Kingdom of Lesotho
Rural Financial Intermediation Programme
Project Performance Evaluation

Executive summary

Background

1. The Independent Office of Evaluation of IFAD undertook a project performance evaluation of the Rural Financial Intermediation Programme (RUFIP) in the Kingdom of Lesotho. The main objectives were to: (i) provide an independent assessment of the overall results of project; and (ii) generate lessons and recommendations for the design and implementation of ongoing and future operations in the country.

2. This evaluation was undertaken based on a desk review of available project data and documents, and a country mission from 20 March to 31 March 2017. In addition to the desk review, data collection methods included interviews with various stakeholders (Government officials, IFAD staff, former programme personnel, implementation partners, and beneficiaries) and direct observations. The evaluation team interviewed a range of selected member-based financial institutions (MBFIs), including village savings and loan associations, saving and internal lending communities, rural savings and credit groups, and financial cooperatives promoted by different implementation partners.

The programme

3. The development goal of the programme was to "alleviate poverty, increase income and contribute to overall economic development". The programme objective was to enhance access to efficient financial services by the rural poor on a sustainable basis. The underlying theory of change in RUFIP was that the programme would contribute to enhanced access of the rural poor to financial services on a sustainable basis through four pillars: (i) building the capacity of governmental implementing partners, which in turn would build the capacity of MBFIs as member-owned local financial intermediaries and enable them to accumulate member savings and transform them into loans to members for income smoothing and the financing of member enterprises; (ii) building the capacity of senior management and staff of Lesotho Post Bank, which in turn would transform a postal savings bank into a self-reliant bank and expand its credit outreach to rural areas and enable borrowers to finance their income and employment-generating enterprises; (iii) building the regulatory and supervisory capacity of Central Bank of Lesotho and governmental implementation partners, which in turn would cooperate in the formulation and enactment of a legal and regulatory framework for MBFIs; and (iv) facilitating linkages between formal financial institutions and MBFIs by providing credit to the latter for on-lending to their members.

4. The programme coverage was nationwide, and interventions at the field level were weighted differently among the ten districts in the country. There were three expected outcomes: (i) MBFIs strengthened to provide efficient services to their members in rural and peri-urban areas; (ii) rural outreach of formal financial institutions expanded; and (iii) conducive environment and institutional framework for promoting inclusive financial services developed. These outcomes largely corresponded to the three main programme components: (i) development of MBFIs; (ii) development of formal financial institutions for formal outreach; and (iii) development of an enabling environment.

Main findings

5. **Relevance.** The programme objective and main design thrusts were broadly relevant and covered the key areas in supporting rural finance and microfinance in

Lesotho. However, the programme was overambitious as it did not sufficiently consider the complexities in establishing an appropriate policy, regulatory and supervisory framework in the programme context. There were also issues in relation to the appropriateness of heavy reliance on government agencies as the implementing partners for promoting MBFIs, which, though flagged in a predecessor project in the country, were not adequately assessed at design.

6. **Effectiveness.** With the involvement of two international non-governmental organizations (INGOs) – Catholic Relief Services (CRS) and Cooperative for Assistance and Relief Everywhere (CARE) – the programme achieved good results in developing MBFIs – 639 MBFIs with 10,039 members. The programme also made notable contributions to the transformation of Lesotho Post Bank to a full-licensed commercial bank, which became profitable in 2014, three months before project completion. However, there were no data on the number of group loans provided to the MBFIs during the project period. The expected linkages between MBFIs and Lesotho Post Bank were not effectively established.

7. **Efficiency.** The time lag from loan approval to effectiveness was about seven months, which was shorter than the average of other IFAD-financed projects in Lesotho. Nonetheless, project implementation experienced a slow start-up mainly due to the inadequate preparedness of the programme coordination unit, including the lack of familiarity with IFAD's procedures, poor financial management, and inappropriate staffing. The project management cost ratio was unreasonably high, which critically hampered the efficiency of the programme.

