country, those being to reduce poverty, reduce the marginalization of certain populations (Dalits, Janjanits), increase assets and borrowing opportunities of poor households, and meet the demand for microfinance. EAFS complies with Nepal's national poverty alleviation and financial sector priorities, and supports the National Microfinance Policy (2007). UNCDF's inclusive finance (IF) intervention logic is

addressed in the project design at the retail sector level, especially with regards to increasing coverage to unreached areas and populations. The use of grants and technical assistance for strengthening outreach is a global best practice, especially when tied with performance-based agreements (PBAs) for each partner receiving assistance. This was done by EAFS and has been effective in ensuring and monitoring performance. Meso and macro level constraints, however, were not adequately addressed in the design, and, because of funding shortfalls, were not able to be addressed in the implementation.

9. At the project design level, there is a weakness in synchronizing UNDP's and UNCDF's approaches to IF. While both donors are equally concerned about reaching the poor, UNDP is concerned about reaching the very poorest, while UNCDF recognizes the limitations of microfinance in reaching the very poorest and most remote populations. UNDP also wants to use already established SCGs as an entry point for the provision of microfinance, in order to promote their sustainability, while UNCDF's interest was on market approach embedded in its intervention logic (i.e. expansion of regulated microfinance services to previously unreached areas).[4] This gap in synchronicity is exacerbated by an inadequate project monitoring framework that was not reformulated when the World Bank withdrew and which does not adequately measure outreach to the very poor or the remote populations (see SPIRE Question 6 for further discussion of the M&E framework).

SPIRE Question 2: (Efficiency and Effectiveness) To what extent has the programme contributed to increased Financial Service Providers'/Sector Support Organizations'/Government Agencies' institutional capacity?

10. EAFS has improved institutional capacity at the retail level mostly in terms of expanded infrastructure (branch offices), additional staff for those offices, and some increase in credit portfolios. There has been an increase in clients served, especially women. Portfolio at risk (PAR) rate has gone down. Links have been made between FSPs and savings and credit groups (SCGs). Eight innovations have been piloted by FSPs. The meso and macro levels could not be addressed.

SPIRE Question 3: (Effectiveness) To what extent has the programme contributed to improved access to appropriate low income person's financial services?

11. Access to financial services has improved due to expansion of outreach via branch offices in unserved areas. More women and more marginalized/excluded people have access to financial services. It is not clear if the project has increased access for the very poor, since there is no indicator for this. The project has provided market research training, which has resulted in some product adaptation and may lead to development of additional products. The grants to innovative partners have not spurred the expected innovations to any great degree; six of the IPs have changed their innovative concepts from their original proposals, and all have had problems in reaching their PBA goals. Further TA for innovative partners is needed and documentation of lessons learned.

SPIRE Question 4 (Effectiveness) To what extent has the programme enhanced the market for IF services?

[4] Interviews with UNDP and UNCDF staff.

12. The market has been enhanced, due to:
    - FSP expansion into previously unreached geographic areas of Nepal
    - Increased FSP interest in adapting their products to the needs of more remote and poorer clients
    - FSP linking with previously existing savings and credit groups
    - Increased concern about the impact of overindebtedness of clients (i.e. multiple loans from different FSPs)
    - FSP expanding interest in new products (e.g. microinsurance)
    - FSP expanding interest in making their operations more efficient (e.g. MIS upgrades)

SPIRE Question 5 (Sustainability) To what extent is the programme likely to result in financially viable (i.e. sustainable) financial service providers (FSPs) in the longer-term, independent of external assistance of any kind?

13. The project has contributed to growth of infrastructure, credit portfolio and clientele, and to increased knowledge of MF market research. This support should fortify the sustainability of the FSPs.

SPIRE Question 6 (Efficiency) How effective has the management of the IF programme been?

14. NRB is satisfied overall with the project, although it has concerns about the project reaching out to the most remote areas, especially the unserved 12 districts. These districts are remote, and the cost of reaching them without first establishing a network of branch offices that reach from a major population center to the more remote areas is very expensive and not sustainable. For this reason, there are no partners that have committed to reach these districts during the project life. Management seems effective and transparent, and the PEB seems to be functioning well at the date of the MTE. The project was slow to begin, and there seemed to problems with NRB buy-in to the project at the beginning, exacerbated by frequent rotation of NRB staff. Current NRB staff assigned to the project are highly committed and directly manage and supervise the project activities.

15. FSP satisfaction can be also measured by their matching contribution to project funds. In other words, EAFS, in its grant component, is not providing 100% of the start up and operating costs of new branches, but only a part. The FSPs provide the other part. The cost per client provided by EAFS averages USD $5 (Stocktaking Report June 2011), while the cost per client to the FSP in the remote areas may be as high as USD $65 (4th Qtr 2011 Report, page 28). Therefore, the project could be leveraging more than 10 times its investment from some FSPs. The grant amounts, although small compared to some of the EAFS FSP partners' loan portfolios and/or assets, were nonetheless sufficient to entice FSPs to expand beyond their comfort zone and reach out to both new areas and new populations (marginalized populations, for example). Another good point related to the small size of the grants is that they did not cause distortions to the sector.

16. The late hiring of the CTA also influenced project efficiency. Notwithstanding the contributions of the hardworking and committed national project staff and the NRB, the lack of a CTA slowed down project implementation at the beginning stages. Although the

preparatory works such as office establishment, procurement, staff hiring, criteria and process development, selection of partners and signing PBAs were done, timely hiring of the CTA would have helped get the SCG activities on track, identified the IP challenges and improved the M&E framework.

17. The project is implemented under the UN's National Execution (NEX) modality. The MTE evaluation finds that this is functioning well now that initial start up problems mentioned earlier have been resolved.

SPIRE Question 7 (Efficiency and Effectiveness) How well have partnerships with donors and governments supported the programme?

18. The only significant involvement has been from UNCDF, UNDP, and the NRB. No other donors have contributed and no fundraising activities to address the shortfall have taken place to date. There has been limited participation by the NRB (beyond the 2 staff of the NRB MF Dept.) in the project. However, there is knowledge of and interest in the project results by higher level management of the Central Bank and the National Planning Commission. In-kind contributions of staff time are provided via 2 NRB MF Dept. staff managing the project and a minimal amount by other government staff participating in the quarterly PEB meetings (e.g. the MoF).

SPIRE Question 8 (Effectiveness) To what extent were piloted approaches conducive to regulatory/policy/strategy developments in the Inclusive Finance area?

19. Although UNCDF's intervention logic stipulates working at the three levels of the inclusive finance sector (macro, meso, and micro), the project could not contribute significantly to developments in the regulatory / policy / strategy areas, due to funding shortfalls and reprioritization of activities. One positive development that has happened at the policy level based on the EAFS implementation experience is that NRB has issued monetary policy FY 2011/2012 to regulate the microfinance sector, including the FINGOs.

1.2.4 Key Recommendations

Based on the findings, the evaluation team makes following short-term recommendations (to be implemented during the remainder of the project) and long-term recommendations (to be implemented in a "phase over" project):

Short-Term Recommendations
For the remainder of the project, EAFS should continue with its current activities, and should add the following actions:

20. **Action**: Revise the M&E framework to better reflect overall project goals and outputs, such as outreach to the very poor and outreach to remote areas. If it is a goal of the project to strengthen FSP partners, then financial indicators would be a good way to measure this

(examples: decrease in PAR30, increase in OSS, increase in productivity).[5] Revising the indicators should only be done with input from FSP partners and with a care not to increase the cost burden on them of collecting this information. If the framework is not revised, the final evaluation will not be able to make significant conclusions about the performance of the project with regards to its goals. **Responsible Party**: EAFS drafts a revised indicator framework and targets, PEB approves, EAFS implements.

21. **Action**: Reduce the target of linked SCGs from 10,000 to 3,000 for the current project, because the original target was over-ambitious. Conduct a thorough study on the effectiveness of linking SCGs with FSPs in Nepal. Use the results and recommendations of this study to determine further actions on SCG linkages. **Responsible Party**: EAFS and NRB

22. **Action**: For all further training activities, ensure to the extent possible and within budget constraints that the entire IF sector benefits from the activities. The information generated by the project should be viewed as a public good, and made available beyond just the 17 project FSP partners. **Responsible Party**: EAFS and NRB.

23. **Action**: The project should involve the meso sector more. National meso sector actors can be participants in TA activities and can be paired with international providers who are conducting research or TA in order to build their capacity. **Responsible Party**: EAFS and NRB.

Long-Term Recommendations

The evaluation team was asked to comment on possibilities for a "phase-over" project, in anticipation of a formulation mission to be scheduled sometime in 2012. In addition to the short term recommendations above, the actions below constitute our further recommendations for a subsequent project.

24. **Extension**: Extension for a 2nd phase / phase over of the project is recommended for a full project cycle of four years, as there are still gaps to be filled that no other donor project is addressing. The ADB-funded "Improving Access to Financial Services Program" with an estimated start date of 2014, is in the preliminary stages, with technical assistance and surveys going on at present. However, there would be no duplication of IF sector building if UNCDF/UNDP continue to focus on the poor, very poor and vulnerable/marginalized groups, especially in the unreached 12 districts, where the ADB project does not seem to be giving special focus. The Governor of the NRB supports a phase-over project. **Responsible Party**: NRB, NPC, Ministry of Finance, UNCDF, UNDP.

25. **Funding**: Explore funding potential from all possible donors and funding agencies. Ensure that sufficient funding is available to implement planned activities. If it is not, reformulate project framework and activities to fit the budget. **Responsible Party**: NRB, NPC, Ministry of Finance, UNCDF, UNDP.

26. **Meso Level**: The project should involve the meso level more in order to build long-term sustainability of the IF sector. An inventory and needs assessment of these actors (microfinance associations, cooperative networks and federations, rating agencies, audit

[5] There is no output for this in the current framework, and so there is no link between the current indicator of FSS and an output.

firms, training and TA providers, etc.) is the first step. The second step is to develop a capacity building strategy, with input from these actors. Capacity building could include grants linked with performance-based agreements and decreasing annual support, technical assistance through linking Nepali firms with international providers, trainings, and vouchers or subsidies for FSPs to hire meso level actors. **Responsible Party**: EAFS, GoN and NRB.

27. **PEB Membership:** In order to avoid possible conflicts of interest, the PEB membership should not include representatives of organizations that might receive grants from the project. If this is not feasible, any member of the PEB who might have a conflict of interest on a specific decision should recuse him/herself at the time of the decision-making. **Responsible Party**: PEB

28. **NEX Modality**: Continue NEX with NRB as Implementing Agency: The government is in the process of creating a national level microfinance apex fund (i.e. National Microfinance Development Fund) with a fund of about NRs. 650 Million. However, the GoN is concerned that the amount of funding may not be sufficient. Therefore, it is required to mobilize fund from donors and other funding sources to provide timely resources to the multiple microfinance players (Microfinance Banks, FINGOs, Cooperatives). After the implementation of this arrangement (once Parliament approves), projects like EAFS will be managed under the apex fund according to NRB's policy direction. Until such time, the current national execution modality ensuring the ownership of the NRB as an implementing agency has worked well and should be continued in a subsequent phase. We find no evidence that would justify changing to a different modality. **Responsible Party**: EAFS, GoN and NRB.

29. **Support Innovative Approaches**: TA and grants should be provided for product adaptations and innovations, these to be determined based on market research. Innovations should be limited to those that are technically feasible for FSPs to implement and which can be implemented during the time frame of the project. Those innovations that require regulatory change in order to be implemented should not be the subject of a phase-over project, because regulatory change can take a long time and is outside the control of the project. **Responsible Party**: UNDP, UNCDF and NRB.

30. **Business Skills Training for Clients**: Clients visited during the MTE field work requested business training, both for improving existing skills and for developing new skills. Business training is expensive, and is not a core area of expertise of microfinance institutions. MEDEP could provide training to EAFS FSP clients, if MEDEP and FSPs can work together to determine target areas [6] and a feasible approach that includes developing methods and tools for identifying which clients would most benefit from business training, and which ones would be able to transmit that training to their groups. **Responsible Party**: UNDP, UNCDF, MEDEP and NRB.

