Kingdom of Swaziland

Rural Finance and Enterprise Development Programme

Supervision report

Main report and appendices

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East and Southern Africa Division
Programme Management Department

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Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
CBS	Central Bank of Swaziland
CBSCGs	Community Based Savings and Credit Groups
CDD	Cooperatives Development Department
CODAS	Cooperatives Data Analysis System
CTC	Consultancy and Training Centre
FSDIP	Financial Sector Development Implementation Plan
FSRA	Financial Services Regulatory Authority
GEF	Global Environment Facility
GoS	Government of Swaziland
HiH	Hand in hand
IFAD	International Fund for Agriculture Development
IRM	Investor Road Map
JA	Junior Achievements
LUSIP	Lower Usuthu Smallholder Development Project
NIDCS	National Industrial Development Corporation of Swaziland
MSMEs	Micro, Small and Medium Enterprises
MFA	Micro Finance Agency
MFU	Micro-finance Unit
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MoCIT	Ministry of Commerce, Industry & Trade
MIS	Management Information System
NBFIs	Non-Bank Financial Institutions
NGO	Non-Governmental Organisation
OHOP	One Household One Product
RFEDP	Rural Finance and Enterprise Development Programme
SACCOs	Savings and Credit Cooperative Society
SASCCO	Swaziland Association of Savings and Credit Cooperatives
SCA	Swazi Commercial Amadoda
SCDSA	Swaziland Credit Data Sharing Association
SEDCO	Small Enterprises Development Company
SHC	Swazi Honey Council
SIDC	Swaziland Industrial Development Company Limited
SMEs	Small and Medium Enterprises
SRA	Swazi Revenue Authority
SSELGS	Small Scale Enterprise Loan Guarantee Scheme
SWEET	Swaziland Women Enterprise Empowerment Trust
UNISWA	University of Swaziland

A. Introduction[1]

1. The Rural Finance and Enterprise Development Programme (RFEDP) is a six year, country-wide initiative implemented in three phases. The purpose of the Programme is to increase incomes, improve business opportunities and increase access to sustainable rural financial services for the rural poor. It is a joint initiative financed by the Government of Swaziland (GoS) and the International Fund for Agricultural Development (IFAD) valued at USD 8.57 million. IFAD loan and grant amount to USD 6 million and USD 0.2 million respectively, whereas GoS is funding the equivalent of USD 2.37 million. The programme became effective in September 2010 and is expected to close in March 2017. The third and last phase review was completed in March 2014.

2. The Programme has three overarching objectives: (i) to provide the rural poor with access to efficient and effective financial services on a sustainable basis; (ii) to develop an enabling and enhanced environment for business development in rural areas; and (iii) to establish/develop micro-and small-scale enterprises (on and off-farm) as well as business services in rural areas. The Programme is managed by the Micro-Finance Unit (MFU) in the Ministry of Finance of Swaziland (MoF) and implemented through three components, including (a) building entrepreneurial capacity in the rural economy to support the target group; (b) deepening the financial sector (enhancing the micro-finance sector); and (c) programme management and coordination.

3. A supervision mission was held between 23 March and 1 April 2015 to review programme implementation and help the MFU address any bottlenecks. The mission held meetings with the MFU; beneficiaries in Mbabane, Manzini, and Siphofaneni; MoF; Ministry of Commerce, Industry & Trade (MoCIT); Ministry of Agriculture (MoA); Small and Medium Enterprises Unit (SME Unit); Standard Bank; National Industrial Development Corporation of Swaziland (NIDCS); Swaziland Women's Economic Empowerment Trust (SWEET); Imbita Women's Finance Trust; Inhlanyelo Fund; Fincorp; Co-operatives Development Department (CDD); MTN; Financial Services Regulatory Authority (FSRA); Dups direct; Kamanyosi Honey; and Central Bank of Swaziland (CBS).

4. The mission is thankful to the Swazi authorities for the warm welcome and for facilitating for a successful mission. Furthermore, the mission is thankful to all the institutions and beneficiaries met for their availability and information shared. The mission is also thankful to the MFU for their planning and fruitful discussion.

5. The Aide Memoire (AM) was jointly reviewed with the Government of the Kingdom of Swaziland and signed in a wrap-up meeting hosted by the Ministry of Finance and chaired by Mr. Bheki Bhembe, Principal Secretary, on 1 April 2015.

B. Overall assessment of programme implementation

6. Project implementation is progressing well, and there are already some positive benefits emerging from the field. Especially project support to policy dialogue and capacity development of rural smallholder entrepreneurs shows some good results. Execution of the 2014/2015 Annual Work Plan and Budget (AWPB) has been lower than expected, with about 78% of funds used as of end of March 2015. Total disbursements stands at about 4 Million USD which represents 66% of the total loan amount. The M&E system reports that cumulatively 90% of physical targets have been achieved as of end of March 2015. The difference between physical targets and financial performance is primarily due to (i) overestimated budgeting; (ii) changes

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made in the implementation modalities; and (iii) overachieving on some targets while underachieving on others. Only 3 out of 18 of agreed actions from the last mission (November 2014) have been completed. If the outstanding issues are addressed effectively, the project has the potential to fully disburse all funds, and achieve all of its targets at completion. Key challenges going forward will be to ensure synergies between activities, while transitioning responsibilities to partners in an effective and sustainable manner. The MFU will need to stay focused with a clear strategy and efficiently implement agreed actions from the current mission, as well as those outstanding from November 2014, to reach its goal.

Agreed action	Responsibility	Agreed date
Commence applicable outstanding agreed actions from the Nov 2014 mission to be completed by revised deadlines in the technical annexes	MFU	1 May, 2015

C. Outputs and outcomes

7. **Component 1: Building Entrepreneurial Capacity in the Rural Economy.** The mission rates the implementation of this component as satisfactory. The support to the SME Unit in MoCIT for the development of a new SMME Policy is progressing, with a draft version having been completed. It is important to accelerate the validation process and the development of the policy's action plan, as funding available will end with project completion. It is primarily the MFU and the SME unit which have driven the policy exercise thus far. As the process moves forward, it will be important to identify and mobilise all key stakeholders who will play a role in its implementation. This should include, the CBS; FSRA; CDD; Small Enterprise Development Company (SEDCO); and Business Development Service (BDS) providers (including NGOs and the private sector). To that effect, policy dialogue platforms need to be created to involve the stakeholders in the finalisation of the policy, and ensure they fully adhere to it, while understanding their individual role in implementation. The MFU should support the SME Unit in putting in place and leading a participatory process similar to the one used for the Investor's Road Map, a government initiative aimed at identifying the key barriers for business development in Swaziland and make proposals as to how these can be alleviated.

8. **Phasing out activities.** As discussed in previous missions, the MFU should already be pro-actively preparing the phasing out of activities under component 1. Two institutions have been identified to take over the role played by the MFU thus far, including the SME Unit, for all aspects of policy development and Institutional capacity development of the BDS providers (Subcomponent 1.1. and 1.2.), and the Small-scale Enterprise Development Company (SEDCO) for subcomponent 1.3. In this regard, it is important that the road map (see paragraph on exit strategy) states clearly how the MFU plan to phase out activities to these two institutions.

9. **Subcomponent 1.1: Policy Support for the MSME Development.** The mission rates the implementation of this sub-component as satisfactory.

10. **Policy dialogue.** A consultant was recruited on behalf of the SME Unit to revise the 2005 SMME Policy. The policy development exercise will have two major outputs: (i) the development of landscape mapping of the local SMME sector, BDS, and SMME finance, and (ii) a 5-year implementation plan, that should allow for periodic monitoring and updating of the proposed policy. A draft report was submitted mid-march 2015 and is yet to receive comments from the lead Ministry and the MFU. One of the main issues raised by the consultant is the lack of reliable data on SMMEs in Swaziland. The MFU is planning to address the issue by the foreseen SMME Survey carried out with technical assistance from FinMark Trust.

11. In light of the phasing out of RFEDP, the MFU will continue their attempts to transfer the SMME policy development to the SME Unit. It was agreed that the MFU should contribute to the capacity building of the unit to allow them to take a more prominent role in the process and in the implementation of the policy once completed. To that effect, the SMME Unit will conduct a needs assessment to inform the support required, by no later than mid-April 2015.

12. The MFU facilitated policy dialogue to clarify on some SME taxation issues held by rural enterprises in collaboration with the University of Swaziland (UNISWA) and the Swazi Revenue Authority (SRA). About 104 people from the private sector participated in the event. SRA presented useful information on various initiatives geared towards simplifying tax administration for the SMEs. The event also served as a platform to discuss proposed changes to the income tax, which will simplify the taxation process, as well as other general compliance issues applicable for the sector. The MFU plan to follow-up on the event to identify possible ways to support this dialogue further.

13. **Co-operative development.** In 2014, the CDD played a lead role in grouping commodity co-operatives and Community Based Savings and Credit Groups (CBSCGs) in clusters as a mechanism to tailor support to the various contexts. The MFU has supported the CDD in creating CBSCGs within the co-operatives. Further discussion with the CDD revealed a more pressing need to help build the department's capacity to execute three of its core mandates, including (i) oversight of the co-operatives and CBSG sector; (ii) stakeholders coordination (mainly NGOs); and (iii) data collection and information sharing. Effective execution of this mandate can have a pivotal impact on the sector and the sustainability of the CDD. To support this, it was agreed that the MFU will shift its focus to supporting the CDD on those three fronts (see technical annex for more detailed orientation).

14. **Subcomponent 1.2: Business Support Entities and Rural Entrepreneurs.** The mission rates the implementation of this sub-component as moderately satisfactory. Support to rural entrepreneurs seems to progress well. Some of the capacity building of institutions, such as that to the CDD and SHC, seems to be ad hoc and uncoordinated. For all future institutional support, it is important that the MFU assess how the support will aid in achieving overall outcome before progressing.

15. **Support to the Honey Sector.** The MFU has continued its support to the honey sector through various activities, including leadership & management training for 12 members of the Swaziland Honey Council (SHC), and support to the participation of the SHC in the Apiculture Expo Africa in Zimbabwe. There are plans to organise competitions for beekeepers in the Shiselweni and Lubombo regions by the end of March 2015. The aim of this is to identify emerging entrepreneurs to fund, and capacity build further on important issues like industry standards. The MFU should follow-up with SHC to explore if the capacity building exercise can include other producers working with honey processors, and help SHC identify the modalities for doing this efficiently.

16. Going forward, the MFU need to ensure synergies between its individual support to the sector, whereby interventions are measured against key performance indicators. The barriers to penetrating international markets is a major stumbling block, and the MFU need to continue lobbying MoA to help alleviate some of these barriers. This could include conducting an epidemiologic survey; engaging foreign counterparts (including South-Africa) in discussing how to ease requirements; and engaging international honey experts to help identify constraints and propose mitigating actions. The MFU is also in dialogue with the Slow Food movement to discuss how they can possibly work together on these issues.

17. **Business advisory services.** As reported in November 2014, the MFU conducted, with the support of IFAD-Africa, a landscape mapping study on the different curricula for entrepreneurship development. The MFU recruited Building Markets to develop standardized mentoring & coaching tools for BDS on the basis of the findings. It is important that the MFU ensure that key BDS providers, and financial institutions, are actively engaged in the process to

ensure ownership and adoption of the tools once completed. For effective implementation of the tools, the MFU and SEDCO will work with the stakeholders to agree on (i) how the tools will be used; (ii) the information needed to make them as effective as possible; (iii) profiles of the mentors and coaches; (iv) profiles of the beneficiaries; and (v) the modalities of how to engage with beneficiaries. The stakeholders should also agree on criterion for identify and selecting entrepreneurs who will be part of an initial pilot of the tools. These should be limited to the value chains selected.

18. **Value chain development.** Following the exercise which identified 14 priority crops in 2014, the MFU conducted a study on five crops to further map the value chains. The report is currently awaiting validation by the MFU. The findings proposed in the study seem to be comprehensive and well researched. However, they are limited to producers only, ignoring all other actors in the value chains, such as input suppliers, traders, transporters, and processors. It was agreed that the report will be revised to include this information, and to include the honey value chain, for which the MFU have already been working in for the last two years. It was further agreed that the MFU should concentrate the efforts on a selected few (maximum three) value chains. To help the selection process, key criterion such as availability of markets and interests of financial institutions to engage with the sector should help narrow down the scope. All future support to these value chains should be complementary to one another, and be in-line with the overall strategy defined in the road map.

19. **Subcomponent 1.3: Support to Rural Micro and Small Entrepreneurs.** The mission rates the implementation of this sub-component as satisfactory.

20. **Youth Entrepreneurs.** The MFU is continuing to support to the development of business management and technical skills for 150 youths in the Gege Inkhundla, in collaboration with the Gege Police Anti-Crime Unit and Junior Achievement (JA) programme. A first group of 60 youths have already received the training, which also includes mentoring and coaching. Another 90 youth are currently participating in the programme in collaboration with Hluthi Police Anti-Crime club. It is unfortunate that the M&E system is unable to track how many businesses that have emerged from this training. The MFU should follow-up with the partners to understand better the impact of this support in order to inform future training programmes.

21. **Component 2: Deepening the Rural Financial Sector.** The Mission rates the implementation of this component as moderately satisfactory. The ability of the SMMEs to access financial services remains a major challenge, with only 582 out of 1,445 entrepreneurs having received BDS, also having accessed financial services thus far. About half of these were trained after having received a loan. The M&E system is unable to disaggregate the data based on gender. The promotion of CBSCGs has made important progress and is considered an important step to inclusive finance, with the CDD having emerged as the champion of CBSCGs, and Imbita, a microfinance institution, leading a consortium of seven NGOs promoting structured CBSCGs. This work is complementing the already ongoing work of existing CBSCGs promoters, such as World Vision.

22. Recent developments, supported by discussion with the financial sector, indicate that there is interest among the financial institutions to engage with rural entrepreneurs. The Inhlanyelo Fund, a financial institution, has developed an innovative approach for on-farm and off-farm credit. Fincorp, a development financial institution, has opened up two agencies in rural areas with intention to serve SMMEs. Standard Bank and Nedbank have also recently launched SMME type of products.