8. **Rural poverty impact.** No reliable and conclusive data were available to inform the assessment of rural poverty impact of RUFIP, especially on household income and net assets, as well as food security and agricultural productivity. The most visible contributions of the programme on the impact domains were ''institutions and policies'' and ''human and social capital and empowerment''. The programme had effectively built the capacity of two types of institutions as providers of financial services to the target group: village savings and loan associations, and saving and internal lending communities. This was achieved mainly in cooperation with CARE and CRS. RUFIP also made a significant contribution to the institutional transformation and capacity-building of Lesotho Post Bank. The generation of human and social capital and the emergence of empowerment took place at the levels of village agents and MBFIs, respectively. There was evidence of job creation or systemic enterprise growth in the project area. However, due to the lack of data, it was difficult to assess the impact of the financial services on the living conditions and household income of the target group.

9. **Sustainability of benefits.** Under RUFIP, capacity-building of the MBFIs and Lesotho Post Bank were two main achievements. The sustainability of the established MBFIs is likely to be assured with guidance and support provided by their respective promoting agencies. The sustainability of Lesotho Post Bank is based on two key factors: profitability, and credit and savings outreach. Available data showed that the introduction of lending operations by RUFIP had a definite and continual impact on the bank's performance and sustainability. Linkages between MBFIs and the commercial banks were not achieved during the project period, and it remains uncertain to what extent such linkages could be created in the near future.

10. **Innovation.** In RUFIP, innovation has been most pronounced in the process of the transformation of a postal savings bank to a profitable, rapidly expanding financial intermediary with savings and credit services throughout the country – particularly when compared to savings and agricultural banks in many other African countries. In terms of MBFIs, two innovations, which would have been new, not only in Lesotho, but also in many other African countries, were discussed, but failed to be introduced due to missed contract renewals and the resulting shortage of time:

(i) organizing private service providers in networks; and (ii) promoting village savings and loan associations and saving and internal lending communities in district or other local associations. Financial cooperatives and rural savings and credit groups as subsectors, together with their respective governmental promoting agencies, tended to be averse to systemic innovation.

11. **Scaling up.** Scaling up of the programme benefits rests mainly with the development of MBFIs by CRS as well as two local non-governmental organizations (NGOs): Caritas and Care for Basotho. Further contributions to scaling up as well as sustainability of MBFIs may be expected from: (i) new projects of INGOs introducing savings groups as a cross-cutting strategy; (ii) future networks of NGOs collaborating in strategies and policies of promoting savings groups; and (iii) future networks of village agents/private service providers.

12. **Gender equality and women's empowerment.** The environment for promoting gender equality and women's empowerment is relatively conducive, as equality has been historically in favour of women in Lesotho. Building on such a favourable environment, the participation of women beneficiaries remained high throughout the programme, even though the programme design did not specify any targets or guidelines for gender equality. The available evidence also pointed to high decision-making powers of women at the household level. At the same time, female beneficiaries were largely burdened with imbalanced workload distribution, with responsibilities for taking care of children, cooking and conducting agricultural activities, apart from running small businesses. In this regard, the programme made limited effort in helping the female beneficiaries to achieve a more balanced workload distribution within the targeted households.

13. The criteria on ''**environment and natural resources management**'' and ''**adaption to climate change**'' were not rated in this evaluation as there were no direct project interventions and the evaluation team obtained too little evidence to conduct a sound assessment.

Conclusions

14. **Despite a promising objective, the programme was overambitious and did not sufficiently consider the capacity of the implementing agencies and the absence of the financial sector foundations in the country.** The programme had an ambitious objective of enhancing access by the rural poor to efficient financial services on a sustainable basis. While the programme managed to build financial intermediaries with rural outreach and which mobilized their own resources used as loanable funds, the intended objective was not achieved at completion, as the linkages between MBFIs and commercial banks were not effectively created.