31. **Macro Sector:** Financial literacy and client protection activities should continue at the national level, and there should be clear indicators and targets for assessing impact, some of which should be clearly linked to avoiding over-indebtedness. National client protection principles and standards should be developed with project support, and only FSPs who have

[6] MEDEP's geographic focus currently seems to be the more remote areas of target districts where FSPs currently do not reach.

signed on to national client protection principles should be subjects for project grants. Capacity building to the NRB Microfinance Supervision Dept. and/or the new entity set up by the passage of the MF Regulatory Authority Act should occur. **Responsible Party**: UNDP, UNCDF and NRB.

32. **Savings and Insurance**: Mobilization of voluntary savings should be a new activity in this phase-over project to help FSPs address their funding constraints and lower their cost of funds.[7] The Financial Services Sector Assessment in Nepal (2007) notes that the maximum potential market of savers is around 13M people.[8] In the market research and product development activities of the phase-over project, equal attention should be given to development or improvement of savings products and to savings mobilization strategies.[9] Addressing the issues of client health and livestock losses are 2 areas that the formulation mission should analyze, because these were identified during the evaluation as two issues that affected clients' ability to use microfinance services effectively. Project should analyze the most appropriate approach to mitigating these problems for clients. UNCDF should incorporate lessons learned from recent experiences in microinsurance to see if this is a feasible response to these challenges. If not, other means should be developed, such as linkages with health systems and veterinary information and care. **Responsible Party**: UNDP, UNCDF and NRB.

33. **Monitoring Framework:** The phase-over should have an adequate M&E framework that is aligned with greater goals of the project. If "reaching the poorest" is a goal, then an indicator that adequately measures this, using national or international standards of measurement, and measurable at a reasonable cost by FSPs, should be in the framework. An example might be: "the percentage of **new and previously unserved** clients of FSPs receiving grants from the project that are landless". If reaching excluded/marginalized populations is a goal, then the indicator might be: "the percentage of total clientele of all FSPs receiving grants from the project that are Dalit." If reaching remote populations is a goal, then the indicator might be: "the percentage of total clients of FSPs receiving grants from the project that are more than 3 hours walk from a branch office and/or the percentage of total clients from the 12 previously unreached districts." **Responsible Party**: UNDP, UNCDF and NRB.

2. EVALUATION REPORT

2.1 Introduction

34. This report represents the findings of the Mid-Term Evaluation (MTE) of the Enhancing Access to Financial Services (EAFS) project for Nepal. The report is structured as follows:

    Section 1: Executive Summary

[7] Project data shows an increase in savings during the project lifetime. However, it is not clear what percentage of this is voluntary savings as opposed to "forced" savings for loan collateral.
[8] Hanson, Lene. Financial Services Sector Assessment in Nepal. 2007.
[9] Currently FSP partners mobilize "forced" savings which are used primarily as collateral against lending.

Section 2: the Evaluation Report, with the following subsections:

- Introduction
- The scope and objectives of the MTE
- MTE Approach and Methodology
- Nepal Country Context
- Programme Profile
- Evaluation Findings
- Conclusions and Recommendations
- Annexes

The annexes represent an integral part of this report, especially Annex 6, which is the presentation of evaluation findings in the matrix of the SPIRE framework.

2.2 Scope and Objectives of the Evaluation

35. The scope of the evaluation is to provide an assessment of progress at the mid-point of the Enhancing Access to Financial Services (EAFS) project as per the UNCDF Special Projects Implementation Review Exercise (SPIRE) framework. The objectives of this evaluation are:

- To assist the recipients, beneficiaries, and the concerned co-financing partners, to understand the **efficiency, effectiveness, relevance,** and likely **sustainability of results;**
- To assess the level of **satisfaction of programme stakeholders** and beneficiaries with the results;
- To assess whether UNDP, UNCDF and its partners are **effectively positioned** to achieve results;
- To contribute to UNDP, UNCDF and partners' **learning** from programme experience;
- To help programme stakeholders assess the value and opportunity for broader **replication** of the programme;
- To help programme stakeholders determine the need for **follow-up** on the intervention, and general direction for the future course;
- To understand socio economic characteristics of end users of EAFS partners (i.e. clients) so to understand if and how project contributed to reaching the intended audience (vulnerable and excluded groups) and enhanced access to financial services
- To ensure **accountability** for results to the programme's financial backers, stakeholders and beneficiaries;
- To inform formulation of the next phase of programming and future direction beyond the life of the project;
- To comply with the requirement of the programme document/funding agreement and UNDP and UNCDF Evaluation Policy.

36. According to the project document, the EAFS is subject to an independent mid-term evaluation. The project is halfway through its implementation that started in early 2010. The project has completed approximately one and a half years of its 3-year duration (2008-2012). Therefore, the MTE was planned for November 2011. Additionally, Performance-Based Agreements (PBAs) that were signed with the implementing partners and the Central

Bank of Nepal (Nepal Rastra Bank, NRB), and the PBA agreements signed between implementing partners and UNCDF outline September 2011 as a time period for the MTE.

2.3 Evaluation Approach and Methodology

37. The MTE used the Special Projects Implementation Review Exercise (SPIRE) framework as well as responds to the MTE objectives. SPIRE is based on 5 evaluation criteria developed by the Organization for Economic Co-operation and Development (OECD) and the United Nations (UN), those being: relevance, efficiency, effectiveness, impact and sustainability. The framework creates a standard intervention logic/results chain for UNCDF's 2 practice areas (inclusive finance and local development), with the accompanying evaluation questions focusing on key aspects of the UNCDF results chain. This standardized framework allows for comparison across programmes and intervention areas. Each of the 8 SPIRE questions has sub-questions that can be adapted for specific programme evaluations.

38. In the case of the EAFS MTE, the sub-questions were chosen to reflect the history of the programme, the challenges it has faced, its specific goals and targets, and the stakeholders' perspectives.

39. The core questions for the Inclusive Finance pillar are found in Table 4, below, while the entire Evaluation Matrix with its sub-questions can be found in Annex 6: Evaluation Matrix.

Table 4: SPIRE Core Questions

SPIRE Question No.	UN Evaluation Criteria	SPIRE Questions for Inclusive Finance
1	Relevance	To what extent does the programme design meet UNCDF's Inclusive Finance intervention logic and meet the needs of the partner country?
2	Efficiency and Effectiveness	To what extent has the programme contributed to increased Financial Service Providers'/Sector Support Organizations'/Government Agencies' institutional capacity?
3	Effectiveness	To what extent has the programme contributed to improved access to appropriate low income person's financial services?
4	Effectiveness	To what extent has the programme enhanced the market for IF services?
5	Sustainability	To what extent is the programme likely to result in financially viable (i.e. sustainable) financial service providers (FSPs) in the longer-term, independent of external assistance of any kind?
6	Efficiency	How effective has the management of the IF programme been?
7	Efficiency and Effectiveness	How well have partnerships with donors and governments supported the programme?
8	Effectiveness	To what extent were piloted approaches conducive to regulatory/policy/strategy developments in the Inclusive Finance area

40. The methodology of the MTE consisted of:

- A review of the IF intervention logic and its application in EAFS
- Adjusting the SPIRE sub-questions to EAFS
- Preparation of the inception report
- Obtaining feedback from stakeholders UNDP and UNCDF on the inception report
- Document review of programme design and operational documents, donor publications, EAFS progress reports, UNDP field monitoring reports, PBAs, FSP progress reports, among others (see Annex 3 for an illustrative bibliography)
- Structured interviews with programme donors, implementers (NRB and EAFS staff), other government representatives) (e.g. National Planning Commission (NPC), RMDC), staff of other UNDP programs (MEDEP)), staff of beneficiary organizations (FSPs), other IF actors, and clients of FSPs (see Annex 2a for a list of people interviewed)
- Visits to programme site areas, including Eastern, Central, Mid-western, and Western Development Regions (see Annex 2b for a list of sites visited).

41. Field visit sites were selected on several criteria such as geographical representation by developmental regions (four out of five regions were covered); ecological representation by hills and plains (Terai); coverage of severe conflict-affected districts including Rolpa (known as Maoist headquarters during the conflict) and comparatively less affected districts; The field work combined sites that were easily accessible (within half an hour travel by 4WD (Four Wheel Drive)) from the district head quarters and nearest roadheads) with less accessible (two-three hours 4WD from district capitals and road heads; representation of transport-accessible and non-accessible sites (i.e. walking on foot); rural and urban population settings; and inclusion of marginalized groups, i.e. Dalits, Janjatis, Newars, and Chhetri, Brahmin, mixed communities, to give an idea of social and financial inclusion.

42. The list of FSPs to be visited was based on accessibility, location, size (both large and small institutions were included), performance, and type of grant recipient (strategic or innovative). Once the evaluators were in the field, the field visits were expanded from the original plan in order to include the more remote districts of Rolpa and Pyuthan. In all, the following districts were visited: Morang, Sunsari, Mohottari, Chitwan, Kaski, Parbat, Pyuthan, Rolpa, Nabalparasi, and Rupandehi. Seven strategic partner FSPs out of 17 EAFS project partners[10] and 3 innovative partners out of 8 EAFS project partners were visited.[11]

43. The list of stakeholders and of FSPs to be interviewed was developed by the EAFS team and reviewed by the evaluation team. The stakeholders list included representatives from both donors (UNCDF and UNDP), the implementing partner NRB, other relevant government representatives, EAFS project staff, other microfinance funds (e.g. RMDC and PAF), other donors not involved in the EAFS project (e.g. Asian Development Bank), FSP staff, and EAFS project staff. Clients of FSPs were also interviewed, primarily in groups. In total, 9 centers (groups of clients) were interviewed, with approximately 180 members in all. Several clients

[10] Initially there were 18 partners, but currently there are only 17 partners because one partner (CSD) has merged its microfinance operation with another partner (Swabalamban Laghubitta Bikas Bank Ltd) from 17th July 2011.

[11] Strategic partners visited were Nirdhan, DEPROSC, NESDO, SLB, JBS, PGBB, and CBB. Innovative partners visited were SBL, MBGBB, and SOLVE.

were interviewed individually in their places of business. The evaluators used a semi-structured interview format. Every effort was made to triangulate information from written and verbal sources. Illustrative interview guides for all stakeholder types is contained in Annex 4: Interview Guides.

44. With respect to methodological challenges, the evaluation team was not able to visit the most remote areas of Nepal, due to the weather and the limited time period of the evaluation. However, as per the request of the Governor of Nepal Rastra Bank, the field visits to clients were extended in order to include the Mid-Western and Western Development Regions.

45. The large number of FPS partners made it difficult to analyze financial data in depth. Additionally, the evaluation team concentrated its visits on branches supported by EAFS; these are new branches (less than 1.5 years in existence). Perhaps due to this, the problem of duplication of loans reported by numerous stakeholders was seen in only one group. Due to the short time period of the evaluation, and the need to extend the field work, the team could not interview all EAFS staff or former NPDs and NPMs.

2.4 Country Context

2.4.1 Geographic, Political and Demographic Context

46. Nepal is a land-locked country between India and China (Tibet Autonomous Region) having three geographic regions: the mountainous Himalayan belt, the hilly region, and the Terai (plains) region. The mountainous region borders with China (Tibet) while the Terai region shares an open border with India. Terai holds fertile lands, which is reckoned as the "Bread Bowl of Nepal" while the hill and mountain are food deficit regions.

47. The population of Nepal is 26,620,809, and is growing at the rate of 1.4 percent per annum. The highest growth rate is found for Terai region (1.75), followed by Hills (1.3) and Mountains (0.62) (Nepal Census 2011). In the same census year, about two million people (male 87% and female 13%) were reported absentee (working abroad). In terms of access to modernized facilities, an absolute majority of the population still resides in less accessible rural areas, although urbanization is increasing over the years, and now constitutes about 17% of the total population in 2011. Likewise the rural population of Nepal counted 83% in 2011.