23. There appears to be an information-gap between entrepreneurs and the sector in terms of availability of bankable entrepreneurs and financial products offered. To mitigate this issue, it was agreed that the MFU will compile an online and offline database, building upon the small business financial services guide, including (i) financial institutions and products available; (ii) institutions working with rural entrepreneurs; and (iii) groups of rural entrepreneurs. This database should inform all actors and facilitate for connections to be made between those

providing and seeking financial services, and be included in the mentoring and coaching package (see paragraph on business and advisory services). Furthermore, the MFU will document the stories of some of the entrepreneurs and promote this through the media as success stories. This is intended to showcase the good work done by the MFU as well as reducing some of the preconceptions held by the financial sector, by showing that rural entrepreneurs are indeed business orientated and bankable. To this end, it was agreed that the MFU will engage with UNISWA to explore a similar partnership as UNISWA have with LUSIM for journalism and communication, which has proven to be very successful.

24. **Future role of the MFU.** The Microfinance Policy is at final stages, currently being reviewed by the MoF. The policy largely defines the role of the MFU after the closure of the RFEDP, whereby the unit is envisaged to transform into a Micro Finance Agency (MFA). This transition entails that the MFU will reduce its direct institutional interventions and focus on a broader sector approach. This approach will include (i) coordination and monitoring; (ii) policy dialogue; (iii) information centre and knowledge hub for financial institutions, beneficiaries, and partners working with low-income entrepreneurs; and (iv) a clearing house for Government funds.

25. The policy also make mention to the MFU/MFA providing some wholesale financing. It was discussed and agreed that this option will be reconsidered as (a) this will entail two very different mandates, whereby the wholesale lending facility will require completely different skillsets. This risk that one mandate undeliberately takes precedence over the other, making it difficult for the MFU to effectively achieve its objectives in both; and (b) the perceived conflict of interest as the MFU would be coordinating and providing information on a sector they are considered a player in themselves. This is not only difficult to achieve, but may compromise the credibility of the MFU as an objective institution. As a consequence, the facilitating role of the micro finance sector and a possible wholesale lending facility should be separated in two different institutions.

26. **Subcomponent 2.1: Financial Policy Reform and legislation.** The Mission rates the implementation of this subcomponent as satisfactory. There are five important policy-related documents that are expected to reach finalization this year. These are (i) the Consumer Credit Bill, which is expected to be approved by Parliament before the end of the financial year; (ii) the first draft of the Financial Inclusion Strategy (FIS), which is imminent; (iii) the first draft of the SACCO Bill, driven by the FSRA and should be circulated by June; (iv) the Microfinance Policy, which is still going through revisions with the MoF; and (v) the World Bank driven Financial Sector Development Implementation Plan (FSDIP), for which the first draft has been debated by its Technical Committee.

27. The MFU has played an important role in both the preparation and dissemination of these initiatives. The MFU has also played a key role in creating the Swaziland Credit Data Sharing Association (SCDSA), which is seen as an important step in establishing a citizen data bank, a sort of bottom-up credit reference bureau, to facilitate credit access. However, the mission is concerned that the FSDIP has no mention of the MFU/MFA's strategic role within the microfinance sector, and urge the MFU to ensure they are included in future versions of the plan.

28. Some key issues still remain, namely, (i) the current policy environment, refraining SACCOS and MFIs from taking deposits, resulting in very expensive cost of capital; (ii) the institutional eligibility for the Small Scale Enterprise Loan Guarantee Scheme (SSELGS); (iii) the lack of clarity on the institutional role of the CDD and the FSRA in terms of monitoring and regulation of the SACCOS; and (iv) strategic use and efficiency of Government managed development funds. It was agreed that the MFU will proactively engage to help find solutions to these issues as high priority.

29. The SSELGS may be an effective tool to encourage financial institutions to engage with rural entrepreneurs, but remains limited to commercial banks. The MFU should support the SMME Unit and the Central Bank to endorse the recent letter from the Governor to the MoF to enable

the SSELGS to broaden their eligibility to include at least some Non-Bank Financial Institutions (NBFIs). This could possibly start as a pilot and scaled-up as they gain experience.

30. **Subcomponent 2.2: Development of the MFI Sector.** The Mission rates the implementation of this subcomponent as moderately satisfactory. The enactment of the Consumer Credit Bill and approval of the Micro Finance Policy will jointly determine the institutional architecture of the MFI sector, which is currently comprised of SACCOs, salary-based micro-lending institutions and three MFIs. The current policy space is ambiguous on what constitutes an MFI, which should be clarified by the forthcoming Consumer Credit Bill.

31. The MFU support to the MFIs has shown mixed results. SWEET, a local financial institution, has made significant progress in terms of member growth and share contributions, but remains unclear in terms of future institutional status and role, as they are deviating from the direction defined in their business plan. There is also great scope for improving financial systems to disaggregate individual member's financial contributions. Imbita, also a locally based financial institution, has temporarily ceased its microfinance activities after losing its contract to manage the YEF. Imbita has not yet submitted the business plan to the MFU, but expect to do so shortly. Inhlanyelo continues to perform well. The MFU is supporting technical assistance to provide an Management Information System (MIS) for Inhlanyelo, SWEET/SBS and the YEF which is expected to conclude by April 2015 and should improve some of the challenges. Imbita has indicated its continued interest for support, and the MFU will follow-up on the matter.

32. **Subcomponent 2.3: Appropriate Financial Products.** The Mission rates the implementation of this subcomponent as moderately satisfactory. At this stage, the only financial institution that has provided loans to project-supported beneficiaries is the Inhlanyelo Fund, with 582 loans provided. The M&E system is unable to provide data on gender, the average loan size and total value of the portfolio. The about 32 loan applications with Nedbank are not progressing. Swazi Bank has given a loan to one applicant and are using this as a pilot to assess the possibility of working with the SMMEs. There has been promising development with the 60 or so applications pending with Fincorp, as the MFU has connected the applicants with a private sector actor, who is providing the entrepreneurs with improved capacity and access to markets. It was agreed that the MFU will follow-up with the respective institutions, along with Building Markets (a Mozambican-based NGO), to assess how to improve the business plans to meet required standards. The MFU should use lessons learnt from this process to develop a guideline for business plans to be made available offline and online. The guideline can inform future entrepreneurs about the main elements required in a business plan, and what the financial institutions are looking for.

33. Perhaps the most significant and exciting development within the sector is the anticipated launch by MTN of the microfinance mobile money module. The module will allow any financial institution (SACCOs being the prime target) to use mobile money for deposits, loans, and repayments. This is expected to drastically reduce the transaction cost of engaging with members as well as improving financial controls. The module has been piloted in Rwanda with success. The MFU should play an important role in working with the SACCOs to set up and use the system.

34. Both strategies, the FIS and FSDIP, stress the importance of increasing the level of bank deposit savings. On the basis of evidence provided by the largest micro-lender, First Finance which is a Fincorp subsidiary, the role of micro-lenders for financial inclusion should be reassessed as they have previously been considered only to provide loans for consumption. Preliminary findings suggest that half of all loans are for educational purposes, with almost a third for the construction of rural houses. This shows that the micro-lenders not only provide consumer loans, but also loans that can positively benefit the economy. The MFU should investigate these claims further and assess if micro-lenders should be considered as an important player in providing financial services to the rural poor.

Agreed action	Responsibility	Agreed date
Provide capacity building to the SMME Unit and CDD	MFU	31 August, 2015
Complete the SMME survey	MFU	31 December, 2015
Support the SHC to lobby the MoA and MoCIT and identify actions for overcoming the barriers to export for the honey sector	MFU	31 August, 2015
Finalize the mentoring & coaching tools for BDS	MFU	30 June, 2015
Select maximum three value chains to focus on	MFU	30 April, 2015
Develop online and offline rural finance database	MFU	31 July, 2015
Follow-up with the World Bank to include the MFU/MFA in the revised FSDIP	MFU	30 April, 2015
Lobby for the microfinance policy environment to include deposits; SSELGS to include other financial institutions; and the SACCO Bill to include clarity on institutional roles for regulation and coordination	MFU	31 August, 2015
Progress and conclude on the outstanding loan applications	MFU	31 August, 2015

D. Programme implementation progress

35. **Project Management Performance.** The Mission rates the performance of project management as moderately satisfactory. All key positions are filled and responsibilities are clearly defined between the various roles. The MFU now consists of a National Director, a Programme Manager, two Programme Facilitators (one being on maternity leave), an M&E and Communications Officer, a Finance & Administration Manager, a Finance & Administration Officer, an Executive Secretary, and two support staff.

36. Staff turnover has been high, which may have affected implementation. The team is overstretched and trying to achieve a lot, resulted in a somewhat reactive implementation approach. This may have caused a lack of strategic direction in some activities, and some activities not always receiving required attention and follow-up. The project is also very complex, including two broad mandates, which may have complicated the situation further. The key focus should now be to establish a consistent and strategic direction for the project, rather than implementing individual initiatives in separation. Some challenges can also be alleviated by transferring responsibility to partnering institutions. It is also important that the team is proactive in finding solutions to ensure holistic and sustainable interventions as project closure is approaching. This may require the MFU to shift their mind-set from implementing a project to facilitating for sustainable development. It was agreed that, if required, the MFU could hire technical assistance to help facilitate this transitional change within the team.

37. **Consultancies.** The MFU has and is relying heavily on consultancies, whereby a large amount of assignments are planned for the upcoming year. The mission reviewed some previous reports at random and question the applicability and quality of some of the work, and to what extent these assignments have been reviewed, and received adequate technical guidance. Following mission observations specified in the technical annexes, it was agreed that the MFU should expand in the Annual Work Plan and Budget (AWPB) the objective of these assignments and describe the foreseen value-addition. All future consultancies should have a dedicate person, or a technical committee, ensuring adequate technical guidance and review, and that the expected outputs are met at an acceptable quality.

38. **Coherence between AWPB and Implementation.** The Mission rates the coherence between the AWPB and implementation as moderately satisfactory. For the 2014/2015 AWPB, the project has managed to achieve around 90% of the planned activity targets, which is an improvement compared with previous years. However, the number is somewhat misleading as the AWPB did not include clear targets to be achieved for some of the activities planned. The project has also over-achieved in some activities, while under-achieving in others due to

difficulties working with some partners. The MFU have spent 78% of the budgeted funds. As the project has only two years before closure, it is important that the MFU pay close attention to the AWPB execution.

39. The AWPB for 2015/2016 has already been prepared and submitted to IFAD and was approved by the government of Swaziland. The mission reviewed the draft plan. In addition to the information available, it was agreed that future AWPBs should also include information on (i) targeted achievements and expectations for the coming year; (ii) lessons learned from the previous years, both good practices and challenges; and (iii) what will be done differently to improve implementation. It was agreed that the current draft 2015/2016 AWPB will be revised to include physical targets for the upcoming year in addition to improved narrative, and re-sent to IFAD for no objection.

40. **Monitoring and Evaluation.** The mission rates monitoring and evaluation as moderately unsatisfactory. The Monitoring and Evaluation (M&E) and Communications officer was hired in December 2014, and seem to have good understanding of M&E concepts. However, the M&E system is still weak and not utilized as a management tool. There is limited follow-up on partners' performance, which limits the ability of the MFU to make adequate decisions based on the situation on the ground. Field visits during this mission indicate that the project has impact on the livelihoods of beneficiaries, but this is not captured by the M&E system as it is not yet providing results for outcomes/impact. It was agreed that the MFU will update the M&E system in accordance with recommendations laid out in the technical annex of this mission to reach a minimum standard expected from the system.

41. The project prepares the quarterly physical progress report on time, which has scope to improve in terms of implementation progress versus targets for the reporting period. Also, the MFU received feedback from IFAD on the December 2014 quarterly report on how to improve in terms of the analytical part, such as challenges and lessons learnt, and reflection on what will be done differently to improve performance. It was agreed that these elements shall be included in all future reports.

42. **Gender focus and Targeting.** The mission rates gender focus as moderately satisfactory. The project seems to have a strong and effective focus on targeting in regards to the BDS activities (component 1). The MFU is trying to monitor disaggregated gender data to ensure on female participation in various activities. The MFU is utilizing the gender manual which was developed by IFAD for gender mainstreaming. On the basis of the last RIMS report (March 2015), 658 females (329% of appraisal target) have been trained in business and entrepreneurship skills. An additional 289 (301% of appraisal) female staff of service providers have been trained, while 308 females (86% of appraisal) have been trained on income generating activities. Visits with beneficiaries and partners supports the data and seem to confirm the strong gender focus in Component 1. The M&E system is unable to disaggregate data on the basis of gender for financial services (Component 2).

43. **Poverty focus.** The mission rates poverty focus as moderately satisfactory. The project is targeting households aspiring to develop small-scale enterprises, vulnerable and marginalized households, and households aspiring to develop small-scale enterprises. The M&E system is not monitoring the economic status of the beneficiaries and cannot confirm the poverty focus, but discussion with beneficiaries and partners indicate that the project is reaching out to the rural poor. Improved linkage between rural entrepreneurs and financial services, and the sustainability of partnering institutions will increase the poverty focus of the project going forward as this is a key challenge for the targeted beneficiaries. The revised M&E system will therefore ensure to monitor loans received through RFEDP intervention closely, for the MFU to be able to be able to assess progress and identify good practices.

44. **Effectiveness of targeting approach.** The mission rates the effectiveness of targeting approach as moderately satisfactory. The project usually follows up on the targeting of partners

through spot checking. Improvements to the M&E system will make monitoring on targeting more effective and reliable.

45. **Innovation and learning.** The Mission rates innovation and learning as satisfactory. The project has introduced innovative ways of bringing stakeholders together, for example through platforms and clusters. There are some innovations in terms of the modalities for which the MFU is engaging rural entrepreneurs with the private sector to improve their bankability. Innovations in mobile banking, which have been previously supported by the project, seem to have been scaled-up and show some positive results, for example the new MFI mobile money module planned to be launched by MTN.