15. **Realizing the governmental implementing agencies were too weak to drive the MBFI sector, the programme involved two INGOs as implementation partners, which proved to be an effective approach and demonstrated the flexibility of IFAD.** RUFIP's experience with building MBFIs as member-owned local financial intermediaries was mixed: it failed with governmental implementing partners while it succeeded with non-governmental partners. Due to the efforts of CRS and CARE, a significant number of MBFIs and members were reached and trained. The MBFIs successfully provided their members with facilities to deposit and accumulate their savings and to transform these into small loans and larger annual share-outs. The notable number of village savings and loan associations and saving and internal lending communities promoted by CRS and CARE assured the demand by rural poor for accessible, affordable and sustainable financial services.

16. **The programme performed well in transforming Lesotho Post Bank into a self-reliant and sustainable retail bank, with a full banking license and expanding rural credit and savings outreach.** Transforming state-owned financial institutions has been a challenging experience in many countries. When

funded from loans to governments, the process has frequently failed because resources were not available to hire the best international talent. Lesotho Post Bank had been under pressure to strike a balance between pursuing profit and reaching out to lower-income rural clients, as designed at appraisal. Such pressure had been and would continue to be the main constraint preventing a wider participation of commercial banks in financial linkages.

17. **The programme's impact on rural poverty was moderate.** On one hand, the programme successfully built the capacity of the MBFIs and Lesotho Post Bank, which established the foundation for improving human and social capital as well as broadening access to affordable and sustainable financial services. Some of the project benefits can be expected beyond the duration of the project period. On the other hand, no reliable and conclusive data were available to inform the assessment of rural poverty impact of RUFIP, in particular on household income and net assets, as well as food security and agricultural productivity.

Recommendations

18. **Recommendation 1: Build private MBFIs only with private and/or non-governmental implementing partners**. It is recommended that future projects use non-governmental agencies, preferably experienced NGOs, as implementing partners for promoting MBFIs. This requires funding from sources other than loans to governments, e.g. grants. The Government, through the central bank, has the responsibility to provide a conducive policy and regulatory environment, which may be funded from loans.

19. **Recommendation 2: Allocate at design funds from grant resources or in cooperation with other partners for two sustainability-cum-scaling up exit strategies, post-completion if necessary: (i) organizing private service providers in networks; and (ii) organizing groups in local or district associations**. Private service providers, paid-for-service by the savings groups they have established, are widely considered by NGOs as an exit strategy after the end of their various short projects in which they built savings groups/MBFIs as a *cross-cutting strategy*. As long as private service providers are not organized in networks as a basis of communication and mutual and possibly external support, their engagement with the groups they have established and with additional new groups is likely to be short-lived. A related and mutually reinforcing strategy would be to also organize groups in local or district associations.

20. **Recommendation 3: Strengthen the capacity of the existing national secretariat of NGOs, enabling it to serve as a key facilitator of MBFIs for coordination, representation, and resource acquisition**. The facilitation of savings groups by INGOs is a cross-cutting strategy for numerous local projects of limited scale and duration. There is usually no coordination and policy dialogue among various facilitating INGOs and local NGOs. As the local projects come to an end, facilitation, oversight and reporting to the Savings Groups Information Exchange usually stop at some point. Attempts should be made to strengthen the capacity of the existing national council so that it can play a more proactive role in supporting the rural finance and microfinance sector. It would take the intervention of an international agency with a comprehensive long-term development agenda (like IFAD) to bring this process to a sustainable conclusion.

21. **Recommendation 4: Improve the capacity and integrity of programme management staff in future projects**. For IFAD-financed projects in Lesotho in the future, the Government should take every possible measure to assign competent staff to the project to ensure the required capacity and integrity of the programme coordination unit (PCU). Trainings and incentives should also be provided to increase the stability of the PCU and reduce the turnover of the key project staff, as experienced by RUFIP.