48. Politically, Nepal is in the transition phase adopting a multi-party democratic governance after a decade long people's war commanded by the Communist Party of Nepal (Maoist). Constitutional Assembly (CA) is elected to prepare the Constitution of Nepal. Maoist party was voted number one followed by Nepali Congress (NC) and United Communist Party of Nepal (UCPN) to the CA. Several other small parties also represent in the CA. Integration of Maoist Army with Nepal Army ; and constitution writing are the two top most goals of the country. Reconstruction of the conflict affected establishments, strengthening decentralized democratic systems, economic empowerment and social change through financial and social inclusion are the targets of the government.

2.4.2 Socio-Economic Context

49. The level of poverty is recently updated by the Third Nepal Living Standards Survey (NLSS-III) carried out by the Central Bureau of Statistics (CBS) in 2011 with technical support from the World Bank. The NLSS has reported that one-fourth (25.16%) of Nepalese live below the poverty line, using calorie consumption by a person per day and access to essential non-food items as the index to measure poverty. UNDP's Human Development Report 2010 revealed that Nepal is the 3rd fastest changing nation (In terms of the rate of change over last 40 years) amongst the developing countries in social indicators, for example: increase in literacy and school enrolment rates, access to information and communication, etc. However, in economic development indicators, Nepal is far behind. Nepal is listed amongst the least developing countries (LDCs) in the world economy even after more than 50 years of planned development phases, which started since 1956.

50. In terms of the economic opportunities, City centers and Terai region are the center of attraction. A vast majority of the financial institutions including the MFIs are concentrated around the city centers and Terai belt. Life in the hills is hard along terraced ridges carved out by generations of farmers result in many marginal sized farms, providing small amounts of food but still providing a basis to more than 43% of the country's population. The third habitat agro-ecological region is the Mountain region, located in high altitudes along the Himalayas, occupying more than one third of the country's geographical area and giving shelter to nearly eight per cent of the total population of the country. Limited physical infrastructure, little arable land, fragmented as well as small farm holdings and very limited access to markets in the hills and mountain has made microfinance services difficult. Profitability of the MFIs is lower in the hills and mountains compared to Terai and the city centers, and will be there until financially sustainable alternate delivery mechanisms are developed.

2.4.3 Financial Sector Context

51. The milestone of the Nepal's financial sector was the adoption of liberalized economic policy in 1985. The focus to priority sector lending for productive purposes (agriculture, cottage industries and services sectors) faded out and concentrated on profitable business and commerce after 1990s. With the change in the political environment, Nepal Rastra Bank also changed its policies to divert more resources to uplift the deprived sectors of the society in 2006-7. As per NRB monetary policy 2011/2012, it is mandatory to lend a certain proportion of their total credit portfolio to deprived sector (Microfinance), that proportion being 3.5 % for commercial banks (Class A); 3 % for Class "B" development banks and 2.5 % for class "C" finance companies in deprived sectors. There are currently 21 class D Micro Finance Development Banks which include 5 Regional Rural Development Banks.

52. As of now, the commercial banks (categorized as A Class), the development banks (B class), finance companies (C class) and the microfinance development banks (D class) are all regulated under the Banks and Financial Institutions Act (BAFIA). Considering the rapidly growing number of MFIs, credit-based NGOs, Credit Unions, and Cooperatives, the Nepal Rastra Bank has felt a need of creating a 2nd tier institution to regulate and monitor the whole range of microfinance players under the proposed "Microfinance Regulatory

Authority Act (MRAA)", which many MFIs are not happy with.[12] Nepal Rastra Bank is also heading towards creating a Microfinance Apex Fund from the national sources to avail funding to MFIs.

53. At present, the Rural Microfinance Development Center (RMDC), the Small Farmers Development Bank (SFDB), and the Rural Self Reliant Fund (RSRF) are the wholesale lenders in microfinance, the first two being "D" class Microfinance Development Banks while RSRF is a joint effort of the Government and NRB. RMDC lends to MFIs (Microfinance banks and credit-led NGOs) while the SFDB lends to Small Farmers Cooperative Limited (SFCLs). There are also the Poverty Alleviation Fund (PAF) supported by the World Bank, the Ministry of Women and Social Welfare microcredit programs originally funded by IFAD, the Nepal Economic, Agriculture and Trade (NEAT) program supported by USAID, and many INGO and unregistered cooperatives engaged in microfinance. However, the latest rural loan survey shows that only 20% of the demand of loans from the rural areas is met.[13] Research carried out by the Asian Development Bank (ADB) in 2006 states that there is a shortfall of Rs 13 billion (approximately USD $162.5M) between the supply and demand of rural loans.[14]

54. There is a vast scope of microfinance. However, the microfinance sector in Nepal has several major challenges. One, is how to reach people in the unreached 12 hilly and mountainous districts and remaining VDCs of other districts where no MFIs have reached until now; Second is how to eliminate / minimize multiple lending / duplication of micro lending to one client by many MFIs in the easily accessible areas of Terai and the hill towns, and the third is how to expand the limited product offerings of MFIs so that people have a range of microfinance products that fit their needs.

2.5 Programme Profile

2.5.1 Programme Description

2.5.1.1 Programme Hypothesis

55. The project is based on the inclusive finance vision and strategy practiced by UNCDF, and supports the GoN MF strategy and policy as articulated in the National Microfinance Policy of 2007. UNCDF's Inclusive Finance vision is for poor and low-income people and micro and small enterprises to have access to a variety of financial services. This implies a large, diverse and well-functioning financial sector with a continuum of sustainable financial institutions that together offer appropriately designed and priced financial products and services to all segments of the population.[15]

56. The original intervention logic/development hypothesis underlying the approach for this project is that improvements in the enabling environment for inclusive finance, supported by catalytic investments in Financial Service Providers (FSPs) and supporting industry

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[12] As per interviews conducted during the evaluation.
[13] Nepal Rural Credit Survey cited in the National Microfinance Policy (2007).
[14] Asian Development Bank as cited in section 4. Problems and challenges in the National Microfinance Policy 2007. Using 2012 exchange rates.
[15] http://www.uncdf.org/english/microfinance/

infrastructure, will strengthen selected FSPs, thus improving their ability to provide appropriate products and services to previously unbanked and marginalized populations. The intervention logic of the project, given the context of Nepal at the time of the project's formulation, seems valid, given the number of poor and very poor in Nepal, the number of marginalized and excluded populations, the residual effects of the conflict, the lack of assets and borrowing opportunities of poorer households, and the demand for microfinance. Table 5 illustrates the goal, outcome and outputs of the project at its conceptualization phase. The intervention logic changed as a result of funding shortfalls. By agreement between stakeholders (UNDP, UNCDF, Nepal Rastra Bank), the project was refocused on the micro/retail sector, i.e. the microfinance providers.

Table 5: EAFS – Goal, Outcomes and Expected Outputs

Objective	**Description**
UNDAF 2008 – 2010 outcome C	Sustainable livelihood opportunities expanded, especially for socially excluded groups in conflict affected areas.
Overall EAFS Goal	Expand access to financial services (both in terms of quantity and quality) for small businesses and low income households (excluded and vulnerable groups), in a sustainable way.
Expected Outcome	Increase the use of formal financial services from profitable financial institutions by urban MSMEs and urban and rural low income households
Output 1	Fund for Inclusive Finance (FIF) established by November 2008 and operated / managed till Dec. 2012
Output 2	At least nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services (reaching 330,000 new active loan clients) by Dec. 2012.
Output 3	10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other FINGOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012
Output 4	Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided
Output 5	Project operation and management

2.5.1.2 Proposed Results to Meet the Programme Objectives (including any major strategic changes adopted during implementation)

57. As per the project document, EAFS' original objective was to expand access to financial services (both in terms of quantity and quality) for small businesses and low income households (excluded and vulnerable groups), in a sustainable way. The number of beneficiaries targeted in the original project document was 330,000 previously unbanked individuals.

58. The original components of the project were:

a. A Fund for Inclusive Finance (FIF) to strengthen the capacity of financial institutions to expand access to underserved market segments and to carry out a financial literacy campaign
b. Technical assistance (TA) to support reforms of the legal/regulatory and supervisory framework for microfinance, and the implementation of a secured transactions registry

c. A line of credit for financial institutions with limited liquidity and interest in serving MSMEs, especially previously unbanked ones
d. Technical assistance to reform state-owned microfinance institutions, i.e., the Rural Self-Reliance Fund and the Regional Rural Development Banks
e. Technical assistance to fund a public information campaign, project implementation, monitoring and evaluation

59. The project was originally envisioned, with the participation of the World Bank, as a USD $30M project with the components mentioned above.[16] The WB withdrew at the last moment before project document signing. The current project is a "sub-set" of this larger project (Project Document, page 5). The project was scaled back to USD $10M, with only components 1 and 5 of the original five mentioned above. Component 1, originally conceptualized as a revolving fund operated by an independent management group, was re-conceptualized to be a grant fund with a committee of stakeholders as decision-makers on the grants.

60. The programme monitoring framework in the project document for the $10M project funding is as follows in Table 6:

Table 6: EAFS Project Monitoring Framework (PMF)

Output 1:	Output 2:	Output 3:	Output 4:	Output 5:
Fund for Inclusive Finance established by November 2008 and operated / managed till Dec. 2012	At least nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services (reaching 330,000 new active loan clients) by Dec. 2012.	10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012	Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided	Project operation and management
Indicators: No. of new clients to be reached by End Of Project – 330,000 (disaggregated by gender, district and social group) No. of service delivery units of Microfinance Service Providers in remote districts – at least one in 10 remote districts Avg loan size as a % of GDP - < 50% for all FSPs No. of female clients – no target given Financial Self Sufficiency of FSPs - > 100% for all FSPs No. of Savings and Credit Groups linked with FSPs – 10,000				

61. There have been no major strategic changes in the implementation of the project. However, due the funding shortfall of slightly less than USD $7M, the following activities have been scaled back and/or had not occurred by the date of this MTE:

- Strengthen the capacity of Nepal's microinsurance sector (also eliminated because the insurance industry is not regulated by NRB, and lack of sufficient funding)
- Create a market for MF BDS providers; improve their capacity

[16] See Annex 2 of the EAFS Project Document for more details.

The project monitoring framework has not changed despite the shortfall and change in components.

2.5.1.3 Key Partners of the Project

62. The two donors to date are UNDP and UNCDF. The implementing partner is Nepal Rastra Bank (Central Bank of Nepal). Two staff from the Microfinance Dept. of NRB are assigned to the project, responsible for the project management in addition to their own responsibilities in the MF Dept. The National Program Director (NPD) and the National Program Manager (NPM) are NRB's assigned staff free of project cost. Five Nepali professionals support the project, assisted by an expatriate UNCDF Chief Technical Advisor to the project.

2.5.1.4 Key Sectoral Results Expected of the Programme

63. Sectoral results of the "sub-project" of USD $10M were expected to be, by sector:

- Micro/Retail – Stronger retail institutions reaching a larger geographic area of Nepal, especially remote areas; reaching more clients, especially disadvantaged/excluded clients, with a greater diversity of products;
- Meso – A larger market for service providers to the microfinance industry
- Macro – An improved policy and regulatory environment for the microinsurance industry; improved capacity of the GoN

2.5.2 Current Programme Status

a. Implementation Status

Table 7: Implementation Status

Outputs and Output Targets	Implementation status to date (Oct 31, 2011)
Output 1: Fund for Inclusive Finance established by November 2008 and operated / managed till Dec. 2012	The FIF is established and functioning, although it is not an independently managed fund.[17] It has one instrument: grants. It has 2 funding windows, one for "strategic partners" and one for "innovative partners". Decisions on fund allocations are made by the Project Executive Board (PEB), whose members are NRB MF Dept. staff assigned to the project, UNCDF, UNDP, Ministry of Finance (MoF), Nepal Bankers Association, Nepal MF Bankers Association, Federation of Nepalese Chambers of Commerce and

[17] The FIF, budgeted at USD $14M, was to be managed by a management team of private individuals or an independent company. It was designed to provide technical assistance in new product design for increasing their portfolio in MSME lines. The Fund would hire technical assistance from the meso level TA providers to work with FSPs, paid for by the Fund for a period of 2 years, and then on a negotiated basis after that. It was hoped that the Fund would be an attractive pooling mechanism for all donors assisting the MSME sector. The Fund was scheduled with a mandate of 5 years, renewable by WB, UNDP and UNCDF, and would be overseen by a Steering Committee of high level government and donor representatives. The Fund was never established as envisioned, partly because there were no funds for it, but more importantly because the GoN was planning to establish its own fund (which is in the works now), and saw this particular fund as unnecessary (Source: Interview CTA).