46. However, there seem to be a lot of innovations emerging at beneficiary and partner level, which has taken place outside the intervention of the project, and not documented and capitalised on by the MFU. This includes innovations such as the Cooperatives Data Analysis System (CODAS) and improved hatcheries for indigenous chicken. The MFU should put in place systems that identify and document these innovations and disseminate them for replication, while capitalizing on initiatives (such as the CODAS) which could greatly improve project M&E and decision making.

47. **Partnerships.** The Mission rates partnerships as satisfactory. Partnership building is a key mandate of the MFU, and the mission recognise the difficulties experienced by overly relying on external partners for implementation. All stakeholders meet continue to emphasise the important role of the MFU in terms of facilitating partnerships. This role is envisaged to be a vital aspect of the MFUs mandate going forward. To further build on the good work done, the MFU should take action to develop itself into a knowledge hub and first point of contact for both partners and beneficiaries seeking inclusive finance. The benefits of the partnerships made could be enhanced further by empowering partners to take increasingly more responsibility and ownership, and support the partners, through capacity building, to carry out their mandate in a sustainable manner (see also project management performance).

Agreed action	**Responsibility**	**Agreed date**
Revise the 2015/2016 AWPB to include physical targets and realistic budget	M&E Officer	30 April, 2015
Revise the M&E system	M&E Officer	31 July, 2015
Develop a bottom-up system for identifying, analysing, and disseminating good practices and innovations observed in the field.	M&E Officer	30 June, 2015

E. Fiduciary aspects

48. **Financial management.** The mission rates financial management as satisfactory. The finance unit is adequately staffed with a Finance & Administration Officer, and a Finance & Administration Manager who has been with the project since early 2012. Both staff appear to be well-qualified for the job. The project maintains well-made financial statements and books using SunSystems. The system facilitates for adequate record keeping and timely generation of real-time financial reports. There is also adequate oversight through monthly reports, which are reviewed and approved. The asset register is up to date with proper asset recording, maintained manually through excel.

49. The mission sampled WA 10 and 12 for review of the SOEs. The total sample represented 67% of the total SOE expenditure reported in the two WAs. All supporting documentation was found to be properly maintained, all expenses were adequately supported and expenditure confirmed eligible under the loan funding. Payments are made by cheque, with copies being included in the supporting documentation. The percentage allocations between government and the IFAD loan have been respected in all categories. RFEDP SOE threshold is USD 50,000. Few expenditures exceeded this threshold.

50. **Disbursement.** The mission rates disbursement as moderately satisfactory. As of end of February 2015, total disbursements for the fiscal year of the 2014/2015 AWPB stood at USD 1,052,430, representing 79% of the budget, but actual implementation stands at USD 1,042,994 which is 78% of the of the budget, decreased from the 94% implementation of the previous year. Total disbursements to date amounts to USD 4,064, 540, which is 66% of the total loan amount of USD 6M. The MFU will need to pay close attention to disbursement going forward not to risk closing the project with unused funds.

51. **Special Account reconciliation.** The Special account is well maintained and all reconciling items are adequately described and supported. The mission reviewed the special account reconciliations of WA 10 and 12, verified all the reconciling items and confirmed the figures to the bank statements and the financial records.

52. **Flow of funds.** No delay were noted in the flow of funds for project activities, all the accounts are directly managed by the project and approvals for release from the special account have always been timely received. The project special account is maintained with the CBS. A separate account is maintained for Government funds. These accounts are referred to as Call accounts in the project books. A current account is then maintained with Nedbank, which is the operating account for all project expenses. Funds advanced to this account are mainly Government funds. Expenses chargeable to the loan are met out this account, and monthly reimbursement from the special account is made into the programme current account.

53. **Counterpart funds.** The mission rates counterpart funds as moderately satisfactory. Counterpart fund contribution increased from the fiscal year of 2012/2013 (USD 105,522) to 2014/2015 (USD 404,365). The cumulative contribution to date amounts to USD 1,521,873, representing 64% of the committed amount of USD 2.37M.

54. **Compliance with loan covenants.** The mission rates compliance with loan covenants as satisfactory. The project has fully complied with the loan covenants in the Financing Agreement.

55. **Procurement.** The mission rates procurement as moderately satisfactory. A review of the procurement processes show that files are documented. The project uses a procurement plan which is well detailed, but could include some additional information to track actual, planned, and revised dates. As the procurement plan does not record actuals, it is difficult to assess the actual length of the procurement process. It is also important that tenders distinguish between individual and firm consultancies, and that the criterion are well planned ahead to ensure that competent candidates are selected. It was agreed that IFAD will plan a separate more in-depth procurement review, followed by training, to ensure that the procurement processes are efficient and effective.

56. **Audit.** The Mission rates the quality and timeliness of audits as satisfactory. The programme was audited by a private audit firm for last two audits, which gave the project unqualified opinions. The accounts are prepared in accordance with IFRS and the audit report complies with the audit guidelines issued by IFAD. The 2013/2014 audit report was reviewed and found of adequate quality. The report was timely submitted to IFAD whom sent a feedback letter. This mission has followed up on the two issues that were raised in the report and confirms that they have been fully addressed. Audit of 2014/2015, is underway and is expected to be done by May 2015.

57. **Smart SOEs.** The mission shared the new revised IFAD SOE forms with the Finance Manager. As the programme has good financial systems with Sun Systems being properly used to maintain the financial statements RFEDP should be included in the IFAD SMART SOEs pilot scheme. The new forms will be used for the upcoming WA to be submitted in April 2015. The mission also discussed E-learning tool for capacity development and the Finance Manager was encouraged to take a course.

Agreed action	Responsibility	Agreed date
Set-up the asset register in the SunSystem	FM	30 April, 2015
Review balances on budget categories and request any budget reallocations to align it to the foreseen activities to the project end date	FM	30 April, 2015
Undertake Online e-learning	FM	15 June, 2015
Carry out procurement review and training	IFAD	30 September, 2015
Submit WA using IFAD smart SOEs pilot scheme	FM	30 April, 2015

F. Sustainability

58. **Institution Building.** The Mission rates institution building as moderately satisfactory. The Microfinance Policy, which largely defines the role of the unit after the end of the project, is at final stages in its development. The MFU have provided important institutional support to several partners, including the CDD, as well as playing a key role in establishing the SCDSA. Going forward, the MFU should develop a clear plan for institutional building as part of the road map, ensuring continued sustainability of its partners after project closure.

59. The project still depends heavily on the use of consultants. Consultants may add the value of bringing in external expertise, but if not managed well, risk assignments being completed with limited knowledge transfer to the benefiting institutions. To mitigate this risk, future consultancies should emphasis on the facilitating role, whereby the consultants build the capacity, and guide and support the respective institutions in accomplishing set objectives, rather than producing studies and reports on their behalf.

60. **Empowerment and social sustainability.** The Mission rates empowerment and social sustainability as satisfactory. A major aspect of the project is to build the capacities of rural entrepreneurs. Beneficiary narratives indicate that these activities have had an empowering effect, for example through ambitious business plans. Some entrepreneurs, especially women, have obtained a mentoring role in the community and are teaching other farmers on good farming practices.

61. The support to the Cooperative Department has shown good empowering impact in terms of the ability of rural entrepreneurs to develop cooperatives and CBSCGs. In terms of policy dialogue, the MFU should focus on developing and strengthening platforms for inclusive policy dialogue and facilitate bottom-up policy development.

62. **Quality of beneficiary participation.** The Mission rates the quality of beneficiary participation as satisfactory. The planning of the project activities is based on the needs of beneficiaries. Training is demand driven and based on requests, and the MFU is guiding its partners in terms of working with a bottom up approach.

63. **Responsiveness of service providers.** The Mission rates the responsiveness of service providers as moderately satisfactory. Being largely dependent upon partners for the implementation of the programme is a challenge. The MFU sometimes has limited leverage in terms of ensuring efficient implementation from external partners. This has caused some challenges with implementation. The MFU also experience some difficulties in terms of obtaining M&E data from partners, which would allow adequate analysis and decision making. The MFU will need to work with each individual partner, and ensure they understand that the project is coming to an end soon, and that timely responsiveness is essential for the project to provide the support foreseen for each partner, and as such achieve its objective.

64. **Exit strategy.** The Mission rates the exit strategy as moderately satisfactory. The plan for the MFU after project closure; which is defined in the Micro Finance Policy (see paragraph on the future role of the MFU), is positive. It is now important that attention is put on Component 1 (Building Rural Entrepreneurial Capacity), and how the project will phase out, while ensuring the sustainability of interventions and partnering institutions. To this end, it was agreed that the

MFU will finalise the road map, which will guide project intervention for the next two years. The road map should complement the corporate strategic plan and include (i) who the key players are for which responsibilities and activities should be transitioned to before the end of the project; (ii) the factors which need to be in place for activities and institutions to be sustainable after project closure; (iii) the MFUs role in establishing these factors; and (iv) a clear timeline for activities, with key milestones. The road map needs to be supported by a strong M&E system, which should monitor and guide its implementation. It was agreed that the road map will be submitted to IFAD for no objection by the end of June 2015.

65. **Potential for scaling-up.** The Mission rates the potential for scaling-up as satisfactory. Both Government and stakeholders now recognize the MFU as a key stakeholder in the microfinance sector. This is very evident in the terms of the future role foreseen for the MFU, which will position the unit as a key coordinator and information broker for the sector. The project has also played a vital role in supporting the CDD to engage with CBSCGs, which now has been institutionalised in the department. Several of the mobile money pilots with MTN, such as the rural minibanks (ATMs) and the mobile money platform, have been scaled up and are operating with varied success. A range of innovations at beneficiary level, such as improved hatcheries and market linkages with large buyers and retail stores, has huge potential for scaling up, it is vital that the MFU document and disseminate good practices and innovations that occur at grassroots level. Several of the rural finance initiatives, such as those lead by the Inhlanyelo Fund, SWEET, Standard Bank and Nedbank has huge potential for scaling up. Further potential for scaling-up will largely depend on the sustainability of institutions after project closure.

Agreed action	Responsibility	Agreed date
Revise the road map and submit to IFAD for no objection	MFU	30 June, 2015
Develop and strengthen inclusive policy platforms for bottom-up policy dialogue	MFU	15 June, 2015

G. Other

66. **Impact on physical and financial assets.** The Mission rates impact on physical and financial assets as moderately satisfactory. The mission was unable to adequately assess the impact on physical and financial as the M&E system does not contain this data. Field visits indicate some impact on physical and financial assets generated from income increases, on the basis of capacity training, but there is no conclusive data to make an adequate assessment.

67. **Impact on food security.** The Mission rates impact on food security as moderately satisfactory. The M&E system lacks information on food security. The system should be updated to include comprehensive data on food security in terms of hungry seasons experienced by households, and dietary consumption of household members.

68. **Impact on incomes.** The Mission rates impact on incomes as moderately satisfactory. While the mission has observed improvements in the livelihoods of some beneficiaries during the field visits, there is no tangible information/data available to provide an overall assessment of the project’s impact on incomes.

69. **Policy impact.** The Mission rates policy impact as satisfactory. The MFU has been involved in policy making at various levels, resulting in the (i) expected Financial Inclusion Bill; (ii) Microfinance Policy; (iii) SMME Policy; (iv) Financial Inclusion Strategy; and (v) foreseen SACCO Bill. The MFU has also been involved in the World Bank drive Financial Sector Development Implementation Plan. To sustain this, the MFU should work with appropriate partners in developing and strengthening adequate policy platforms, which will engage for inclusive policy dialogue through smallholder farmer participation.

Agreed action	Responsibility	Agreed date
Revision of the M&E system captured under the section on implementation progress	MFU	31 July 2015

70. Good progress has been made by the MFU in implementation of its activities, and it is evident that there are positive benefits emerging from the field. As the project is rapidly reaching the end of implementation, with only two years to go, the focus of the third and final phase should be on the exit strategy, and the sustainability of interventions and institutions, while supporting the MFU to position itself for its mandate post-project. Going forward, key issues that would require attention include (i) developing a road map to guide the phasing out of activities; (ii) finalising the Microfinance Policy, which will define the mandate of the MFU after project closure; (iii) building the institutional capacities of partners with sustainability in mind; (iv) facilitating for sustainable linkage between financial institutions and rural entrepreneurs; (v) inclusive policy design; and (vi) approval and implementation of the outstanding policies.

Agreed action	Responsibility	Agreed date
Revision of the M&E system captured under the section on implementation progress	MFU	31 July 2015

H. Conclusion

71. Good progress has been made by the MFU in implementation of its activities, and it is evident that there are positive benefits emerging from the field. As the project is rapidly reaching the end of implementation, with only two years to go, the focus of the third and final phase should be on the exit strategy, and the sustainability of interventions and institutions, while supporting the MFU to position itself for its mandate post-project. Going forward, key issues that would require attention include (i) developing a road map to guide the phasing out of activities; (ii) finalising the Microfinance Policy, which will define the mandate of the MFU after project closure; (iii) building the institutional capacities of partners with sustainability in mind; (iv) facilitating for sustainable linkage between financial institutions and rural entrepreneurs; (v) inclusive policy design; and (vi) approval and implementation of the outstanding policies.

72. IFAD and the Government of the Kingdom of Swaziland endorse the findings of this supervision mission.

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Swaziland	Project ID	1373 [1100001373]	Loan/DSF/Grant FI No.	1000002790, 1000003263
Project	Rural Finance and Enterprise Development Programme			Top-up Loan/DSF/Grant FI No.	