	Industry (FNCCI), and which meets quarterly.
Output 2: At least nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services (reaching 330,000 new active loan clients) by Dec. 2012.	18 FSPs[18] have signed grant agreements (called "performance-based agreements, or PBAs) and have received at least one tranche of funding.[19] The project reports that 186,496 new clients have been reached. The MTE team estimates that some of these may be double-counted, i.e. reached by more than one EAFS FSP.
Output 3: 10,000 Saving and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012	2,666 SCGs have been linked to EAFS FSPs, with 60,054 members at Oct 2011.
Output 4: Technical assistance (TA) on project implementation, monitoring and evaluation system and public information campaign provided	TA has been provided to FSPs in the areas of: VSLA training, MIS assessment, MFI ratings, SCG linkage training and related tools developed, MIX Market training, Financial Literacy, Market Research and Product Development, Microinsurance, Business Planning. The TA approach is currently being revised to provide TA more rapidly and more tailored to expressed needs of FSPs.
Output 5: Project operation and management	The project is being managed competently by NRB with assistance from UNDP and UNCDF. NRB's ownership has created positive synergy amongst government depts., NPC, FSPs and clients.

b. Financial Status

Table 8: Program Budget vs Expenditure (in US$)[20]

Sources	Budget			Expenditure			Percentage Expended		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
UNCDF	44,038	500,000	578,995	4,674	372,593	524,700	11%	75%	91%
UNDP	137,431	400,000	434,715	121,082	386,708	395,291	88%	97%	91%
Total	181,469	900,000	1,013,710	125,756	759,301	919,991	69%	84%	91%

Figure 1: Programme Expenditure to Date by Project Output for UNDP

[18] The project document states "at least 9 FSPs" will obtain technical assistance, and the original selection of FSPs included 10. However, by a decision of the PEB, the selection criteria for choosing FSPs was made less restrictive in order to accommodate lower performing FSPs in the Far Western and Mid-western departments, since these regions were not covered by the better performing FSPs (Source: 6th PEB Meeting 19 Feb 2010, p 4)

[19] One has merged with another, so the current number of FSP partners is 17.

[20] These are the latest figures provided by the project.

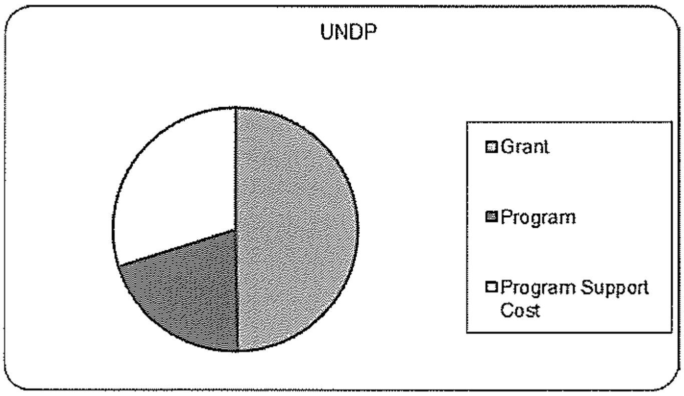


Figure 2: Programme Expenditure to Date by Project Output for UNCDF

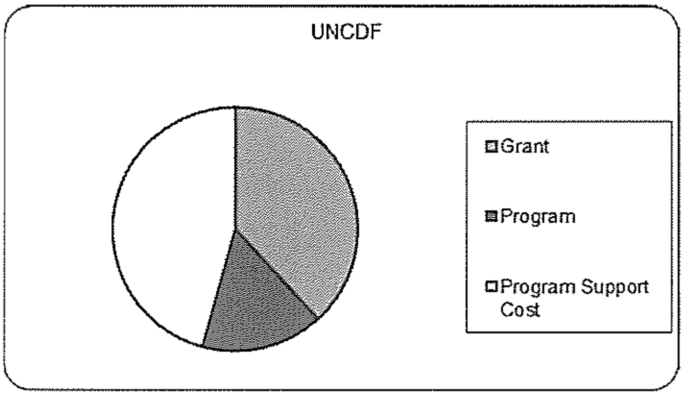
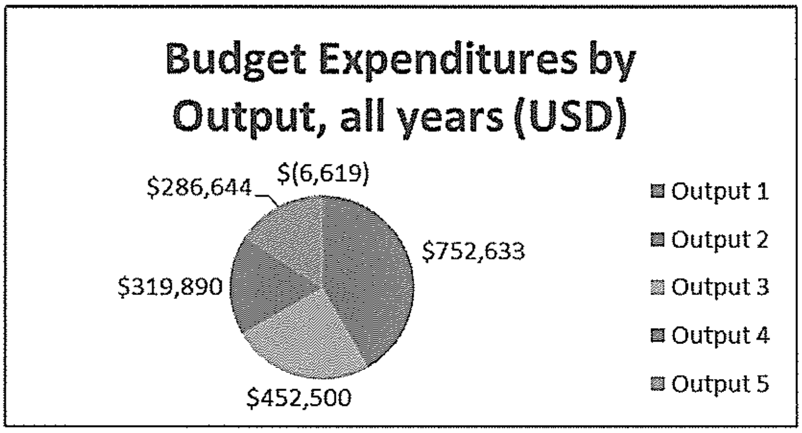


Figure 3: Programme Expenditure to Date by Project Output



2.6 Evaluation Findings

64. This section provides the MTE findings, by SPIRE question. The boxes contain the evaluation question and the overall finding for that question, followed by a more detailed discussion of findings related to each SPIRE question.

SPIRE Question No. 1 (Relevance) To what extent does EAFS design meet the needs of the partner country and meet UNCDF's Inclusive Finance intervention logic? EAFS meets the needs of the partner country, and at the design phase complied with UNCDF IF intervention logic by addressing gaps in financial services at the retail level, especially with regards to coverage areas. The project was not able to address the meso and macro levels due to funding shortfalls and reprioritized activities to focus on the micro level.

65. The EAFS project design and implementation are in line with the government's priorities of ensuring the social and financial inclusion and poverty alleviation as illustrated in the "Three Year Interim Plan of the Government of Nepal". The National Microcredit Policy 2007 recognizes the importance of microfinance as a poverty alleviation tool, and promotes a conducive financial infrastructure and legal environment for the development of the microfinance industry. The specific objectives of the policy are:
    - Create income generation and self-employment opportunities for the poor and women by enhancing their access to financial services
    - Increate access of microfinance to all through microfinance institutions
    - Build capacity of the MFIs for their institutionalization and sustainability
    - Make necessary arrangement of microfinance policy
    - Devise appropriate institutional mechanism to promote microfinance services and regulate the sector[21]

66. GoN has adopted a more liberal financial policy since 1985, after which a market-driven approach has become stronger. Since then, enhancing the access of sustainable microfinance facilities has been the policy of the government, so the design of the EAFS project is in congruence with the national policy of financial inclusion.

67. Demand and need for diversified financial services is high. There are an estimated 17.6 million people in Nepal that lack access to financial services (Nepal Rastra Bank, 2010), especially in the hills and mountains areas, and expanding access to finance, especially for those communities who were excluded in the past, is a national priority of the government.

68. The intervention logic changed as a result of the funding shortfall, and the project was refocused on

"Nepal's microfinance institutions need to be strengthened in several areas, including internal controls, management information systems, human resource management, product development, accounting, financial analysis, and business planning. Currently, microfinance institutions have neither the resources nor the incentives to buy such services. As a result there are no providers—such as information technology providers or accountants specializing in microfinance—of these types of services to the microfinance sector." **Source**: Ferrari, Jaffrin, and Shrestha. Access to Financial Services in Nepal. World Bank Publication. 2007.

[21] Nepal National MF Policy 2007.

the micro/retail sector as per joint decision of the stakeholders (UNCDF, UNDP, and NRB). However, for future projects, it is worth noting that the design of EAFS could have benefited from more clarity and specificity for the macro and meso levels. The meso level activities were supposed to target MF BDS providers in order to build their capacity. Activities in the project document for the meso level included only "mapping of BDS providers", "TA to build the capacity of microfinance BDS providers...". There was nothing stipulated in the project design to assess demand for these services by FSPs, nor mechanisms by which FSPs might access these services on an increasingly sustainable basis (vouchers, budgetary lines for services), or by which the BDS providers might provide the services until they reach sustainability (e.g. grants for meso sector actors with accompanying PBAs). Support to the MF associations was not analyzed to see if this would be worth including in the design. Although the project did not focus on these actors due to funding shortfalls, if funding had become available to target this sector, it would have been helpful to have had better guidance in the project.

69. The only macro level intervention in the project document was aimed at the microinsurance industry. Had funding been available at the beginning of the project or subsequently, it would have been useful to have additional interventions aimed at strengthening the capacity of the NRB to regulate, and aimed at improving the regulatory and policy environments for microfinance. A WB survey of Access to Financial Services in Nepal (2006) notes some areas for potential improvement:

- Reviewing the legal and regulatory framework for microfinance, with a view to simplifying it.
- Determining which institutions should be supervised, to target only those that could threaten the microfinance sector's stability.
- Developing a business plan for a stronger microfinance supervisor.
- Drafting new legislation or amending existing legislation.

70. The retail sector focus was appropriate, as it incentivized qualified FSP to expand into more remote areas and to reach additional excluded and marginalized populations. It included both regulated microfinance banks and FINGOS as potential beneficiaries of the fund, but did not include cooperatives. It set forth a mechanism to objectively and independently rate FSP applicants, so as to avoid political interference or the appearance thereof. And it is also stipulated that the use of grants for operating costs coupled with performance-based agreements based on each FSP's business plan. The use of grants does not seem to cause distortion in the sector, and EAFS requires a match by partners receiving grants. However, some of the project activities, such as the generation of knowledge on issues of importance to the retail sector, could have been disseminated to the larger sector, and not just to project FSP partners.

71. The design of the project is also relevant to contributing to the sustainability and viability of savings and credit associations (SCGs) by establishing linkages with EAFS project FSPs. These SCGs were initiated by the community people themselves or were created by development projects with funding support from a number of donors and funding agencies like UNDP, World Bank, Community Forestry (Forest Users' group, or FUGs), various irrigation projects (Water Users' Groups, or WUGs), etc. Some of these groups are linked with a line of credit to

some EAFS partner FSPs. However, although the concept is valid, the design of this component would have benefited from greater clarity: there are numerous capacity building and logistical issues that have created problems in the implementation that should have been acknowledged and addressed in the design document, such as a clear definition of SCG, costs associated with linking, location of existing SCGs, legal status of SCGs, repayment culture and governance, etc. Additionally, the target of linking 10,000 SCGs was over-ambitious; the project may be able to achieve 3,000.

72. In totality, the project is within the overall outcome areas of CPAP and UNDAF pertained to improved livelihoods / reduced level of poverty. For UNDAF 2008 – 2010, EAFS falls under UNDAF Priority Area C – Sustainable Livelihoods, with UNDAF Outcome C: Sustainable livelihood opportunities expanded, especially for socially excluded groups in conflict affected areas. The relevant outcomes, outputs, and indicators are below:

- CP outcome C.1: Policies, programmes and institutions improved for poverty reduction, better economic opportunities and protection of workers
- Indicator C.1.3: Harmonized framework among donors and Government of Nepal for support to an Inclusive Financial Sector developed and functioning.
- CP Output C.1.1: Employment and income opportunities under safe conditions and access to financial services enhanced and diversified, especially for youth and excluded groups.
- Indicator C.1.1.3: Number of women, poor and disadvantaged groups accessing financial services

73. At the project design level, there is a weakness in synchronizing UNDP's and UNCDF's approaches to IF. While both donors are equally concerned about reaching the poor, UNDP is concerned about reaching the very poorest, while UNCDF recognizes the limitations of microfinance in reaching the very poorest and most remote populations. UNDP also wants to use already established SCGs as an entry point for the provision of microfinance, in order to promote their sustainability, while UNCDF's interest was on market approach embedded in its intervention logic (i.e. expansion of regulated microfinance services to previously unreached areas).[22] This gap in synchronicity is exacerbated by an inadequate project monitoring framework that was not reformulated when the World Bank withdrew and which does not adequately measure outreach to the very poor or the remote populations (see SPIRE Question 6 for further discussion of the M&E framework).

SPIRE Question No. 2 (Efficiency and Effectiveness) To what extent has EAFS contributed to increased Financial Service Providers'/Sector Support Organizations'/Government Agencies' institutional capacity?
EAFS has improved institutional capacity at the retail level mostly in terms of expanded infrastructure (branch offices), additional staff for those offices, and some increase in credit portfolios. Institutional impact has been limited due to the short time period of implementation. The meso and macro levels could not be addressed due to funding shortfalls.

[22] Interviews with UNDP and UNCDF staff.

74. The EAFS monitoring and evaluation framework does not contain indicators for measuring "increased institutional capacity" and due to this, the evaluation team developed some indicators for answering this SPIRE question. These indicators were approved by the EAFS team and the UNCDF Evaluation Unit as part of the Inception Report. These indicators, all of which are associated with increased institutional capacity, are the following:

- No. of new clients
- No. of branch offices
- Improvement in FSS
- Improvement in PAR30
- No. of districts reached
- No. of partner FSPs reporting to The Mix
- No. of new products piloted
- # of SCGs with direct link to an FSP
- Estimated number of clients with loans from more than 1 FSP
- Existence of mechanisms to monitor over-indebtedness in each FSP
- Client default information shared among FSPs
- No. of training activities to meso actors
- No of actors reporting increased capacity (systems, staffing, resource mobilization, profitability, other)
- No. of training or TA activities with macro sector actors
- No. of initiatives implemented by CB as a result of programme activities

75. Given the number of FSP partners (17), the number of indicators, and the data available, it was not possible to collect all indicators on all FSPs. The table below, Table 9, illustrates the data that was collected:

Table 9:

Indicator	Result/Outcome
No. of clients per FSP and total project	186,496 new clients (Oct 2011)
No. of branch offices	97 new branches (2011 EAFS Annual Report)
Improvement in FSS	OSS is greater than 100% for all FSPs, which is the goal, and has not changed significantly from baseline. (FSS was changed to OSS due to inability of FSPs to calculate FSS)
Improvement in PAR30	Most FSPs' PAR 30 has gone down
No. of districts reached	Number of districts reached is now 63, up from baseline of 48
No. of partner FSPs reporting to The Mix	All are reporting to the Mix. Benefits unknown.
No. of new products piloted	8 innovations have been piloted, of which 4 are can be classified as new products
# of SCGs with direct link to an FSP	2,666 SCGs
Estimated number of clients with loans from more than 1 FSP	Unknown

Existence of mechanisms to monitor over-indebtedness in each FSP	No sector-wide mechanism; some FSP branch level staff reported informal sharing with other FSP staff; elimination of those clients with loans from FSPs;
Client default information shared among FSPs	2 FSPs interviewed reported sharing information with each other
No. of training activities to meso actors	0
No of actors reporting increased capacity (systems, staffing, resource mobilization, profitability, other)	All FSPs interviewed reported positive changes in at least one of the example areas (systems, staffing, resource mobilization, profitability, infrastructure)
No. of training or TA activities with macro sector actors	2 staff of NRB went to Boulder MF Training; 1 went on an exchange visit to India; NRB staff assigned to the project have participated in project workshops, national trainings and review meetings
No. of initiatives implemented by NRB as a result of programme activities	Financial literacy campaign, client protection initiative

76. Based on the above table, the MTE concludes that in the retail sector, capacity has been increased. Financial support to the selected 17 MFI partners has helped them expand their outreach to new markets (new clients and new geographic areas), open new and computerized branch offices that should be financially sustainable within a few years, hire and train new staff, make some adaptations to their products so that these are more demand-driven, increase their credit portfolios, increase their networking and knowledge sharing with other FSPs, and increase their knowledge on a variety of best practice microfinance themes (the consequences of client overindebtedness, financial literacy, MIS, for example).

77. The number of new clients reached, a project indicator, has reached 186,496 clients at 31 Oct. 2011, although the number may be overcounted.[23] This is also an indication that institutional capacity has increased.

78. The original number of FSPs that were selected for grants was 18.[24] This is a large number for a project to monitor and advise. It may have been prudent to select a smaller number of FSPs for easier monitoring, with the extra funds going towards technical assistance for those selected. Using the innovative partners as an example where there was not enough monitoring or TA from the project, it seems advisable in future projects to limit the scope of beneficiary institutions to a more manageable number.

79. The MTE team was asked to investigate the issue of over-counting of clients. One group of clients (approximately 20 in number) interviewed at new EAFS-supported FSP branches

[23] Not all of the increase is due to the EAFS project, and no quantitative assessment can be made about how much is due to EAFS and how much to other factors.
[24] One has merged with another, so the final count is 17.

visited during the evaluation reported having another loan from another EAFS FSP.[25] In addition, a small number of clients (approximately 30) had already received access to financial services via cooperatives, and thus may not be "previously unserved". However, the project indicator is not "previously unserved clients" but rather "new clients". It is not possible to estimate how many or what percentage of the new clients reached is double-counted.

80. Expansion of infrastructure is also an indication of capacity building. The number of districts reached has increased from 48 at baseline to 63 at MTE. Of the 15 new districts, 11 are project-defined "priority" districts. A total of 97 new branches have been opened with EAFS funding, up from a baseline of 364. Fifty-five (55) of the new branches are in priority districts.

81. At the local level where the FSP branches are based and the clients are grouped, EAFS support has helped FSPs to set up their branches and reach new clients. Branch opening in the interior Terai and accessible hill districts has helped improve access of microfinance to the Dalits, Janjatis and mixed groups of multi-ethnic communities, including poor Brahmins and Chhetries as well. In this way the project is effective in contributing to social and financial inclusion. To verify inclusion at the community level, the evaluation team visited nine "Centers" (local federations of smaller groups of clients) in nine districts and found both Dalit-only and mixed groups including Dalits. This is an example of community level systems of social and financial inclusion, which is essential for socio-economic transformation of the communities.

82. Capacity building in the area of linkages between FSPs and SCGs has occurred, although activities in this area were slow to start. There were issues that had to be resolved first before these linkages could occur. These including establishing a definition of "linkage", convincing FSP partners that such linkages had the potential to be financially viable for the FSP, and developing a tool by which SCGs could be assessed for viability. One logistical issue was the location of SCGs. The project plans to conduct a mapping exercise to locate SCGs. The second issue is to determine whether they are still viable and with sufficient capacity to link with an FSP. There have been training activities with FSPs (June, Sept. 2011) to discuss the feasibility of linking with SCGs, and the project staff have developed a manual for this linkage process and a tool for evaluating the capacity of SCGs. To date, 2,666 SCGs and 60,054 SCG members have been linked to partner FSPs. The goal of linking 10,000 SCGs seems over-ambitious, but one-third of that might be feasible by the end of the project.

83. Improving access to finance includes expanding the diversity of products. An EAFS strategy was to use grants to fund innovations in products and delivery mechanisms. Partners receiving this kind of grant were called "Innovative Partners (IPs)" and their grant awards were based on a business proposal. Eight FSPs were chosen to receive funding for innovations. At the time of the MTE, project documents and interviews with EAFS staff and IPs indicated that there were problems in implementing the innovations. The IPs lacked experience in defining, assessing the viability and marketability of, developing market plans for, and piloting innovations, as well as training their staff and meeting the

[25] Nirdhan and CBB.

technical/technology challenges of the innovations.[26] The project documents indicate that 6 of the IPs have changed their innovation idea from the original idea without project approval.[27] Monitoring of IP progress was reportedly inadequate until recently. Overall, the idea of supporting innovations needed to be better thought out. The selection criteria for IPs needed to better assess their technical capacity for implementing innovations. Grants were not enough; TA needed to be provided as well, and probably should have been provided before the grant. The process for supporting innovations needed a more hands-on approach by EAFS staff or consultants to help FSP innovating partners work through challenges. Project staff have embarked on a detailed assessment of the challenges and progress of the IPs, and will design tailored technical assistance to support them.

84. Despite the challenges in innovations, there have been small but useful adaptations in products even among strategic partners. These changes seem to be due to information and encouragement provided by EAFS staff. Examples include Nirdhan's Self-Reliant Groups, Nirdhan's balloon payment methodology for sugar cane loans (i.e. payment at the end of the loan term rather than monthly), SOLVE's Forest User Groups, MPGBB's individual loans instead of group guarantee loans, SBL's branchless banking.

85. Regarding the meso level organizations (service support organizations, or SSOs, also called technical service providers or business development service providers), the meso level has not been a focus of the project due to funding constraints.

86. At the macro level, the project has contributed slightly in building the capacity of the NRB's Microfinance Promotion and Supervision Department. Two NRB staff were trained abroad in well-known and high level microfinance institute, and NRB staff assigned to the project have participated in project workshops, national trainings and review meetings. The reason that capacity building was only slightly built is because the staff who received the training are no longer in the MF Dept. of the NRB, because there is no indicator that measures whether any training received by these NRB staff was passed on to other NRB MF staff who did not participate in the training (and there was no time for the evaluation team to interview non-EAFS-associated NRB MF Dept. staff), and because the non-EAFS-associated MF Dept. staff did not receive any direct training activities.

87. Regarding over-indebtedness of clients, this is a problem worldwide and Nepal seems to be no exception, according to interviews of microfinance practitioners during the MTE. The problem over over-indebtedness has 2 main causes: products that are not adapted to clients' needs, and the overabundance of credit. While the MTE only uncovered one instance where clients admitted to having loans from more than one institution (both were EAFS partners), stakeholders reported that the problem is much larger in some areas. Some FSP staff reported sharing information on delinquent clients informally with competitor FSPs. This seems to be a result of the project's efforts to make FSPs aware of the issue. The project has contracted to do a financial literacy study, which will serve as the basis for a financial literacy campaign by NRB. Activities on consumer protection principles are planned. Both of these are helpful in reducing over-indebtedness.

[26] Quarterly Progress Report July – Sept 2011.
[27] Ibid.

88. There are nuances to the over-indebtedness issue. One of these is that it is important not to stifle competition between MFIs. Competition leads to efficiency – better services at lower prices. Therefore, any actions to decrease over-indebtedness should not at the same time decrease competition. In other words, dividing up the country between MFIs is not a constructive solution. Another nuance is that, at least among the clients interviewed during the evaluation, clients are accessing more than one loan at a time due to the fact that their financial needs are not being met by one loan. For example, loans from the Women's Development Office are small, so the loans from EAFS FSPs look attractive because of their larger size, and many EAFS clients have both if given the opportunity. In general, poor people have diverse mechanisms for managing money, and multiple concurrent loans may be part of their strategies.[28] This option should not be taken away from them as long as they have the capacity to repay. At the same time, the consequences of multiple concurrent loans can be a problem when the repayment capacity does not exist or is diminished in the course of a loan term so that payments can't be made. There are many mitigation strategies to avoid this scenario, and which work best in combination and not in isolation. Some of these include: 1) educating FSP group members about how to enforce the solidarity guarantee; 2) empowering group members to say "no" to risky loans requested by other members; 3) encouraging FSPs to share defaulter information; 4) encouraging client protection standards in the sector; 5) encouraging FSPs to adapt their loan products to better meet client needs, 6) providing links between clients and veterinary services to reduce animal losses; 7) promoting regulated microinsurance products to help sick clients maintain their productivity, 8) linking remittance receivers to formal financial services to build assets, among other ideas.[29]

89. Overall, capacity has been built at the micro/retail level by supporting partner FSPs with grants and TA. Capacity at the macro level (government regulatory agencies) has increased slightly, but was not a focus of the project due to the funding shortfalls. The capacity in the meso sector was also not built due to not being a focus of the project.