Date of Update	28-Apr-2015			
Supervising Inst.	IFAD			
No. of Supervisions	7	No. of Implementation Support/Follow-up missions	2	
Last Supervision	17-Oct-2013	Last Implementation Support/Follow-up mission	12-Nov-2014	

					USD million	Disb. rate %
Approval	17-Dec-2008			Total financing	9.21	
Agreement	25-Mar-2010	Effectiveness lag	21.2	IFAD Total	6.20	
Entry into force	15-Sep-2010	PAR value	--------	IFAD loan	6.00	66
First disbursement	27-Jan-2011			DSF grant		
MTR	01-Apr-2014	Last amendment		IFAD grant	0.20	
Original completion	30-Sep-2016	Last audit	31-Mar- 2014	Domestic Total	3.01	
Current completion	30-Sep-2016			Beneficiaries	0.64	0
Current closing	31-Mar-2017			National Govern	2.37	26
No. of extensions	31-Mar-2017			External Cofinancing Total		
	0					

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	5	5	1. Quality of project management	4	5
2. Acceptable disbursement rate	4	4	2. Performance of M&E	3	3
3. Counterpart funds	5	4	3. Coherence between AWPB & implementation	4	4
4. Compliance with financing covenants	5	5	4. Gender focus	5	4
5. Compliance with procurement	5	4	5. Poverty focus	5	4
6. Quality and timeliness of audits	5	5	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	5
			8. Climate and environment focus	4	4

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Building Entrepreneurial Capacity in Rural	5	5	1. Institution building (organizations, etc.)	4	4

Economy					
2. Deepening the Rural Financial Sector	5	4	2. Empowerment	4	5
3. Programme Management and Coordination	5	5	3. Quality of beneficiary participation	4	5
			4. Responsiveness of service providers	5	4
			5. Exit strategy (readiness and quality)	4	4
			6. Potential for scaling up and replication	5	5

B.5 Justification of ratings

The finance unit is adequately staffed and both staff appear to be well-qualified for the job. Financial systems and documents are well managed. Procurement are not always done according to international good practice and should be improved. For the 2014/2015 AWPB, the project has managed to achieve around 90% of the planned activity targets, which is an improvement compared with previous years. The ability of the SMMEs to access financial services remains a major challenge, with only 582 out of 1,445 entrepreneurs having received BDS, also having accessed financial services thus far. The project is playing an important role in developing certain value chains such as indigenous chicken and honey. Implementation of component 1 (Building Entrepreneurial Capacity in Rural Economy) and 2 (Deepening the Rural Financial Sector) seem to be in siloes and not always strategic. For sustainable impact, the MFU need to understand and address the underlying principles preventing rural entrepreneurs from accessing financial services through holistic implementation of the two components. Good progress has been made at policy level while limited impact is seen in terms of improving rural entrepreneurs access to financial services. Field visits show empowerment of especially women entrepreneurs through ambitious business planning and improved social status, by for example becoming mentors in the community. Planning is bottom-up and based on the need of beneficiaries through consultation.

Overall Assessment and Risk Profile

		Last	Current
C.1	Physical/financial assets	4	4
C.2	Food security	4	4
C.3	Quality of natural asset improvement and climate resilience	4	4
C.4	Overall implementation progress (Sections B1 and B2)	5	4

Rationale for implementation progress rating
The mission was unable to adequately assess the impact on physical and financial or impact on food security as the M&E system does not contain this data. However, field visits show that the project has an impact at ground level. The PMU will need to put attention to developing the M&E system to adequately capture impact in the future.

C.5	Likelihood of achieving the development objectives (section B3 and B4)	5	5

Rationale for development objectives rating
RFEDP have launched a number of initiatives to support rural enterprises and in rural financial services with varied impact. Interventions in terms of support to rural entrepreneurs and the rural finance policy environment seem to have good impact, but more work needs to be done in terms of addressing the underlying causes for why rural entrepreneurs do not have access financial services. These initiatives have great potential for scaling up via RFEDP partners. However, the Programme must intensify its efforts, and use the remainder of the implementation period to pursue these objectives as aggressively and proactively as possible. Key determining factor for achieving development objectives will be successful phasing out of component 1 during this third implementation stage while building capacity at the MFU level for its future role (see sustainability)

C.6 **Risks** *Short description of major risks for each section and their impact on achievement of development objectives and sustainability*

Fiduciary aspects	Fiduciary aspects are managed very well and not considered a risk . Procurement is not as strong as it could be and needs to be strengthened to improve quality and efficiency and comply to international best practice.
Project implementation progress	Implementation is progressing well and, if outstanding issues addressed correctly. The project should achieve its targets. The MFU will need to consolidate and focus its interventions and not be derailed by external demands. The project is heavily dependent upon partners which the MFU have limited leverage to manage. Full attention needs to be put on ensuring delays do not occur due to inefficiencies with external partners.
Outputs and outcomes	Project outcomes will heavily depend upon the ability to implement the remaining activities holistically with a clear view of how underlying mechanism are addressed, rather than symptoms of a cause. A key risk is that focus is on outputs (x trainings achieved) rather than outcomes (addressing the reason why PAR is high at some financial institutions).
Sustainability	A key focus should now be to handover activities for component 1 (capacity building of rural entrepreneurs) to partners while facilitating for the MFU to transition into the financial agency foreseen in the Microfinance Policy. Risk is (i) continued focus on outputs while ignoring the importance of sustainable handover of activities; (ii) outstanding activities address symptoms rather than underlying mechanisms; (iii) the MFU not obtaining adequate financial services capacity to achieve its foreseen mandate post-project.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Monitoring and	M&E will need some considerable improvements. develop a system that collects	immediate	Ongoing until

Evaluation	consistently data from implementing partners.		resolved
exit strategy	Develop the programme's Intervention Strategy/Modus Operandi (MSME and Rural Financial Inclusion) based on lessons learnt in Phase I and II which will lay the roadmap for outstanding activities.	immediate	ongoing

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Goal:			
To reduce poverty and contribute to the overall economic development of poor rural households in Swaziland	1. 20 % increase in asset ownership of households in the project area project completion (*) 2. 20% reduction in the prevalence of child malnutrition, by gender (*) 3. 30% of households reporting increased food security 4. Increase from 5% to 15% in portion of national GDP from the rural sector in the project area 5. 20% decrease in the percentage of households in targeted areas in the poorest wealth group	RIMS baseline and impact assessment National statistics from MEPD, Bureau of Statistics, other UN agencies PRA (including wealth ranking)	Government commitment to poverty reduction and reforms (especially for the finance sector) continues
Project Development Objective:			
Development Objective. Rural poor benefit from increased incomes improved business opportunities and access to sustainable rural financial services	6. 20% increase in average household income 7. 10% decrease in unemployment rates in project area	RIMS baseline and impact assessment National statistics	Demand and purchasing capacity of markets can absorb increased offer of agro-industry commodities Continued political commitment to decentralization of the development process and poverty reduction
Component 1. BUILDING ENTREPRENEURIAL CAPACITY IN THE RURAL ECONOMY			
Outcome 1. Rural poor enabled to develop viable and sustainable micro and small business in a pro-poor and enabling environment for business development in rural areas.	8. 1600 enterprises accessing facilitated nonfinancial services (*) 9. 50 enterprises supported by the project operational after three years 10. 20% of people trained register businesses	Project M&E Service provider reports	Government commitment to pro-poor business environment continues through policy/legislative reforms
Outputs: 1.1 Improved policy environment for small micro and medium enterprises in Swaziland	11. Stakeholders and beneficiaries participate in policies and legislations process 12. Capacity of >10 nonfinancial	Project M&E Service provider reports	Co-operation from key stakeholders important

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
1.2 Training needs of business support entities and rural entrepreneurs (farmers organisation, cooperatives, communities and youth groups) addressed 1.3 Supported rural micro and small entrepreneurs are linked to the MFIs and the formal banking sector	services is improved 13. 1600 rural poor, including micro entrepreneurs, accessing facilitated non-financial services 14. 1600 rural poor, including micro entrepreneurs, trained in entrepreneurship 15. 1000 micro entrepreneurs trained in technical skills in relation to their chosen income generating activities 16. 400 micro entrepreneurs trained in post crop production and marketing		
Component 2. DEEPENING THE RURAL FINANCIAL SECTOR			
Outcome 2: The rural poor can access reliable financial services in a pro-poor enabling environment in rural areas	17. 600 voluntary savers (*) 18. 20% of people trained in business entrepreneurship access financial services in rural areas 19. 80 SACCOs, multipurpose cooperatives, community groups, and farmer groups trained (minimum 20 per category) 20. 120 enterprises accessing facilitated financial services (*)	Project M&E Service provider reports	Interlinking increased demand for finance with improved business opportunities
Outputs: 2.1 Improved policy environment for delivery of pro-poor financial services 2.2 Improved capacity of financial sector institutions to deliver services to the rural poor 2.3 Financial services developed suited to the needs of the rural poor	21. 3 rural finance policies reviewed 22. Staff of > 5 financial institutions trained – including Banks, DFIs and MFIs (*) 23. 90% supported micro finance institutions with PAR < 20% 24. 6 new financial service products adopted by the financial sector 25. 200 Community Based Savings and Credit groups formed/strengthened (*)	Project M&E Service provider reports Training Reports Financial institutions performance reports Savings groups register Active financial products report	Co-operation from key stakeholders Conducive financial environment Based on the demand for the product

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Component 3. PROGRAMME MANAGEMENT AND COORDINATION			
Outcome 3: Efficient coordination structures, monitoring mechanisms and management practices for this and future programmes in projects developed in Swaziland	26. MFU projects and programmes are achieving 2/3 of targeted performance and impact by PY 5	Project M&E Survey of project stakeholders	Effective relationship between the MFU and partners
Outputs: 3.1 Planning, monitoring and implementation is effectively done 3.2 Knowledge, lessons learned and innovations developed in the project are available to and used by stakeholders	27. 95% achievement of AWPBs annually 28. 2/3 of project stakeholders indicate that project knowledge management products are being used in their operations either directly or indirectly	Progress Reports	Effective knowledge management by the MFU
3.3 Gender HIV/AIDS, and marginalized groups included and mainstreamed in the programme and partners	29. 30% of people trained are women(*) 30. 30% of people trained are between age 18 to 35 (*) 31. 20% of supported groups support vulnerable groups (HIV/AIDS, Youth (young men and young girls), Disabled)	Project M&E	Participation of Stakeholders

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area		Action Agreed	Date	Whom	Progress
Project Implementation					
	1	Commence applicable outstanding agreed actions from the Nov 2014 mission to be completed by revised deadlines in the technical annexes	May, 2015	MFU Director, Programme Manager, Programme Facilitators, M&E	
	2	Revise the 2015/2016 AWPB to include physical targets and realistic budget	April, 2015	M&E Officer	
	3	Revise the M&E system	July,2015	M&E Officer	
	4	Develop a bottom-up system for identifying, analysing, and disseminating good practices and innovations observed in the field	June, 2015	M&E Officer	
Outputs					
Component 1: Building Entrepreneurial Capacity in the Rural Economy.	5	Provide capacity building to the SMME Unit and CDD	August, 2015	MFU	
	6	Complete the SMME survey	December, 2015	MFU	
	7	Support the SHC to lobby the MoA and MoITC and identify actions for overcoming the barriers to export for the honey sector	August, 2015	MFU	
	8	Finalize the mentoring & coaching tools for BDS	June, 2015	MFU	
	9	Select maximum three value chains to focus on	April, 2015	MFU	
Component 2: Deepening the Rural Financial Sector.	10	Develop online and offline rural finance database	July, 2015	MFU	
	11	Follow-up with the World Bank to include the MFU/MFA in the revised FSDIP	April, 2015	MFU	
	12	Lobby for the microfinance policy environment to include deposits; SSELGS to include other financial institutions; and the SACCO Bill to include clarity on institutional roles for regulation and coordination	August, 2015	MFU	
	13	Progress and conclude on the outstanding loan applications	August, 2015	MFU	
Sustainability					
	14	Revise the road map and submit to IFAD for no objection	June, 2015	MFU	
	15	Develop and strengthen inclusive policy platforms for bottom-up policy dialogue	June, 2015	MFU	
Fiduciary Aspects					
	16	Set-up the asset register in the SunSystem	April, 2015	FM	
	17	Review balances on budget categories and request any budget reallocations to align it to the foreseen activities to the project end date	April, 2015	FM	
	18	Undertake Online e-learning	June, 2015	FM	
	19	Carry out procurement review and training	September, 2015	IFAD	
	20	Submit WA using IFAD smart SOEs pilot scheme	April, 2015	FM	
Other					
	21	Revision of the M&E system captured under the section on implementation progress	July, 2015	M&E	

Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Period: 01-04-14 to 31-03-15

Total Outreach								
	Indicator	**Unit**	**AWP&B**	**Actual**	**%**	**Cumulative Actual**	**Appraisal Target**	**%**
	Households receiving project services (RIMS 1.8.1)	Number	1730	1452	84	4600	4556	99
	People receiving project services (RIMS 1.8.2)	Number	5275	3631	69	9330	6582	71
Component	***Component 1. Building Entrepreneurial Capacity in the Rural Economy***							
Outcome/output	**Indicator**	**Unit**	**AWP&B**	**Actual**	**%**	**Cumulative Actual**	**Appraisal Target**	**%**
Outcome: *Rural poor enabled to develop viable and sustainable micro and small business in a pro-poor and enabling environment for business development rural areas*	1600 enterprises accessing facilitated nonfinancial services (RIMS 1.5.4)	Number	450	345	79	1381	1600	87
Sub-Component 1.1: Improved policy environment for small micro and medium enterprises in Swaziland	1 policy and 2 legislations approved	Number	1	0	0	2	3	67
Sub-Component 1.2: Training needs of business support entities and rural entrepreneurs (Farmers Organisations, Cooperatives, Communities and Youth Groups) addressed.	people trained in business and entrepreneurship (RIMS 1.5.3)	Male	234	132	142	787	200	394
	people trained in business and entrepreneurship (RIMS 1.5.3)	Female	156	221	102	658	200	329
	People trained in income generating activities (RIMS 1.5.1)	Male	144	73	51	174	240	73
	People trained in income generating activities (RIMS 1.5.1)	Female	116	156	134	308	360	86
Sub-Component 1.3: Supported rural micro and small entrepreneurs are linked to the MFIs and the formal banking sector	People accessing advisory services facilitated by project (RIMS 1.5.4)	Male	195	155	79	282	640	44
	People accessing advisory services facilitated by project (RIMS 1.5.4)	Female	195	83	43	209	960	22
	Saving and credit groups formed/strengthened (RIMS 1.3.1)	Number	60	40	67	40	n.a.	n.a.
	Saving and credit groups with women in leadership position (RIMS 1.3.2)	Number	60	40	67	40	n.a.	n.a.
	People in saving and credit groups formed/strengthened (RIMS 1.3.3)	Male	1350	131	10	131	n.a.	n.a.
	People in saving and credit groups formed/strengthened (RIMS 1.3.3)	Female	3150	252	8	252	n.a.	n.a.
	People trained in post-production, processing and marketing (RIMS 1.4.1)	Male	144	166	115	408	160	255
	People trained in post-production, processing and marketing (RIMS 1.4.1)	Female	96	121	126	282	240	118