SPIRE Question No. 3 (Effectiveness) To what extent has EAFS contributed to improved access to appropriate low income persons' financial services?
Access to financial services has improved due to expansion of outreach via branch offices in unserved areas. More women and more marginalized/excluded people have access to financial services, although the percentages reached have not changed greatly. The diversity of products has not significantly improved.

90. EAFS has chosen to support FSPs that work primarily with women. Women represent 99% of the clients reached with project support. This has not changed since the baseline. The usefulness of the indicator, therefore, seems limited. For rural people, the baseline was 73% and at the end of Oct. 2011 was 76%. This increase seems partially due to the project's support for FSPs to open branch offices in previously unserved areas.[30] There is no project

[28] For more information on the diversity of mechanisms and strategies used by poor households, please see Financial Diaries.
[29] For more information, see CGAP's recent virtual conference on over-indebtedness: http://www.microfinancegateway.org/p/site/m/template.rc/1.26.18167/
[30] FSPs have also continued to expand their existing, non-EAFS-supported branches, so some of the increase in rural and marginalized/excluded people is due to their normal expansion.

indicator or target for this and there should have been. For excluded, marginalized populations (Dalits, Janjatis, Muslims), the project has supported an increase of 4% of these populations, from 64% at baseline to 68% at Oct. 2011. Again, there was no project goal for this, and there should have been. Overall, the increase in the number of clients means that more women, excluded/marginalized people, and rural people have access to financial services, despite the limited changes in percentages.

91. Using branch offices as an indicator for "access", it is clear that the project has supported an increase in access, since the number of branch offices funded by EAFS has increased by 97.

92. During initial consultations in the MTE process with the two donors, the question arose as to whether the project was reaching the "bottom of the pyramid", i.e. the poorest. There was no project indicator for this, other than the proxy "average loan size as a percent of per capita GDP", with the target being "less than 50% of GDP". This indicator was not useful, since the FSPs were already reaching this target at baseline. Additionally, "50% of per capita GDP" does not represent those people at the bottom of the pyramid.

93. The MTE team was asked to ascertain the program's outreach to the very poor. This was not possible given the lack of data.

94. FSPs have received training in market research from the project, and all have done their own market research studies. The market research should help them adjust their products to be more appropriate for their clientele, although the impact has been limited to date due to the short term of the project.

SPIRE Question No. 4 (Effectiveness) To what extent has EAFS enhanced the market for IF services?
The market has been enhanced through expansion to previously unreached geographic areas, by increasing FSP interest in adapting product lines, by making operations more efficient through MIS upgrades, and by linkages to savings and credit groups.

95. The market has been enhanced, due to:
- FSP expansion into previously unreached geographic areas of Nepal
- FSP interest in adapting their products to the needs of more remote and poorer clients
- FSP linking with previously existing savings and credit groups
- FSP expanding interest in new products (e.g. microinsurance)
- FSP expanding interest in making their operations more efficient (e.g. MIS upgrades)

96. The project has focused on assisting its selected partner FSPs through a competitive selection process for grants, and these same partners have received trainings. These FSPs included FNGOs, MF Banks, and one commercial bank. Cooperatives were not included, although the evaluation team saw evidence that they are reaching the same populations. For the training activities, non-EAFS partner FSPs could have been included in project activities (with the exception of the grants) without greatly increasing costs. At a minimum, project-funded research studies could be provided to the sector as a whole.[31] In general, the

[31] This is planned in the AWP 2012.

results of any research conducted by the project should be viewed as a public good and made available to the microfinance sector at large. The EAFS website http://eafsp.org/ would be a vehicle for dissemination, as would the NRB website.

97. Some opportunities for including meso sector actors (for example, the 2 MF associations and the Center for Microfinance) were missed; these entities could have been invited to participate in project training and informational activities. The project could build capacity at the meso level by pairing international TA providers such as MicroSave that are contracted to the project, with local providers such as CMF when conducting TA activities.

98. There is an ADB "Improving Access to Financial Services Program" in the inception stage in Nepal, with technical assistance and surveys being conducted at the time of the MTE. The estimated start date is 2014, and the proposed funding is USD $50M. ADB also has a Rural Finance Sector Development Cluster Program ending Dec 2012. IFC has a number of private sector projects aimed at inclusive finance, including an equity investment in an EAFS partner – Nirdhan. DFID has no inclusive finance activities. These donors interviewed (IFC, DFID, ADB, NEAT/USAID) during the MTE are positive on the importance of access to financial services for the poor.

99. There are no commitments at this time from donors or GoN to fund a phase-over EAFS project.

SPIRE Question No. 5 (Sustainability) To what extent is EAFS likely to result in financially viable (i.e. sustainable) financial service providers (FSPs) in the longer-term, independent of external assistance of any kind?
The project has contributed to growth of infrastructure, credit portfolio and clientele, and to increased knowledge of MF market research. This support should fortify the sustainability of the FSPs. National ownership by the GON, especially the NRB, is another aspect that will support long-term sustainability.

100. EAFS has helped FSPs achieve growth in clients, growth in infrastructure (branch offices), and growth in portfolios. EAFS has provided training on market research, which should help FSPs design more appropriate financial products for clients. All this will lead to long term sustainability for the partner FSPs.

101. At baseline (Feb. 2010) and as of Oct. 2011, all FSPs had OSS of more than 100%. The OSS is only measured annually. As an indicator of sustainability of the project outcomes, it is minimally useful. It could be discarded. The project has not had a negative impact on OSS ratios, as sometimes occurs in projects that support expansion into rural areas.

SPIRE Question No. 6 (Efficiency) How effective has the management of EAFS been?
Both NRB and UNDP are satisfied with the project, although each has some concerns about reaching the very poor and the most remote populations. Management seems effective and transparent, and the PEB seems to be functioning well at the date of the MTE. The project was slow to begin, and there seemed to problems with NRB buy-in to the project at the beginning, which may have been linked to NRB staff rotation. This has changed and NRB is now fully committed. Activities are now being implemented at an increasingly rapid pace.

102. Government (NRB) is overall satisfied with the project. However, NRB has some concerns with respect to reaching the most remote areas and the poorest. Twelve of the most remote districts have not yet been reached by EAFS partners or by any other MFIs. Seven priority districts are not scheduled to be reached during this project. This is because of the way MFIs plan their expansions, through a network of branches that reach out from population centers to more remote areas. While FSPs have expanded due to the project, they have not yet established the branch office network that would allow them to reach those more remote districts in a sustainable way. Therefore, reaching those 12 districts during this phase is not realistic.

103. NRB staff have rotated up to four times for the NPD and twice for the NPM. Although very committed, the NRB staff are doing essentially two jobs, their own with NRB and their EAFS project responsibilities, without additional cost to the project. Rotation of NRB staff interferes with effectiveness, as new staff have to learn about the project.

104. The late hiring of the CTA also influenced project efficiency. Notwithstanding the contributions of the hardworking and committed national project staff and the NRB, the lack of a CTA slowed down project implementation at the beginning stages, even though the preparatory works such as office establishment, procurement, staff hiring, criteria and process development, selection of partners and signing PBAs were done before the arrival of the CTA. Timely hiring of the CTA would have helped get the SCG activities on track, identified the IP challenges and improved the M&E framework.

105. UNDP is overall satisfied with the project implementation, particularly the number of beneficiaries reached compared to the small amount of the project (USD $3M). UNDP is also satisfied with the level of commitment of the government. UNDP has a few concerns that were articulated as: 1) Is the project reaching the poorest and most remote? 2) Are the beneficiary numbers accurate? 3) Should the UN be using grants for profit-making institutions (i.e. MFIs)? To these effects, the evaluation team found that the project has reached the poor and the poorest albeit there was no indicator defined by the project to measure the outreach to the poorest, nor a mechanism to measure how many have been reached. The evaluation team visited FSP branches in the interior Terai through muddy tracks and hill branches in Rolpa, Pyuthan and Parbat ranging 2-4 hours walk back and forth on foot from the nearest branch, which shows that services are reaching remote areas (even if not as remote as the remaining 12 districts); the field work verified that there is double counting due to dual loans from more than one FSP, although the number or percentage of beneficiaries with dual loans could not be verified. The evaluation team notes that FSP partners are closer to social enterprises than to purely profit-making commercial enterprises, because they provide training, insurance, and other social services to their clients.

106. Concerns from stakeholders about reaching the poorest and the most remote populations are exacerbated due to some flaws in the project design and the monitoring and evaluation framework. Had the project been reformulated early in the implementation stage, and the M&E framework clarified, these concerns may have been alleviated. The flaws are:

- The lack of clarity on project goals after the withdrawal of the World Bank
- The lack of functional indicators, especially for measuring outreach to the poorest and excluded
- The lack of strategies to link EAFS to other donor programs including MEDEP
- The slow progress in linking with SCGs[32]
- The issue of double-counting of beneficiaries, due to EAFS partner MFIs working in the same geographic areas

107. Partner FSPs are satisfied with the project, reporting in particular that:

- the transparency of the selection process for grants
- They appreciated the acceptance by the project for the use of their own business plans as a basis for their PBAs
- They would not have expanded outreach without the project's grant support
- The quarterly meetings with all partners have enabled them to share information and lessons learned
- They have been exposed to new product and service ideas due to the project
- They appreciate the interaction with project staff

108. FSP satisfaction can be also measured by their matching contribution to project funds. In other words, EAFS, in its grant component, is not providing 100% of the start up and operating costs of new branches, but only a part. The FSPs provide the other part. The cost per client provided by EAFS averages USD $5 (Stocktaking Report June 2011), while the cost per client to the FSP in the remote areas may be as high as USD $65 (4th Qtr 2011 Report, page 28). Therefore, the project could be leveraging more than 10 times its investment from some FSPs.

109. The EAFS project is well-documented, and is overseen by the Project Executive Board (PEB), which is doing a good job. EAFS staff are monitoring field activities, and UNDP also provides regular monitoring and audit. The make-up of the PEB includes UNDP, UNCDF, Ministry of Finance (MoF), NRB, Federation of Nepalese Chambers of Commerce and Industry (FNCCI), the Microfinance Bankers Association, and the Nepal Bankers Association. There was a conflict of interest issue with having the MF Bankers Association on the PEB at the beginning, since it was part of the decision-making on FSP selection for grants, and many of its members received grants due to decisions made by the PEB. Since this grant selection process is finished, there is no longer a conflict of interest.

110. Grant funds have been disbursed slowly due to FSPs' inability to meet targets, although currently 15 FSPs are on track with targets. In 2011, EAFS staff developed a strategy to tailor TA to institutions to help meet targets (11th PEB June 2011).

111. There have been a limited number of activities that could be defined as TA (different from training) for all partners; these have been of high quality and have addressed partners' needs, and have been appreciated by partners. These include VSLA training, MIS assessment, MFI ratings, SCG linkage training, Microinsurance training, Financial Literacy

[32] Recently the project has improved its strategy to link SCGs with FSPs and has also made efforts to search for synergies with MEDEP and the World Bank Poverty Alleviation Fund (PAF).

training, Product development and Market research training, Social Performance training and Client protection and related tools developed, MIX Market training. Impact from these activities includes: FSPs reporting to the MIX Market database, FSPs have greater understanding of potential and challenges of SCG linkages, access to MIS software providers and understanding of software options and costs. However, impact could have been greater had activities started earlier in the project lifetime.