Component	***Component 2. Deepening the Financial Sector***							
Outcome/output	**Indicator**	**Unit**	**AWP&B**	**Actual**	**%**	**Cumulative Actual**	**Appraisal Target**	**%**
Outcome *The rural poor can access reliable financial services (savings, credit, transfers, etc.) in a pro-poor enabling environment in rural areas*	20% increase in access to financial services in rural areas	%	n.a.	n.a.	n.a.	n.a.	20%	n.a.
	2,000 enterprises accessing facilitated financial services	Number	1730	1452	84	4556	2.000	228
Sub-Component 2.1: Improved policy environment for delivery of pro-poor financial services	3 Rural Finance Policies Reviewed (Consumer Credit and Micro Finance Policies in place),	Number	3	2	67	2	3	67
Sub-Component 2.2: Improved capacity of financial sector institutions to deliver services to the rural poor	Financial institutions participating in the project (RIMS 1.3.4)	Number	4	12	300	4	12	300
	Staff of financial institutions trained (RIMS 1.3.5)	Male	30	152	507		54	
	Staff of financial institutions trained (RIMS 1.3.5)	Female	15	108	720		36	
Sub-Component 2.3: Lending products and financial services developed to suit the needs of the rural poor.	6 financial service products adopted by the financial sector	Number	3	1	33	2	6	33
Component	***Component 3. Programme Management and Coordination***							
Outcome/output	**Indicator**	**Unit**	**AWP&B**	**Actual**	**%**	**Cumulative Actual**	**Appraisal Target**	%
Outcome: Efficient coordination structures, monitoring mechanisms and management practices for this and future	MFU projects and programmes are achieving 2/3 of targeted performance and impact by PY 5	Percentage	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sub-Component 3.1: Planning, Monitoring and Implementation is effectively done	95% achievement of AWPBs annually	Percentage	95	90	95	n.a.	n.a.	n.a.
Sub-Component 3.2: Knowledge, Lessons Learnt and Innovation developed in the project are available to and used by stakeholders	2/3 of project stakeholders indicate that project knowledge management products are being used in their operations either directly or indirectly.	Percentage	n.a.	n.a.	n.a.	n.a.	65%	n.a.
Sub-Component 3.3: Gender, HIV/AIDS and marginalized groups included and mainstreamed in the programme and the partners	30% of beneficiaries are women (*)	Percentage	n.a.	n.a.	n.a.	53%	30%	177%
	30% of beneficiaries are between age 18 to 35 (*)	Percentage	n.a.	n.a.	n.a.	n.a.	30%	n.a.
	1 strategy for mainstreaming gender, HIV/AIDS, and inclusion of marginalised groups approved	Number	1	1	1	1	1	1

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	6,000,000	4,064,540	66
IFAD grant	200,000*	0	0
Co-financier/beneficiaries	643,000	15,404.	0.4
Government	2,370,000	1,521,873	64
Total	9,213,000	5,601,817	

Table 5B: Financial performance by financier by component (USD '000)

	IFAD loan			IFAD grant			Co-financier			Government			Total		
Component	**Appraisal**	**Actual**	**%**	**Appraisal**	**Actual**	**%**	**Appraisal**	**Actual**	**%**	**Appraisal**	**Actual**	**%**	**Appraisal**	**Actual**	**%**
Building Entrepreneurial Capacity in Rural Economy	62.5	16		0	0		17.3	0.4		20.2	16.61		100	32.65	
Depending the Rural Financial Sector	88.8	13		0	0					11.2	11.9		100	24.9	
Programme Management and Coordination	51.6	37		6.3	0					42.1	13.38		100	50.38	

- *The project did not receive grant funding as provided in the PCR for Start-up costs but instead it was allowed retroactive financing which amounted to USD 182,690

Table 5C: IFAD loan disbursements (SDR, as at 14th April 2015)

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
I	Vehicles, equipment and supplies	90,000	90,000	66,325.68		23674.32	74
II	Technical assistance	1,440,000	1,132,000	407,067.29		724,932.71	36
III	Training	1,080,000	1,080,000	558,894.9		521103.1	52
IV	Salaries and allowances	595,000	1,258,000	871,182.34		386817.66	69
V	Operating costs	440,000	440,000	282,891.42		157108.58	64
	Unallocated	405,000	50,000	0			
	Initial deposit			479,521.26			
	Total	4,050,000	4,050,000	2,665,882.89		1,384,117.11	

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section 4.02	PCU to open and maintain a Project Account (in ...); GO? to make an initial deposit equivalent to USD ??????		Yes	
Section 4.02	GO? to replenish Project Account quarterly in advance		Yes	
Section 4.03	Procurement of goods, works and services carried out in accordance with the procedures laid down in Schedule 3		Yes	
Section 4.04	Insurance of vehicles, equipment and civil works financed from the loan proceeds to be consistent with sound commercial practice.		Yes	Vehicles are insure, there is no civil works
Section 4.05, section 11.10(b)	Audit report submitted to IFAD.		Yes	Reports are up to date and timely submitted
Section 4.06	Progress reports to be submitted to IFAD on a quarterly basis.		Yes	
Schedule 4, para 7	AWPB to be submitted to the Fund, for its review and comments		Yes	
Schedule 4, para 8(a)	A Mid-Term Review (MTR) to be carried out jointly by the Borrower and IFAD.		Yes	
Schedule 4, para 16	Project to be exempted from all import duties, excise taxes and value added tax (VAT) on investment expenditures		Yes	

Appendix 7: Knowledge management: Learning and Innovation

Learning

The Learning environment for the project is enabling for replication and scaling up of different project activities. However, the M&E system is still weak in terms of recording learning notes from the various project activities.

It is foreseen that as stated in the mission aid memoire, the revisions into the M&E system will allow the project for further focus on learning and knowledge management and scaling up best practices. Case studies shall be prepared by the project in different fields where there is new ideas emerging and successful.

Innovation: Describe any interesting innovation noted during supervision

The mission has observed a couple of innovation initiatives outside the intervention of the project which are the Cooperatives Data Analysis System (CODAS), the super hatching incubator, and the MTN microfinance mobile money module.

The CODAS, developed by the Co-operatives department, is a database for all cooperatives in the country with enormous information that can be used in tracking a lot of indicators for the cooperatives. The Co-operatives department uses forms that are submitted for the cooperatives on annual basis. The system has be operational since 2011.

One of the farmers from Lubomo, who is an indigenous chicken breeder and member of the women farmer foundation, has introduced an egg hatching incubator in her farm. The farmer has brought this incubator from a South African dealer who was presenting the incubator in a workshop. According to the female farmer, her gross sales has increased SZL 5,000 to SZL 28,000.

The project through the women farmer foundation should work on scaling up this innovative idea and replicated across the chicken breeders.

The MTN microfinance mobile money module will allow any financial institution to use mobile money for deposits, loans, and repayments. This is expected to drastically reduce the transaction cost of engaging with members as well as improving financial controls. The module has been piloted in Rwanda with success. The MFU should play an important role in working with the SACCOs to set up and use the system.

As stated in the AM, the project should capitalize those self-initiated innovations and build the capacity of those who are working on those initiatives in order to have them replicated and scaled-up.

Appendix 8: Audit Log

Annual audit	Country	Region	Financial products	Fiscal year end	# of submitted official reports	# of submitted working reports	Risk rating
L-I--764-SZ-2012 (approved)	Swaziland	[PF]	L-I--764-: Unqualified	Mar 31	2	0	yellow
L-I--764-SZ-2013 (approved)	Swaziland	[PF]	L-I--764-: Unqualified	Mar 31	2	0	green
L-I--764-SZ-2014 (approved)	Swaziland	[PF]	L-I--764-: Unqualified	Mar 31	2	0	green

The audit of 2014/2015 is being finalised and the report is to be submit to IFAD before end of September 2015.

Appendix 9: Supervision Mission Schedule and Persons Met

Date	Organisation	Location	Time	Status	Person Visited
23/03/2015	MoF	Mbabane		To be confirmed	PS not available until day of presentation of Aide Memoire
23/03/2015	MFU/RFEDP	Mbabane	10 am	Confirmed	All Staff
23/03/2015	Standard Bank	Mbabane	2 pm	Confirmed	SME Relationship Manager: Phumzile Dlamini
24/03/2015	Maize farmer	Mahlanya	4 pm	Confirmed	Mhlophe Mhlanga
24/03/2015	Commercial Indigenous Chicken Farmers (Women Farmer)	Siphofaneni	10 am	Confirmed	Thulisile Ngwenya
24/03/2015	Commercial Vegetable Farmers (Women Farmer	Manzini	2 pm	Confirmed	Ncamsile Dlamini & Fikile Sukati
24/03/2015	SWEET	Manzini	9 am	Confirmed	Chairperson : Mrs. Mdluli
24/03/2015	Imbita	Manzini	11 am	Confirmed	Director: Mrs Sibongile Mthembu
24/03/2015	NIDC	Mbabane	2 pm	Confirmed	Director: Mrs Thabsile Mlangeni
25/03/2015	Inhlanyelo Fund	Manzini	2 pm	Confirmed	Manager: Wandile Kunene
25/03/2015	Fincorp	Mbabane	2.30 pm	Confirmed	Managing Director Mr Msibi & Manager: Mr Ntshalintshali
25/03/2015	Cooperative Department MIS presentation	Ezulwini	10 am	Confirmed	Stakeholders: ACAT, Central Bank, SASCO, UNISWA, MFU, Mananga College, Cooperative Department and Cooperative Development College
25/03/2015	Ministry of Agriculture	Mbabane	2 pm	Confirmed	Economist: Mr. Howard Mbuyisa
25/03/2015	MTN	Ezulwini	4 pm	Confirmed	Senior Manager Mobile Money: Mr. Thokozani Dlamini
26/03/2015	Financial Services Regulatory Authority	Mbabane	10 am	Confirmed	Registrar of Credit and Cooperate: Ncamiso Ntshalintshali
26/03/2015	Cooperative Department	Mbabane	11 am	Confirmed	Commissioner: Mrs Nonhlanhla Mnisi
26/03/2015	Dups direct	Manzini	3 pm	To be confirmed	CEO: Mr Kevin Thring
27/03/2015	Ministry of Finance	Mbabane	9 am	Confirmed	Principal Finance Officer: Mrs Mzungu
27/03/2015	Central Bank	Mbabane	9 am	Confirmed	Senior Credit Guarantee Officer: Mr Gcina Dlamimi
27/03/2015	Ka-Manyosi Bee Keeping (Honey Producer and Processor)	Mbabane	2 pm	Confirmed	Honey bee farmer & Processor: Mr. Jonathan Magongo

Technical Annex 1: Component 1: Building Entrepreneurial Capacity in the Rural Economy

A. Outputs and outcomes

1. Subcomponent 1.1: Policy Support for the MSME Development

1. **Revision of 2005 SME Policy.** The MFU hired the consulting firm GLOBAL MANDATE CONSULTING NAMIBIA, based in Windhoek (Namibia) to assist the SME Unit to revise the 2005 SME Policy. The experts submitted their first draft report in February 2015 and presented to the SME Unit and MFU in a meeting that took place on March, during the Supervision mission. By limiting the attendees to their two respective structures, the MFU and the SME Unit missed an opportunity to bring in in other key stakeholders and get their take on the exercise thus far. It is important in policy processes to get all instances which will be involved in implementation to buy into the process as early as possible.

2. **General comments.** The ***Market Situational Analysis Report***, gives a good overview of the SMME sector. However, the report needs to be thorough if it is to be the basis for the foreseen policy revision/reform.

   (a) The report should include a detailed review of the current SME Policy (2005 SME Policy) to give a backdrop to the interviews and Focus Group Discussions conducted and help better understand what areas will need to be revised to meet the sector's challenges. It would be useful to ask stakeholders to give their appreciation of the current policy (and specific policies and legislations affecting the sector) to ensure proposed revisions will meet their expectations.

   (b) It is recommended to add a section comparing the report findings to other SMME sectors in similar economies in the sub-region (i.e.: in the SADC). A similar comparison will need to be done when developing the SMME Policy and Strategy, to allow to see how Swaziland is faring compared to its neighbours and to draw interesting lessons on how other countries were able to tackle similar challenges.

   (c) There is a need to provide more information in the main report on the key stakeholders interviewed - BDS organizations, regulators, policy makers (who are they? What role do they play in the sector? For the BDS providers: which are public, private or NGOs?). The same applies for the participants in the Focus Group Discussions – FGDs – (who were they? Which segments of the SMME sector were represented)?

   (d) By their own admission, the authors were not able to meet enough stakeholders during their research, which in turn prevented to do a more in depth analysis of the sector. In particular, the report doesn't include any quantitative analysis of the data collected. The mission recommends to conduct additional interviews with the different groups of stakeholders to allow to collect more data for analysis. The Consultant wouldn't need to come back for this. There is no need to fly in the consultants for this to avoid incurring extra costs. MFU can organise the exercise with the guidance of the experts and under the leadership of the Program Facilitator for Component 1 using the same questionnaires[2] used by the consultants during the field research and forward the information to the experts for treatment. MFU's interns could be mobilised for this exercise.

   (e) The report recommends the creation of an organization or body by the government, which is properly resourced and mandated to take ownership of the development and enhancement of the SMME sector. Nothing in the study however substantiates this recommendation. The consultants need to better explain how that proposal would help solve the issues raised by the different stakeholders. Would that body coexist with the SME Unit? Examples of what is done in other countries in the sub-region would be helpful.

[2] The questionnaires could be amended if necessary to include the issues raised in paragraph (a) above.

3. The followings are specific comments and recommendations on different sections of the report:

4. **4.1 Industry Overview.** The authors need to include: (1) a definition of SMME; (2) all sources for the statistics used. Comparison with other countries in the sub-region would help contextualise the Swazi sector. The International Labour Organisation (ILO), the United Nations Industrial Development Organisation (UNIDO) and regional economic communities such as the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) – Swaziland is member of both organisations – might have useful information to that respect.

5. The lack of recent data has been raised in the Supervision's Aide Memoire; it will be addressed in the SMME survey planned this fiscal year and to be conducted with FinMark Trust.

6. **4.2 Key Findings on the Structure and Performance of the SMME Industry.** *4.2.1 Challenges and constraints faced by SMMEs*: This section needs quantitative data and a prioritization of the challenges raised. Challenges should not just be listed; a short explanation of the key challenges would help understand the specificities of the SMMEs situation compared to other enterprises. *4.2.2 Support programs and services available to SMMEs*. Who provides these services? At which scale? Are they geared towards all SMMEs or only a specific segment (i.e. only S and M E, the registered SMME, etc...)? How many SMME access those services? How do those services address the issues raised in the previous segment? Is the current policy and legislative environment conducive to the development of such services? Are there any incentives? *4.2.4 Policy support required to enhance SMMEs development*. This section is very important as it should help anticipate what the new policy will focus on. To achieve that aim, the 4.2.4 section should be closely tied with the analysis of the current policy environment and the findings of this situational study. We recommend this section be moved to Section *5.Conclusions and Recommendations on the SMME National Policy* and be rewritten to allow to see those links. In general, the report need to flow better to allow the reader to reach the same conclusions and recommendation outlined there.

2. Subcomponent 1.2: Business Support Entities and Rural Entrepreneurs

7. **Value Chains Approach.** In 2014, following IFAD Phase Review mission recommendations, the MFU adopted a cluster approach to expand its support to other commodities beyond the Honey sector. A training on Value Chains Linkages was facilitated by a consultant from Kenya in September 2014. Subsequently, a Task Team was established to facilitate the development of identified key priority value chain commodities. 14 commodities were identified of which five were selected as priorities: beans, baby vegetables, indigenous chickens, dairy and sweet potatoes.

8. The 5 "pro-poor" commodity based value-chains were analysed by the MFU and the consultant in February 2015 and a report submitted in March 2015. It is important to note that data used for the study was collected by MFU and forwarded to the consultant in Kenya.

9. The report titled *Priority Agricultural Value Chains in Swaziland: Analysis of Constraints, Opportunities and Intervention Strategies* seeking to understand key issues affecting productively and on the barriers to financial access. The study focused primarily (if not uniquely) on producers and didn't practically look at the other actors of the chain. Though the first aim of analysing factors of productivity was partially achieved, the study completely failed on the access to funding front. The main reason is that the study did not survey Financial Institutions, which is odd if you want to understand the barriers on their end for the funding of those actors.

10. Furthermore, the overall objective of the study should be expanded on two fronts if the report is to become the framework for the development of those value chains. Though access to funding for Rural SMMEs is MFU primary mandate and better productivity can help increase incomes, limiting the study to those two simple aims can't be assimilated at analysing the value-chains. It is crucial to keep in mind that what makes a successful value-chain is the ability for the actors to have access to symmetric information about the whole chain and for those actors to be able to add value to the product (or service) at their respective levels. Value addition doesn't always have to do with productivity or require any additional financial resources. In agricultural value-chains, value addition has often been achieved by changing the way of producing, harvesting or

post-harvest handling. It could just be a matter of applying industry standards more rigorously (i.e. change of attitude, cleaning and sorting the produce before sale, etc…).

11. With respect to linkages to market, field visits to beneficiaries of the Women Farmers Foundation also showed the potential for linking SMMEs to large distribution retailers and food processors or restaurant chains (indigenous chicken, horticulture). The study *should therefore not limit itself to the access to funding and factors of productivity* but rather review the value-chains in a holistic manner: (i) identify all the actors - from inputs suppliers to the final consumer; (ii) identify the relations between actors; (iii) identify the potential for value addition all along the chain.

12. It is important to note that SMMEs can be found in various segments of the value-chains (inputs supplies/production, transport, processing, packaging, marketing, etc…).

13. As stated in the Aide-Memoire, it was agreed to include Honey in the study and to narrow down the priority value-chains to three. Since RFEDPs intervenes more on the technical/capacity building side, it advisable to select value-chains that require minimal infrastructures and equipment.

14. At an institutional level, in line with the agreed actions for the Phasing Out of the program from enterprise development activities, the MFU must accelerate the transfer of the Value Chains Cluster to the Ministry of Agriculture.

15. The following are more specific comments on the five value chains included in the study:

(a) **Indigenous Chicken Value Chain.** The report states that as a result of Government initiatives to reduce imports from South-Africa, the country has become self-sufficient in chicken. The study doesn't clearly differentiate broilers and indigenous chicken. Imports from South-Africa were likely to be dominated by broilers. Were they indiscriminately replaced by indigenous chicken and broilers groin in Swaziland? The study should draw a comparison of the indigenous chicken value-chain and the broilers value chain (differences in terms production methods, markets opportunities (family/local restauration versus restaurant chains/fast foods, prices and margins (indigenous chicken are said to be more expensive than broilers), processing (indigenous chicken are usually sold alive while broilers are slaughtered in abattoirs and sold refrigerated). Other important actors worth surveying for this particular value-chain: (i) transporters and (ii) traders (traders come and purchase chicken at the farm); (ii) consumers (to understand their preference and from there as the real demand for indigenous chicken). Margins are overstated as the calculation did not take into account losses.

(b) **Dairy Value Chain.** The report compares milk that was imported from SA (processed milk and dairy products) to unprocessed milk produced by small-holder farmers. The margins are highly overstated as they do not take into account the investments needed for processing, refrigeration, transport and the fact that the shelf life of unprocessed milk doesn't exceed 24 hours whereas pasteurised and UHT milk can stay fresh for days for the first and for months for the latter.

(c) **Baby Vegetables Value Chain.** The baby vegetables value chain holds a great potential but caution is needed as there is a quasi-monopole on the market side. Further investigation is needed to understand Sdemani's and NAMBOARD requirements, their current demand and the prices they can offer.

16. **Suggested Resources.** There exist several resources online and offline to help better understand Agricultural Value Chains and their analysis. Michael Porter from Harvard Business School has done extensive work on that front as well as Germany's development agency GIZ (*Gesellschaft für Internationale Zusammenarbeit*) [with its Value Links projects in various countries]. An another interesting resource for MFU is IFAD's 2012 Technical Note on Agricultural value chain finance strategy and design[3] which offers great insight on the funding aspects of Value Chains analysis. The term "value chain finance" used in the report means *"the use of a value chain and the way in which it supports participants by tailoring services and*

[3] Prepared by Calvin Miller Senior Officer, Agribusiness and Finance Group Rural Infrastructure and Agro-Industries Division, Food and Agriculture Organization of the United Nations, November 2012.

products to one or more points in a value chain in order to reduce the risk and cost of financing, and increase the efficiency of the value chain as a whole" (IFAD, 2012).

17. **Mentoring and Coaching Tools for BDS.** In 2014, the MFU conducted, with the support of IFAD-Africa, a landscape mapping study on the different curricula for entrepreneurship development. Subsequently, the program recruited Building Markets to conduct a mapping and diagnostic study of the materials currently being used for training of SMEs in the country. Based on the findings of the study, the consultants were to develop standardized training and mentoring manuals to be used by the BDS providers in training and mentoring SME's. The expected outcome was a comprehensive report providing clear guidelines and standards to be adhered to by organizations involved in the training of SMEs in Swaziland. The consultants were also expected to provide clear mentoring and coaching guidelines for SME's to be followed by BDS providers.

18. The report was presented to the MFU on April 2nd. In general, the report is well written, however a few remarks are warranted:

19. **Content and presentation:** (i) the report is much more conceived as a regular training curriculum rather than a tool for mentoring and coaching; (ii) practically all the modules are financial/management modules. The tools should include technical information or give guidance on where and how SMME's can get that type of support; and (iii) the report is supposed to be used by the trainers/coaches/mentors and by the entrepreneur. The content and language is more accessible for professionals (provided they have at least a high school level), it could be out of reach for SMMEs who might by their experience would make them ideal mentors and coaches but who did not go very far in terms of formal education. The report is definitely too technical and sophisticated for SMMEs in need of mentoring and coaching.

20. The document could be divided in two parts: (i) Part I: Processes and Methods of training, coaching and mentoring; (ii) Part II: Curriculum (all the modules):

   (i) *Part I needs to give more information on the fundamental differences between **TRAINING, MENTORING and COACHING** as well as in which cases either approach should be used, the skill sets required for the trainer/mentor and or coach and the profiles of the SMMEs who should most benefit from the different tools. Without that important information, there is a danger that all three will be equated. A close attention will need to be given to mentoring and coaching as they are more innovative approaches to capacity building, and they work best if really closely customised to the needs of the entrepreneur.*

   (ii) *Part II would include all the modules already included in the report and add some technical modules and/or technical information. It is understandable that SMMEs operate in a large array of sectors and subsectors. We suggest to narrow it down to the priority value-chains already benefiting from the MFU's support.*

21. The manual for the entrepreneurs should be a simplified version of the trainers/mentors and coaches' manual. Depending on the literacy and education levels of the entrepreneurs, a use of images and examples to illustrate the concepts is advisable.

22. **Process**: as mentoring and coaching are a new approach for the MFU, the unit will need to develop a clear strategy on how the whole process will be rolled-out. It should include the following phases:

   (a) **Phase I:** Endorsement and adoption of the tools by BDS providers and Financial Institutions – workshops and individual meetings. MFU could invite BDS and FI to adapt the tools to their own institutional needs.

   (b) **Phase II:** Agreeing on the approach: how will the mentoring and coaching take place (in groups or individually? What will the remuneration schemes be (hourly, monthly, etc…)? Who will supervise and ensure quality-control? Where will the mentoring/coaching take place in the enterprise or at the BDS provider or FI's facility)? How many hours will be dedicated to each entrepreneur (on average) and over how long of a period (weeks or months); how many entrepreneur can one person mentor and or coach concurrently? It will be important to stress that mentoring and coaching should be done on demand and be flexible enough to adapt to the entrepreneur's rhythm and level, and the enterprises' cycles.

It's extremely crucial to successfully conduct **Phase I** and **Phase II** as they will be key in ensuring the program's sustainability. MFU needs to ensure that key BDS providers, and financial institutions, are actively engaged in the process to ensure ownership and adoption of the tools once completed. As stated in the AM, for effective implementation of the tools, the MFU – in collaboration with the Small Enterprise Development Company (SEDCO) – will work with the stakeholders to agree on (i) how the tools will be used; (ii) the information needed to make them as effective as possible; (iii) profiles of the mentors and coaches; (iv) profiles of the beneficiaries; and (v) the modalities of how to engage with beneficiaries. The stakeholders should also agree on criterion for identify and selecting entrepreneurs who will be part of an initial pilot of the tools. These should be limited to the value chains selected.

(c) **Phase III:** Identification of trainees, mentors and coaches, and training on material (training camp)

(d) **Phase IV:** Implementation - Pilot Phase with a first group of entrepreneurs (with adequate M&E) and selected partners (1 or 2 BDS and 1 or 2 FI) – no more than 5 to 6 months

(e) **Phase V:** Peer review of pilot Phase – with all stakeholders

(f) **Phase VI:** Full-fledged mentoring and coaching program – second semester

23. All Phases will need to be implemented during the current fiscal year.

B. Partnerships

24. **SEDCO.** It was agreed with MFU that activities under components 1.2 and 1.3 will gradually be transferred to SEDCO as part of the RFEDP's Component 1 Phasing Out strategy. SEDCO is the main government Business Development Services provider in Swaziland and is already working in partnership with other BDS from the private sector and NGOs.

25. The MOU between MFU and SEDCO will therefore need to be revised to that effect. The original MOU focused essentially on the implementation of the One Household One Product (OHOP) Initiative in the Shiselweni region. The OHOP is a government initiative whereas individual households are assisted to identify and one product with aim to develop entrepreneurial opportunities and provide sustainable and meaningful income for the participating households. The MFU facilitated its implementation through working with local existing entities by establishing and implementing effective partnerships. The rationale of partnering with SEDCO in the implementation of the OHOP Initiative was that it would provide the opportunity for both institutions to develop capacity to establish viable micro-entrepreneurs and support linkages with key financial institutions to pilot appropriate financial products on identified enterprises. It is through that initiative that MFU was able to support the beekeeping industry alongside SEDCO and the Swazi Honey Council (see Phase Review Report, March 2014).

26. For the next two years, all activities under subcomponent 1.2 and 1.3 will have to be developed, planned and executed in collaboration with SEDCO. Since there are two fiscal years left before the end of the program, the phasing out strategy could take place in 2 Phases:

(a) **Phase I (2015-2016)**: implementation of activities under the leadership of MFU but with a prominent implication of SEDCO – This is to allow time for SEDCO to familiarise with RFEDP's mode of operation, the activities already conducted to date with different partners, the different approaches (i.e.: training, mentoring and coaching, technical assistance). In Phase I, MFU will build the capacity of SEDCO and SEDCO field staff where needed to take on their foreseen role

(b) **Phase II (2016-2017)**: All activities under sub-component 1.2 and 1.3 are planned and executed by SEDCO. MFU will only bring in the financial resources needed and technical assistance on demand. This will mean that SEDCO need to be involved in the elaboration of the 2016-2017 Annual Work Plan and Budget (AWPB).

27. RFEDP Program Manager and the facilitator of Component 1 are to take contact with SEDCO ASAP and work out the details of this arrangement.

28. **Slow Food.** Given the involvement of MFU in the development of agricultural value-chains in Swaziland, IFAD suggested to engage Slow Food and see if the country could benefit from their experience in the development of local value-chains. Created in the 80's, the international association has become a worldwide movement represented in 150 countries.

29. Following an introduction by Espen Berg, IFAD Task Manager and Supervision Team Leader, we were able to conduct a skype teleconference, Prudence Mnisi (RFEDP's Program Manager), James Manyatsi (RFEDP's Component 1 Facilitator), Jonathan (Private operator, honey processing, owner of Kamanyosi Honey PTY Ltd) and myself with Emanuele Dughera, from the headquarters of Slow Food International in Italy.