112. Project documents indicate that expenditures were 97% of budget in the 4th quarter 2011. This is a significant improvement from the April – June 2010 Quarterly Report which indicated only a 68% delivery.

113. The monitoring and evaluation framework should have been reformulated at the beginning of the project, but was not. This would have improved stakeholder buy-in, and made decision-making more rapid and efficient. The current indicators do not reflect the grand goals of the project: reaching the very poor, the marginalized/excluded, the rural people. There are no specific indicators to measure these goals, and the proxy indicators (e.g. average loan size as a percent of per capita GDP) are inadequate. The current indicators also include financial indicators for best practice MF. These should only be project indicators if they are linked to an output, which they are not in the current framework.

114. The project is collecting a lot of information on financial indicators in the FSP quarterly progress reports. This is a burden and cost on the project as well as the FSPs. The only responsibility of the project in terms of monitoring is to measure achievement of project monitoring indicators and compliance with PBAs. The project does not need to collect, for example, financial statements from FSPs. The PBAs should be greatly simplified: four or five indicators are sufficient to judge progress and ensure compliance with the terms of the PBA. The FSPs are already supervised by the regulatory authorities and monitored by the RMDC and other donors, and the project does not need to do this as well. A periodic, unplanned and randomized audit can be used to ensure that the grant monies are being used appropriately.

115. The current national execution modality ensuring the ownership of the NRB as an implementing agency has worked well after some initial challenges at the beginning of the project (procurement issues, for example). The FSPs interviewed during the MTE indicate that they appreciate the involvement of the NRB in the project.

SPIRE Question No. 7 (Efficiency and Effectiveness) How well have partnerships with donors and governments supported EAFS?
The only significant involvement has been from UNCDF, UNDP, and the NRB. UNDP has provided logistical and administrative support, including field monitors to the project. UNCDF has provided technical advice. No other donors have contributed funds. No fundraising activities to address the shortfall have taken place to date.

116. The only significant involvement has been from UNCDF, UNDP, and the NRB. UNDP has provided logistical and administrative support, including field monitors to the project. UNCDF has provided technical advice. No other donors have contributed funding support.

117. There has been limited participation by the NRB (beyond the 2 staff of the NRB MF Dept.) in the project. However, there is knowledge of and interest in the project results by higher level management of the Central Bank. There has been no monetary contribution to the project by the GoN. In-kind contributions of staff time are provided via 2 NRB MF Dept. staff managing the project and a minimal amount by other government staff participating in the quarterly PEB meetings (e.g. the MoF).

118. Due to the slow start up, fundraising activities were delayed, to ensure that there were results with which to attract more donor funding. At the end of 2011, PEB has given the green light to begin searching for additional funding.

SPIRE Question No. 8 (Effectiveness) To what extent were piloted approaches conducive to regulatory/policy/strategy developments in the Inclusive Finance area? The project has not contributed to developments in the regulatory/policy/strategy area to date.

119. This was not a focus of the project due to funding constraints. Some regulatory constraints that could have been addressed were not in the project design, for example, determining which institutions should be supervised, to target only those that could threaten the microfinance sector's stability (see paragraph 28 for more suggestions from a WB survey). The activities in the project design related to microinsurance were not implemented, because the microinsurance industry is not regulated by the NRB, which is the implementing partner, and because of lack of funding. The research to launch the financial literacy campaign and client protection guidelines, an initiative of NRB with the support of EAFS, has begun in late 2011.

2.7 Conclusions and Recommendations

2.7.1 Overall Assessment

120. The project was designed with World Bank participation and originally contained design elements that are common to WB projects, for example, emphasis on urban MSMEs, a collateral registry, and a credit bureau. When the WB withdrew from the project at the last minute, the project was downscaled to a "subset" of the original project. Only two of the original five components remained. These were not well formulated, and the lack of clarity in the project document caused confusion in the early stages of implementation of the project.

121. The project is relevant to the need of the country, and conforms to national policy. The project is based on the inclusive finance vision and strategy practiced by UNCDF, as it includes elements of support for macro, meso and micro (retail) sectors of the inclusive finance sector. The project is also relevant to satisfy UNDP's concern of reaching the poorest through SCG linkage. However, due to funding constraints, the intervention logic changed to focus on the micro level, and the macro and meso levels were not addressed.

122. The project started late; for example, EAFS Nepali staff were not completely hired until Sept 2009 (one year after the signing of the project document), and the CTA was not hired until April 2011. FSP partners for grants were shortlisted only as of Feb 2010, and the criteria for selection were still being discussed among PEB members at that time[33]. Implementation progress has improved over time.

123. There is a large funding shortfall: when the World Bank withdrew, the project budget was decreased from USD $30M to USD $10M, but the two donors, UNDP and UNCDF, have only committed USD $1.5M each, and the NRB, the implementing partner, has made no monetary contribution. No other donors have contributed. No fundraising activities have taken place to date. Due to the shortfall, some activities have been curtailed. The project monitoring framework has not changed despite the shortfall.

124. Sectoral results of the "sub-project" of USD $10M were expected to be, by sector:

- Micro/Retail – Stronger retail institutions reaching a larger geographic area of Nepal, especially remote areas; reaching more clients, especially disadvantaged/excluded clients, with a greater diversity of products;
- Meso – A larger market for service providers to the microfinance industry
- Macro – An improved policy and regulatory environment for the microinsurance industry; improved capacity of the GoN

125. Current program status, by expected output, is as follows:

Output 1:
A Fund for Inclusive Finance established by November 2008 and operated / managed till Dec. 2012 - The FIF is established and functioning. It has one instrument: grants. Decisions on fund allocations are made by the Project Executive Board (PEB). The PEB seems to be functioning well and providing good oversight and guidance to the project.

Output 2:
At least nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services (reaching 300,000 new active loan clients) by Dec. 2012 - 18 FSPs have received grant funding.[34] The project reports that 186,496 new clients have been reached, of a goal of 330,000 by end of project.

Output 3:
10,000 Savings and Credit Groups (SCGs) are linked with FSPs/MFIs by Dec. 2012 - 2,666 SCGs with 60,054 members have been linked to EAFS FSPs, of a goal of 10,000 SCGs linked by end of project.

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[33] Sixth PEB Meeting Minutes, Feb. 2010.

[34] The number of FSP partners at the time of the MTE is 17, due to the merger of 2 FSPs. The project document states "at least 9 FSPs" will obtain technical assistance, and the original selection of FSPs included 10. However, by a decision of the PEB, the selection criteria for choosing FSPs was made less restrictive in order to accommodate lower performing FSPs in the Far Western and Mid-western departments, since these regions were not covered by the better performing FSPs (Source: 6th PEB Meeting 19 Feb 2010, p 4)

Output 4:

Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided - TA has been provided to partner FSPs in the areas of: VSLA training, MIS assessment, MFI ratings, SCG linkage training and related tools developed, MIX Market training. The TA approach is currently being revised to provide TA more rapidly and more tailored to expressed needs of FSPs.

Output 5:

Project operation and management - The project is being managed competently by NRB with assistance from UNDP and UNCDF.

126. The M&E framework should have been reformulated at the beginning of the project. The current indicators do not adequately measure the overall goals of the project, and some of the targets are not viable. The following Table 10 illustrates what the project might reasonably be able to achieve by the end of its duration:

Table 10: Targets vs Achievable

Indicator	Target	Findings
No. of new clients to be reached	330,000 (disaggregated by gender, district and social group)	Since the number of double-counted clients is unknown, it is not possible to determine a new target without obtaining additional information on the number/percent of double-counted clients[35]
No. of service delivery units of Microfinance Service Providers in remote districts	at least one in 10 remote districts	The indicator is not clear, and should be revised to "number of new branch offices" with an achievable target
Avg. loan size as a % of GDP	< 50% for all FSPs	The indicator is not adequate to measure poverty outreach. All FSPs were achieving this at baseline.
No. of female clients	no target given	All FSPs were achieving this at baseline.
Financial Self Sufficiency of FSPs	100% for all FSPs	The indicator was revised by EAFS to be OSS. It is not useful as a project indicator because it is not linked to an output. All FSPs were achieving this at baseline.
No. of Savings and Credit Groups linked with FSPs	10,000	This target is over-ambitious. It could be revised to 3,000.

[35] After eliminating those that are double-counted.

2.7.2 Conclusions to specific evaluation questions

This section briefly summarizes the main conclusions from the analysis of each of the evaluation questions set out in Section 2.6.

SPIRE Question 1: (Relevance) To what extent does the programme design meet UNCDF's Inclusive Finance intervention logic and meet the needs of the partner country?

127. EAFS meets the needs of the partner country and complies with its national poverty alleviation and financial sector priorities. UNCDF IF intervention logic is addressed in the project design at the retail sector level, especially with regards to coverage areas. The use of grants, TA, and linkages for the retail sector is appropriate. Meso and macro constraints, however, were not adequately addressed in the design, and have also not been addressed in implementation due to repriortization of activities due to funding shortfalls. The project monitoring framework specified in the project document needs to be revised, as it does not adequately reflect the desired goals of the donors and implementing partner (NRB).

SPIRE Question 2: (Efficiency and Effectiveness) To what extent has the programme contributed to increased Financial Service Providers'/Sector Support Organizations'/Government Agencies' institutional capacity?

128. EAFS has improved institutional capacity at the retail level mostly in terms of expanded infrastructure (branch offices), additional staff for those offices, and some increase in credit portfolios. There has been an increase in clients served. At the meso and macro sector, there has been limited impact because there have been limited activities, due to funding shortfalls and reprioritization of activities due to these shortfalls.

SPIRE Question 3: (Effectiveness) To what extent has the programme contributed to improved access to appropriate low income person's financial services?

129. Access to financial services has improved due to expansion of outreach via branch offices in unserved areas. More women and more marginalized/excluded people have access to financial services, although the percentages reached have not changed greatly. It is not clear if the project has increased access for the very poor, since there is no indicator for this. The diversity of products has not significantly improved, but the project has provided market research training which has resulted in some product adaptation and may lead to development of additional products. The grants to innovative partners have not spurred the expected innovations to any great degree. Further TA for innovative partners is needed. The project was effective in increasing an access of microfinance to the Dalits, Janjatis, and mixed ethnic bases of poor communities.

SPIRE Question 4 (Effectiveness) To what extent has the programme enhanced the market for IF services?

130. The market has been enhanced primarily due to geographic expansion, linkages between FSPs and SCGs, broadening FSPs' perspectives in terms of adapting and innovating product lines, and improving efficiency. The project could expand its impact to the greater

sector, beyond its selected partners, by opening its training activities to a broader group of microfinance entities, without significantly increasing costs. Some opportunities for building the capacity of the meso sector have been missed, even if this was not a focus of the project.

SPIRE Question 5 (Sustainability) To what extent is the programme likely to result in financially viable (i.e. sustainable) financial service providers (FSPs) in the longer-term, independent of external assistance of any kind?

131. The project has contributed to growth of infrastructure, credit portfolio and clientele, and to increased knowledge of MF market research. This support should fortify the sustainability of the FSPs.

SPIRE Question 6 (Efficiency) How effective has the management of the IF programme been?

132. NRB is satisfied overall with the project, although it has concerns about the project reaching the most remote areas, especially the unserved 12 districts, and the very poorest.[36] Management seems effective and transparent, and the PEB seems to be functioning well at the date of the MTE. NRB staff (NPD and NPM) currently assigned to the project are committed. Activities are now being implemented at an increasingly rapid pace. The presence of a qualified, internationally experienced, full time CTA at the beginning of the project would have helped speed up implementation.

SPIRE Question 7 (Efficiency and Effectiveness) How well have partnerships with donors and governments supported the programme?