30. The meeting, which took place Tuesday March 31st 2015 in MFU offices, confirmed Slowfood interest in supporting the development of priority value chains, provided they meet Slowfood criteria (good, fair, clean) and requirements. Slowfood advised us that they have two ways of supporting value-chains: (i) by helping producers to improve their production methods and link them to markets; and (ii) by educating consumers.

31. **Next steps:** It was agreed that MFU would send studies and reports on the value-chains they support. Honey and Indigenous chicken were identified as two value chains with a great potential, but Slowfood is opened to considering additional value chains. As the Value Chain reports isn't finalised yet, we agreed that MFU could start by sending reports published by Technoserve, as they have done tremendous work on different productions in Swaziland, including Honey. Emanuele will also send documentation about Slowfood and value chains assessment forms to be filled by MFU and industry stakeholders (i.e.: Jonathan for the Honey sector).

32. To ensure maximum success and sustainability of Slow Food intervention in Swaziland, it was agreed that MFU brings other stakeholders and private operators in the loop and get them to be involved in developing the foreseen partnership with the international association.

33. Discussions will continue to organise a visit for Slow Food in Swaziland in the coming weeks or months. No specific date was set but the logistics should be easy as Slow Food has representation in neighbouring Mozambique.

34. **Other partnerships.** MFU will link SEDCO with its other partners/service providers intervening in the implementation of sub-component 1.3 or who has played an important role in conducting these activities in previous years, such as *the Consultancy and Training Centre (CTC) of the University of Swaziland (UNISWA)*, *Junior Achievements (JA), Gege Police Anti-crime Unit, Enterprise Development Trust (EDT - ex Hand in Hand), Swazi Honey Council (SHC), Kamanyosi,* just to name a few.

35. All these stakeholders, alongside the Financial Institutions are set to play a major role in identifying and accompanying SMMEs who will benefit from the mentoring and coaching activities outlined in section A of these Technical Notes, and the Monitoring and Evaluation of the program's impact.

36. MFU will facilitated negotiations leading to the elaboration of formal partnership arrangements (agreements/MOU/etc…) between SEDCO and the BDS providers. This could take place in two phases as well:

    (a) **Phase I (2015-2016)**: Elaboration of *tripartite partnerships agreements/MOU* between SEDCO, MFU and the different BDS providers and supporting implementation via the *2015-2016 AWPB*.

    (b) **Phase II (2016-2017)**: Elaboration of *bipartite partnerships agreements/MOU* between SEDCO, MFU and the different BDS providers and supporting implementation via the *2016-2017 AWPB*.

C. Review of 2015-2016 AWPB (Component 1)

37. **Introductory part of the AWPB.** The introduction and Objectives should clearly outline the program's Phasing Out strategy (Phasing Into the new MFU mandate and Phasing Out of Entrepreneurial support activities), especially that this is the second to last AWPB. This helps the reader anticipate that the AWPB under consideration is not just "business as usual" but it is in fact the first part of an exit strategy which will cover the next two fiscal years.

38. A few words (one or two paragraphs) could be added in the current paragraph 2 of the Objectives section, and at the beginning of the section describing activities under each Component.

39. **Component 1 - Building Rural Entrepreneurial Capacity**.

40. **General comment.** The AWPB should reflect partnership discussions meetings and capacity building activities afferent to each respective partnership agreement. It is especially important for SME Unit (sub-component 1.1) and SEDCO (sub-component 1.2 and 1.3)

41. **Sub-Component 1.1. Policy Support for the MSME Development.**

   (a) **Review & Reform of the SMME Policy**. There is a need to stress that Review & Reform of the SMME Policy is done under the leadership of the SME Unit in the Ministry of Commerce, industry & Trade (MoCIT) and that MFU will only play a facilitating role. To that effect, activities under that section need to be planned with the SME Unit before being inserted in the AWPB. Given the importance of the Policy, a National Validation Workshop led by the highest authorities in the MoCIT and bringing together all stakeholders (Government and government bodies – including regulatory bodies such CSR and FSRA, Parliament, Chiefdoms, representatives of the Private Sector, Civil Society and Financial Institutions, SMMEs, etc..) is highly advisable and be added to the AWPB.

   (b) **Small Business Survey**. Needs to provide more information on what the survey will consist of, and the involvement of FinMark Trust in the exercise.

   (c) **Sensitization and awareness workshops and stakeholder feedback.** The collaboration with the University of Swaziland to facilitate sensitization and awareness workshops and stakeholder feedback platforms should be done under the leadership of SME Unit as it is geared towards promoting debate on key policy issues.

42. **Sub-Component 1.2. Business Support Entities and Rural Entrepreneurs.**

   (a) BDS Mentoring and Coaching:

      (i) This section should be revised to include recommendations on the mentoring and coaching program (see proposed Phases in Section A, paragraph 22). All Phases will need to be implemented during the current fiscal year.

      (ii) In additions, a specific Mentoring and Coaching Program needs to be developed as part of Building Markets assignment. MFU will insert all activities of the in Subcomponent 1.2 and 1.3.

      (iii) Training Needs of implementing agencies (BDS, FI) with regards to the upcoming mentoring and coaching program will need to be assessed and budgeted.

      (iv) Please give more details on the item titled "Support to Implementing Agency (PMU) Plan with Bank Negara Financial".

   (b) Value-Chains:

      (i) Need to identify the priority value chains and detail activities planned for each value chain separately.

      (ii) Please clarify what the item "Multi-stakeholder partnership Development Value Chain Linkage & Curricula" consist of.

      (iii) Need to quickly finalise discussions with Slow Food and include afferent activities and costs in AWPB.

43. **Sub-Component 1.2. Support to Rural Micro and Small Entrepreneurs.**

(a) Proposed must be part of the Mentoring and Coaching Program to be developed in partnership with Building Markets (see previous section Sub-component 1.2). MFU must avoid planning any of the activities outlined here (regional business clinics to identify & address the needs, facilitating business start-up training to enhance business idea generation & registration, post-loan training and support towards the development Business Plans, technical capacity building of 100 youths, etc…) outside of the scope of the mentoring and coaching program.

(b) SEDCO will be involved in all activities alongside implementing partners considered for this exercise.

(c) As Mentoring and Coaching work best when they are offered on demand, sensitation campaigns will need to be organised with SEDCO and implementing partners and budgeted for in this section.

(d) Value Chains Linkages. Please link the proposed activities to the Action Plan to be developed when finalising the Value Chains Report.

(e) Please tie relevant activities to Slow Food interventions (pending partnership materialises).

D. Revised deadlines for previous mission's outstanding recommendation

44. The following outstanding recommendations from the November 2014 ISF mission will be continued in this period with revised deadlines as indicated:

Agreed action	Responsibility	Previous Agreed date	Progress Reported by MFU		New Agreed date	Remark/Orientation
			Status	Progress Achieved		
Programme's Intervention Strategy: Prepare comprehensive Road Map on transition towards MFU new mandate, identify partners to take over Enterprise Development initiatives, workout modalities of transfer	Programme Director, Programme Manager, Programme Facilitators	Q4/14	Achieved	**Road Map:** The RFEDP stratified the participating entrepreneurs into 3 groups: Household ***(Opportunity Linking)***; Emerging ***(Opportunity Seeking);*** and Aim-High ***(Finance & Market Seeking)***. The strategy is to transition the Household entrepreneurs to the passionate Aim-High entrepreneurs that would then identify and take advantage of expansion opportunities, hence the demand for finance. The RFEDP, as part of its Road Map towards its new MFU Mandate, has then fused the interventions into 3 Pillars which are the ***Value Chain Clusters***, Micro ***Finance*** and ***Financial Inclusion***.	Q2/15	**Component 1: The recommendation is not fully achieved**. The MFU needs to develop a detailed Roadmap including each step to be taken and a calendar (weekly/monthly) Component 1 Facilitator will report on progress every week during MFU management meetings Progress reports on the implementation of the Road Map will be included in the periodic reports sent to IFAD
-			Achieved	**Partners to take-over entrepreneurship:** The RFEDP has been implementing through the Implementing Partners which includes SEDCO, SME Unit, Ministry of Agriculture, etc. All the supported beneficiaries continued to be linked to the Partners and the Programme where possible facilitated capacity building to the Implementing Partners to enhance service delivery.	Q2/15	MFU will elaborate MOU reflecting the transfer and handover of activities Component 1 Facilitator will report on progress every week during MFU management meetings Progress reports on the implementation of the Road Map will be included in the periodic reports sent to IFAD
Formalising Value Chains	Programme Director, Programme Manager, Lead Partners	Q1/15	Achieved	**Value Chain Task Team**: established and operationalized the functioning of the Task Team comprising various key stakeholders. There is a need to formalize the Task Team. **Value Chain Assessments**: Finalized a Value Chain Assessment Study on 5 High Value Commodities indicating ***productivity***, ***value chain nodes*** and ***net margins***. **Value Chain Information Platform**: A Scoping Report on the establishment of a web-based	Q2/15	The Value Chains report will be finalised and an action plan developed for the 3 priority value chains Possible linkage with Slowfood Component 1 Facilitator will report on progress every week during MFU management meetings Progress reports on the implementation of the Road Map will be included in the

Agreed action	Responsibility	Previous Agreed date	Progress Reported by MFU		New Agreed date	Remark/Orientation
			Status	Progress Achieved		
				information system for the dissemination of the value chain information.		periodic reports sent to IFAD
Facilitate communication tools: newsletters and social media or telephone/messaging users groups	Programme Manager, Programme Facilitators	Start Q4/14	Ongoing	**Website:** Development of the MFU website to disseminate information finalized. **Promotions**: The MFU published in the Print and Electronic media key activities for promotional purposes.	Q2/15	First publications no later than June 2015
Case Studies of earlier and recent initiatives	Programme Manager, Programme Facilitators, Implementation Partners UNISWA	Start Q4/14 Permanent activity	Ongoing	Part of the ongoing Programme midterm review. Will be ready mid-April	Q2/15 Permanent activity	M&E officer will put in place templates for documenting the Cases. It does not need to be too academic; more like articles on Best Practices Use LUSIP communication approach with UNISWA 5 First cases to be documented and shared no later than June 2015. Select best cases with partners (i.e.: EDT, Women Farmers Foundation)
Develop process and tools for support of target groups (micro-entrepreneurs)	Programme Manager, Programme Facilitators	Start Q4/14	Ongoing	**Business Mentoring Tools:** Developing tools that will enhance the effectiveness of the mentoring and coaching for the entrepreneurs.	Start Program Implementation Q2/15	Finalise tools Implementation of Pilot must start no later than May 2015
Action Plan for Transition including SMME and SEDCO	MFU Director, Programme Manager, Programme Facilitators, M&E	Q1/15			Q2/15	Negotiate, elaborate and implement MOU
Revisit Stakeholders Matrix	MFU Director, Programme Manager	Immediate	Ongoing		Q2/15	No later than May 2015
Start relying more on expertise within the partner institutions	MFU Director, Programme Manager	Q4	Ongoing		Q2/15	Revise all MOU accordingly to reflect the use of that expertise

Technical Annex 2: Component 2: Deepening the rural financial sector

Considerations for a Smooth and Structured Exit Strategy

1. From Project Implementation to the Microfinance Sector's Centre Of Excellence

1. As project management unit of the RFEDP, the MFU had been given a multiplicity of tasks covering both the provision of and demand for finance (formal and informal), the supply-side policy environment, and the capacity building of the micro and SME entrepreneurs to make them more bankable. This has led to a broad array of interventions, involving direct beneficiary training, institutional and organizational capacity building, policy development and dissemination and financial product development. Because of the diversity of interventions, limited staff and ample financial resources, consultants often had to be engaged to perform many of the tasks.

2. Within a two-year period, the MFU will have to whittle down its responsibilities and focus on building up its capacity to undertake the specific tasks delineated within the Micro Finance Policy as Micro Finance Agency. This will require a careful balance of weaning its role in the execution of component 1 (SMME development), building up its interventions within the financial sector and maximizing the application (i.e. in terms of effectiveness and impact) of remaining funds available for undertaking activities (dissemination, training, capacity building, thematic research, etc.).

3. The 2015/16 AWPAB foresees a considerable number of consultancies and dissemination/ learning exercises mainly in the form of workshops and seminars linked to the presentation or debate of new policy initiatives, training or country visits. The Programme has structured the proposed consultancy assignments to further provide mentoring for the MFU staff through under-studying the assigned consultants. Under sub-component 2.1 (Financial Policy Reform and Legislation), there is 1 consultancy and 4 disseminations envisaged. Under 2.2 (Development of the MFI Sector) 5 consultancies and 3 disseminations and 2.3 (Development of Appropriate Financial Products 2 consultancies and 2 disseminations. In total 7 consultancies and 9 disseminations. Comments on some of the proposed consultancies are made in section 5.

4. In addition to this component, there are also a great number of consultancy and dissemination activities projected for component 1 which means that the MFU staff will continue to be very busy in administering consultancies and coordinating a large number of trainings, workshops, conferences and exchange visits. The it is important that, during the last two years of the project, not too much focus will be spent on outward capacity building activities when a more inward focus on the MFU's transition to the MFA should be given a higher priority.

5. The MFU's future mandate as MFA will be to focus exclusively on the micro finance sector. It is important not to be too consultant-dependent, and to ensure that capacity to undertake the MFUs functions as advocate, policy-maker and data collector/analyst will be sufficiently developed for the MFA to play its envisaged role as the flag-bearer of the sector. The FSRA will be the dominant structure over non-bank financial institutions of which "microfinance providers" (still to be defined within an amended FSRA Act) will form part and, for which, the MFA will be seen as a "centre of excellence" by both government and practitioners alike. If not regarded as a centre of excellence, there is a risk that the MFA will be side-lined and other channels followed through which to develop the sector which is a distinct possibility if available project resources are not utilized for building up the MFU's capacity to perform its envisaged role as MFA after the project closes.