133. The only significant involvement has been from UNCDF, UNDP, and the NRB. No other donors have contributed and no fundraising activities to address the shortfall have taken place to date. There is knowledge of and interest in the project results by higher level management of the Central Bank and the National Planning Commission. There has been no monetary contribution to the project by the GoN. In-kind contributions of staff time are provided via 2 NRB MF Dept. staff managing the project and a minimal amount by other government staff participating in the quarterly PEB meetings (e.g. the MoF).

SPIRE Question 8 (Effectiveness) To what extent were piloted approaches conducive to regulatory/policy/strategy developments in the Inclusive Finance area?

134. The project was not able to contribute to significant developments in the regulatory/policy/strategy area (a component of UNCDF's inclusive finance sector intervention logic) due to funding constraints and reprioritization of activities. However, the project is supporting a financial literacy campaign and client protection campaign, an initiative of NRB with the support of EAFS. One positive development that has happened at

[36] Regarding expansion into remote unreached areas, MFIs plan their expansions through a network of branches that reach out from population centers to more remote areas. While FSPs have expanded due to the project, they have not yet established the branch office network that would allow them to reach those more remote districts in a sustainable way. Regarding the NRB's concern about reaching the very poor, there is no project indicator for assessing whether the very poor are being reached or how this might have changed due to the project.

the policy level based on the EAFS implementation experience is that NRB has issued monetary policy FY 2011/2012 to regulate the microfinance sector, including the FINGOs.

2.7.3 Recommendations

Based on the findings, the evaluation team makes following short-term recommendations (to be implemented during the remainder of the project) and long-term recommendations (to be implemented in a "phase over" project):

Short-Term Recommendations
For the remainder of the project, EAFS should continue with its current activities, and should add the following actions:

135. **Action:** Revise the M&E framework to better reflect overall project goals and outputs, such as outreach to the very poor and outreach to remote areas. If it is a goal of the project to strengthen FSP partners, then financial indicators would be a good way to measure this (examples: decrease in PAR30, increase in OSS, increase in productivity).[37] Revising the indicators should only be done with input from FSP partners and with a care not to increase the cost burden on them of collecting this information. If the framework is not revised, the final evaluation will not be able to make significant conclusions about the performance of the project with regards to its goals. **Responsible Party:** EAFS drafts a revised indicator framework and targets, PEB approves, EAFS implements.

136. **Action:** Reduce the target of linked SCGs from 10,000 to 3,000 for the current project, because the original target was over-ambitious. Conduct a thorough study on the effectiveness of linking SCGs with FSPs in Nepal. Use the results and recommendations of this study to determine further actions on SCG linkages. **Responsible Party:** EAFS

137. **Action:** For all further training activities, ensure to the extent possible and within budget constraints that the entire IF sector benefits from the activities. The information generated by the project should be viewed as a public good, and made available beyond just the 17 project FSP partners. **Responsible Party:** EAFS and NRB.

138. **Action:** The project should involve the meso sector more. National meso sector actors can be participants in TA activities and can be paired with international providers who are conducting research or TA in order to build their capacity. **Responsible Party:** EAFS and NRB.

Long-Term Recommendations
The evaluation team was asked to comment on possibilities for a "phase-over" project, in anticipation of a formulation mission to be scheduled sometime in 2012. In addition to the short term recommendations above, the actions below constitute our further recommendations for a subsequent project.

[37] There is no output for this in the current framework, and so there is no link between the current indicator of FSS and an output.

139. **Extension:** Extension for 2nd phase / phase over of the project is recommended for a full project cycle of four years, as there are still gaps to be filled that no other donor project is addressing. The ADB-funded "Improving Access to Financial Services Program" with an estimated start date of 2014, is in the preliminary stages, with technical assistance and surveys going on at present. However, there would be no duplication of IF sector building if UNCDF/UNDP continue to focus on the poor and vulnerable/marginalized groups, especially in the unreached 12 districts, where the ADB project does not seem to be giving special focus. There should be a communication mechanism established between the project unit of the ADB FI project (when this is established) and the follow-on EAFS project, to coordinate activities and share information. The Governor of the NRB supports a phase-over project. To further enhance efficiency and effectiveness, some motivational factors like project incentives for the NRB-assigned senior management (NPM and NPD) may be justifiable, and warrants further study. The portion of the incentive should be decided by the PEB in accordance with the NRB's established project management practices in the past. **Responsible Party:** NRB, NPC, Ministry of Finance, UNCDF, UNDP.

140. **Micro Level:** The number of FSPs to receive grants in the new project should be smaller in number than the current 17 in order to be well monitored and to receive the necessary technical assistance. **Responsible Party:** NRB, NPC, Ministry of Finance, UNCDF, UNDP.

141. **Institutional Types:** Although cooperatives are different entities in many ways from regulated microfinance banks, with different governance structures and not as stringently regulated as microfinance, they still reach the same beneficiary groups with the same microfinance products: loans, savings, insurance, remittances. Due to this, they can benefit from training and technical activities – market research, financial literacy, microinsurance training, product development, client protection, - and grants for expansion of infrastructure, improvement of systems, hiring of staff, and innovations. It will benefit UNDP/UNCDF's target beneficiaries if cooperatives are included in project activities. Cooperative partners should be carefully selected based on strong governance criteria and capacity for expansion. NRB, NPC, Ministry of Finance, UNCDF, UNDP, Ministry of Agriculture and Cooperatives.

142. **Reaching the Very Poor:** In the follow on project, there should be greater focus on reaching the very poor. Reaching the poorest is a concern of the government of Nepal as well as both donors, and is the ethical mandate of all stakeholders. Increasing MFI outreach to the poorest in Nepal can be done, and indeed can be done without jeopardizing the financial sustainability of these MFIs. It will be important for EAFS to convince its partner MFIs of this and to achieve their buy-in. The first step to reaching the very poor is to adequately define "very poor", preferably using national standards. The second is to use a tool to measure baselines for very poor for each FSP partners, training the partners in its use. This can be done using already developed tools – the Progress out of Poverty Index™ (PPI), developed by the Grameen Foundation, the Poverty Assessment Tool (PAT), developed by USAID, or other appropriate tool. Some of EAFS FSP partners (DEPROSC and NERUDE) have already been trained in the PPI by another donor (Plan International).[38] Once a baseline is established for partner FSPs, an indicator in their PBA should be established for

[38] Poverty Measurement Report – August 2010: Pilot Project of PPI: Microfinance Association of Nepal (MIFAN). Plan International publication. Aug. 2010.

increasing their outreach to the very poor. Continuing the provision of market research training and TA will help partners develop appropriate products for reaching the very poor.

143. **Meso Level**: The project should involve the meso sector more to build long-term sustainability of the IF sector. An inventory and needs assessment of these actors (microfinance associations, rating agencies, audit firms, training and TA providers, etc.) is the first step. The second step is to develop a capacity building strategy, with input from these actors. Capacity building could include grants linked with performance-based agreements and decreasing support, technical assistance through linking Nepali firms with international providers, trainings, and vouchers or subsidies for FSPs to hire meso level actors. **Responsible Party**: EAFS, GoN and NRB.

144. **Macro Sector*:*** Financial literacy and client protection activities should continue at the national level, and there should be clear indicators and targets for assessing impact, some of which should be clearly linked to avoiding over-indebtedness. Only FSPs who have signed on to national client protection principles (when these are developed) should be subjects for project grants. Capacity building to the NRB Microfinance Supervision Dept. and/or the new entity set up by the passage of the MF Regulatory Authority Act should occur. **Responsible Party**: UNDP, UNCDF and NRB.

145. **Funding**: Explore funding potential from all possible donors and funding agencies. Ensure that sufficient funding is available to implement planned activities. If it is not, reformulate project framework and activities to fit the budget. **Responsible Party**: NRB, NPC, Ministry of Finance, UNCDF, UNDP.

146. **PEB Membership**: In order to avoid possible conflicts of interest, the PEB membership should not include representatives of organizations that might receive grants from the project. If this is not feasible, any member of the PEB who might have a conflict of interest on a specific decision should recuse him/herself at the time of the decision-making. **Responsible Party**: PEB

147. **NEX Modality**: The government is in the process of creating a national level microfinance apex fund (i.e. National Microfinance Development Fund) with a fund of about NRs. 650 Million. However, the GoN is concerned that the amount of funding may not be sufficient. Therefore, it is required to mobilize fund from donors and other funding sources to provide timely resources to the multiple microfinance players (Microfinance Banks, FINGOs, Cooperatives). After the implementation of this arrangement (once Parliament approves), projects like EAFS will be managed under the apex fund according to NRB's policy direction. Until such time, the current national execution modality ensuring the ownership of the NRB as an implementing agency has worked well and should be continued in a subsequent phase. We find no evidence that would justify changing to a different modality. **Responsible Party**: EAFS, GoN and NRB.

"NEX greatly improves and expands the sense of ownership (by the government) of programmes, although the price of ownership is often a delay of implementation due to the participatory nature of the formulation period in achieving that ownership." "NEX significantly increases the level of self-reliance (of government)." Source: Chapter III: NEX Performance During the Fifth Programming Cycle. UN evaluation. 1997

148. **Support Innovative Approaches**: TA and grants should be provided for product adaptations and innovations, these to be determined based on market research. Innovations should be limited to those that are technically feasible for FSPs to implement and which can be implemented during the time frame of the project. Those innovations that require regulatory change in order to be implemented should not be the subject of a phase-over project, because regulatory change can take a long time and is outside the control of the project. **Responsible Party**: UNDP, UNCDF and NRB.

149. **Business Skills Training for Clients**: Clients visited during the MTE field work requested business training, both for improving existing skills and for developing new skills. Business training is expensive, and is not a core area of expertise of microfinance institutions. MEDEP could provide training to EAFS FSP clients, if MEDEP and FSPs can work together to determine target areas [39] and a feasible approach that includes developing methods and tools for identifying which clients would most benefit from business training, and which ones would be able to transmit that training to their groups. **Responsible Party**: UNDP, UNCDF, MEDEP and NRB.

150. **Savings and Insurance**: Mobilization of voluntary savings should be a new activity in this phase-over project to help FSPs address their funding constraints and lower their cost of funds. The Financial Services Sector Assessment in Nepal (2007) notes that the maximum potential market of savers is around 13M people.[40] In the market research and product development activities of the phase-over project, equal attention should be given to development or improvement of savings products, and to savings mobilization strategies.[41] Addressing the issues of health insurance and livestock insurance are 2 areas that the formulation mission should analyze because animal losses and health problems of clients were identified as two issues that affected clients' ability to use microfinance products successfully. **Responsible Party**: UNDP, UNCDF and NRB.

151. **Monitoring Framework:** The phase-over should have an adequate M&E framework that is aligned with greater goals of the project. If "reaching the poorest" is a goal, then an indicator that adequately measures this, using national or international standards of measurement, and measurable at a reasonable cost by FSPs, should be in the framework. An example might be: "the percentage of **new and previously unserved** clients of FSPs receiving grants from the project that are landless". If reaching excluded/marginalized populations is a goal, then the indicator might be: "the percentage of total clientele of all FSPs receiving grants from the project that are Dalit." If reaching remote populations is a

[39] MEDEP's geographic focus currently seems to be the more remote areas of target districts where FSPs currently do not reach.
[40] Hanson, Lene. Financial Services Sector Assessment in Nepal. 2007.
[41] Currently FSP partners mobilize "forced" savings which are used primarily as collateral against lending.

goal, then the indicator might be: "the percentage of total clients of FSPs receiving grants from the project that are more than 3 hours walk from a branch office and/or the percentage of total clients from the 12 previously unreached districts." **Responsible Party**: UNDP, UNCDF and NRB.

Annexes

Annex 1:	Terms of reference
Annex 2a:	List of people interviewed
Annex 2b:	Project sites visited
Annex 3:	Illustrative list of documents consulted
Annex 4:	Mission schedule
Annex 5:	Management Response Matrix filled out with the main recommendations and proposed key actions for follow up
Annex 6:	Completed Evaluation Matrix including 1 column summarizing the main findings per Evaluation sub-question