6. In terms of the sector's current, still loosely defined structure, the MFA's mandate is recommended to cover SACCOs, micro-lending institutions and the few institutionally undefined microfinance providers (Inhlanyelo, Imbita, SWEET, Dups, etc.) on the formal side and the CBSCGs, stokvels and funeral associations on the informal side. As such, representatives of the MFA should be able to understand and address the issues surrounding each institutional

category with authority if it is to maintain the loyalty and respect of its constituent bodies. It is therefore essential that the MFU focus on building its capacity to support the foreseen institutional objectives post-RFEDP.

Some Specific Suggestions for the Transition Course

7. The technical note accompanying the November 2014 Follow-up Mission discussed some aspects of the transition to the MFA, in particular the Mission's concerns about the MFA taking up the role of "recapitalizing" the MFI sector which, in effect renders the MFA an apex or wholesale financial institution. The Technical Note stated that this would have major repercussions in terms of staffing and expertise required. In addition to different skill sets required to run a financial institution, it the two roles could risk a conflict between the role of sector coordinator, advocate, policy maker and data bank and that of an active player in the sector. As an apex institution, its neutral and objective role could be compromised because, when lending to retail institutions, it automatically becomes a stakeholder of the borrowing institution. It is therefore recommended that the Government consider splitting the two roles in two separate institutions, and that the MFU maintain its envisaged role as sector coordinator, advocate, policy maker and data bank.

8. The mission has noted a growing variety of available financial products catering for the SMME market and ***came to an agreement that the MFU start building up its role as disseminator of available financial products*** (financial institution, type of product, target group, loan size range, effective interest rates, collateral requirements, terms, geographic availability, client contribution, etc.). If done well, financial institutions, looking to expand their markets will furnish the MFU with updated information of their products and potential borrowers, recognizing the MFU as a one-stop shop for the full range of products available would use this service rather than shopping between providers. The Programme *determined the need for the information and developed the Small Business Financial Services Guide*. A budget provision has been made for the next publication in the current FY (see section 5).

9. ***The MFA should also be recognized as a repository (both physical and virtual) of information and disseminator of important research findings.*** The MFU has accumulated a considerable amount of information during the RFEDP through its many consultancies, exchange visits, workshops, conferences, etc. Information should be continually built up and analysed/summarized, using national research findings and the vast amount of international literature on microfinance. This facility should be a magnet for researchers, policy makers and practitioners.

10. As a government agency and. at the same time champion of microfinance best practices, it is recommended that the MFA should be cautious about its position in relation to government funding interventions. From experience in Africa and elsewhere, the success of Government-led financing tools are varied and many of them experience a high portfolio at risk (PAR). This is often because borrowers consider Government funds as "free money" and refrain from paying back, but also because it is difficult for Government to obtain adequate banking experience to run these funds effectively. That being said, the Small Scale Enterprise Loan Guarantee Scheme (SSELGS) promoted by the SMME Unit of the Ministry of Commerce and managed by the Central Bank, has suffered a loan default rate of only 6%. The Programme is supporting various government agencies through the provision of microfinance Boulder training to their management personnel. The MFU has also commissioned an on-going Review & Reform of the Community Poverty Reduction Fund (CPRF) under the Ministry of Tinkhundla Administration and Development. ***Where it is felt that government should not be directly involved in fund management, The MFU should help identify more capable institutions to manage the funds*** as happened (at least for a while) with the Imbita Women's Trust and the Youth Enterprise Fund (YEF).

11. The MFU has the disadvantage of not yet being recognized as a government agency and this may explain why its role has been overlooked in the Financial Sector Development Implementation Plan (FSDIP). ***It is therefore important that the MFU, as part of its transition, make its role within the financial sector as clear as possible and as soon as possible.***

2. Prioritizing Ongoing Activities

12. As indicated above, the MFU has a two year window in which it should wind down its component 1 activities and hand over responsibilities in *a sustainable way* to RFEDP partners (SEDCO, CODEC, SMME Unit, Cooperative Development Unit, University of Swaziland, Honey Council, etc.). On the other hand, it should also take advantage of the remaining substantial project resources to maximize the project's impact and to create a richer environment in which the MFA, as a much leaner government agency with limited funds, can operate. In the Mission's view, the following ongoing activities should be given priority.

Promoting Rural SME financing

13. The promotion of rural SME financing continues to be the MFU's biggest challenge. SME finance is difficult enough and is being promoted by the SSELGS with some success but has so far been limited to commercial banks. Fincorp has SME finance as its core business and is now expanding to rural areas with its two agencies based in Siphofaneni and Tshaneni. Field visits have demonstrated that there are many progressive farmers with innovative technology but constrained by their inability to access loans. Swazi Bank has demonstrated in the past that agricultural finance is viable. Fincorp has indicated that it would be interested in looking at the women farmer's that the Mission visited and Standard Bank has made special efforts to get its SME staff trained in agricultural lending techniques. The SSELGS managers at the Central Bank are also keen to get loans out to farmers. In Mozambique, the consultant was recently involved in the evaluation of an agricultural guarantee fund and a line of credit targeting SME farmers. The results were very encouraging especially for the line of credit which demonstrated that, without a guarantee and normal commercial lending conditions, demand far outstripped supply and that most farmers were repaying without problems (92% on-time repayment rate).

The MFU is encouraged to examine ways in which to take a more proactive role in the promotion of agricultural value chain SME credit. It has helped develop a financial product linked to livestock and is encouraged to develop similar products for the value chains it has chosen to support. It is also encouraged to capitalize on the experience of the Mozambique-based NGO Building Markets which has played a very important role in linking agricultural SMEs to banks and in training banks on how to process agricultural credit. Furthermore it should consider ways of introducing, either through government or donors, loan guarantee funds and lines of credit for agricultural or rural SMEs.

Expanding Rural Microfinance

14. The Inhlanyelo Fund will attract considerable attention for the innovative way it has provided financial services to rural income generating activities, in particular small farmers. By relying on character references from community elders and rewarding chiefdoms with good repayment rates, the system generates good repayment and the economic viability of the financial service. Apart from Inhlanyelo, however, microfinance provision is weak and it has been only recently that the conventional form of microfinance (urban-based street and market vendors) have been initiated and from unlikely financial service providers: first by Fincorp through its *Umtfombo* initative now serving Mbabane, Manzini and a few of the larger towns and then followed by the Standard Bank's *Trader Loans* made available to informal traders who are encouraged to formalize their businesses after 3 loans and enjoy lower rates of interest. What is interesting about Standard Bank is that they are now looking for rural clients, starting with an initiative to fund rural women linked to the handicraft business *Gone Rural*. More recently, urban informal traders are being provided with credit through the *Informal Traders' Fund* initiated by the Manzini Business Community with support from the King. A new MFI, Dups Financial Solutions, is also targeting urban informal traders.

The MFU should take a proactive position and attempt to link up these service providers with beneficiaries of Component 1 capacity building interventions.

SACCO Development

15. In per capita terms, Swaziland has one of the strongest SACCO movements in Africa. Under its umbrella organization SASSCO, an apex fund *The Central Financing Facility* was established for on-lending to member SACCOs. Despite the loss of some E40m of its and many member SACCOs funds in the aborted attempt to house a SACCO bank, the SACCO movement remains intact and strong. SACCOs cannot take deposits, so channel member savings into a SACCO bank account from which loans can be made (usually up to a maximum of three times their savings). SACCOs are registered through the Cooperative Development Department of the Ministry of Commerce but, with the establishment of the FSRA, are now required to also obtain licenses as financial intermediaries. A combination of several events including the excision of SACCO related articles in the Cooperative Societies Act and fees (albeit very small ones – 0.1% of revenues) collected by FSRA has led to deep divisions and suspicions between the FSRA, the CDD and SACCOs. In the meantime the SACCO Bill is being drafted as well as a new Cooperatives Societies Act.

The MFU has three important roles to play in order to not to jeopardize the potential of the SACCO movement within the microfinance sector. First, as much as possible, it should to act as an informal intermediary to resolve the existing differences between the FSRA and the CDD. Second, it should monitor the evolution of the SACCO Bill and the new proposed Cooperative Societies Act to minimize the potentially conflictual provisions. Thirdly, the MFU should, with RFEDP resources, urgently hire expertise to draft appropriate regulations for creating deposit-taking SACCOs and ensure that these are adequately reflected in the forthcoming SACCO Bill, amended FSRA Act, MicroFinance Policy and Consumer Credit Bill.

Community-Based Savings and Credit Group Development

16. A year ago, CBSCG development was not being promoted by the MFU and not contemplated within the original RFEDP project design which focused more on electronic money products. Major achievements in the promotion of CBSCGs have been attributed to MFU intervention with the entry of the CDD as the government's champion of CBSCGs. A year ago CENFRI's MAP presentation recommended that CBSCGs not be promoted by the Financial Inclusion Strategy on the basis that CBSCGs were subject to similar abuses as other informal financial schemes. The mission questions some of the research methods that were used by CENFRI to reach this claim (see more detailed discussions on this issue in the technical notes of 2014). The Financial Inclusion Strategy (FIS) has not yet been released but it is hoped that the MFU has, as advised by the previous two Missions, lobbied that CBSCGs play an important role in the FIS. The promotion of CBSCGs has been an essential component in several IFAD rural development projects with great results. In Mozambique they were introduced by an IFAD project in the late 1990s and there are now an estimate 12,000 groups with 250,000 members. IFAD was also instrumental in establishing the ASCA Forum in Mozambique which brings together more 20 promoters (mainly NGOs) on an annual basis to exchange learning experiences and share new methodologies. In Swaziland CBSCG development has been dominated by World Vision which claims to have created 1,500 groups (though only 900 are currently accounted for by their MIS). Imbita Women's Trust funded by the German KNH heads a consortium of 7 NGOs in the promotion of a special CBSCG methodology developed in India which works on a three tier structure starting from individual groups, to cluster level associations and then to federations of the associations. Each structure takes its members to a higher level of social economic and political empowerment (see *The Self Help Group Approach Manual* just received and being distributed by Imbita). This methodology appears interesting and merits further study for possible further promotion in the country.

17. ***The Mission recommends that the MFU not become directly involved in the business of CBSCG promotion or capacity building.*** This sentiment has been emphasized in the technical notes of April and November 2014. This should be left to the NGOs who have developed a comparative advantage in this activity. The MFU should, on the other hand be engaged in developing an enabling environment for CBSCG development. In this respect it should capitalize on the enthusiasm in which the CDD has embraced CBSCGs and use it as its public sector partner to coordinate the development of CBSCGs in terms of data collection

(using its effective CODAS information management system) and to lead the formation of a CBSCGS Forum based on the Mozambican experience where all the 20 plus CBSCG promoters meet annually to discuss their experiences, new methodologies and lobby for their cause when necessary. A recent workshop held in Maputo demonstrated new innovative advances in terms of training and accounting apps via cheap smart phones and pilots initiated with mobile money operators with a few groups may help groups reduce their vulnerability to theft and reduce transactions costs.

It is recommended that the MFU look into new CBSCG methodologies and possibly provide further funding for its promotion. The MFU should also use its resources to help build up the CDD's role and facilitator, coordinator and data base manager of CBSCG development in the country.

3. Exploring New Horizons

Mobile Money Microfinance Module

18. The original project design placed great emphasis on the ability of advanced banking technology, especially mobile money for expanding the outreach of financial services. This proved somewhat premature and the project resorted to more traditional forms of transactions for the provision of financial services. However, MTN has very recently migrated its mobile banking system to a new Ericsson platform which will allow it to introduce a microfinance module which, up to now has only been piloted in Rwanda. This is very exciting technology and is likely to prove revolutionary for financial institutions. MTN is especially targeting SACCOs with the module and is already introducing some initial concepts to the Army and Police SACCOs. The module will allow each subscribing microfinance institution to develop its custom-made MIS and will be able to monitor all mobile money deposits, withdrawals, loans and repayments without any costs to the institution except for transactions fees which are low in comparison to most countries. This technology can also be used by CBSCGs.

The MFU is recommended to work in collaboration with the MTN in divulging the product to SACCOs through a series of workshops. However, the Mission also recommends that the product be tested with CBSCG groups which would greatly reduce the vulnerability of the groups to theft (savings usually stored in wooden boxes) by encouraging them to use and store their money electronically. This is being successfully piloted in Mozambique by m-Kesh but with a less sophisticated software and on a relatively small scale but is now being currently developed by its rival MPesa to reach a larger number of groups.

Agent Banking

19. Agent banking is one of the most effective and cheapest ways to increase financial service outreach. Brazil has been one of the leading countries in the development of this concept. The MFU through the support of the Alliance for Financial Inclusion (AFI) initiated and facilitated the agenda on agent banking with the Central Bank of Swaziland. In keeping with many other developing countries, Mozambique has just passed an agent-banking decree and is in the process of developing regulations. Effectively this means that shops and petrol stations located in towns or communities without banking services can offer a selection of banking services, essentially through a Point of Sale (POS). As confirmed during the discussions of the FSDIP, the concept of agent banking has not yet been tabled in Swaziland but its adoption is likely to be imminent as many countries are adopting this type of service as a key instrument for expanding financial inclusion, allowing rural, hitherto unserved populations, to undertaken basic banking transactions (deposit, withdraw and transfer money).

It is recommended that the MFU assess the need and feasibility of agent banking in Swaziland. If the results are positive the MFU should then lobby for its introduction.

Informal to Formal Linkages

20. CBSCGs are essentially baby SACCOs. In Mozambique there are attempts to nurture CBSCGs to become SACCOs as there are virtually none in the country[4]. In Swaziland SACCOs were created without any history of being a CBSCG. However, it does make sense that, with the growing number of CBSCGs created and with some achieving high levels of maturity, the transition to SACCOs would appear to be logical but so far little has been done in this respect and should be an area in which the MFU could play a useful role. At this stage, the CBSCG promoters operate within project parameters that only contemplate the creation of CBSCGs. It is only the Imbita KNH initiative which foresees the creation of CBSCG clusters, associations and federations which is similar to the evolution of CBSCGs in becoming a SACCO, normally requiring several groups to form a cooperative (or an association). The CDD and SASSCO have already indicated their interest in seeing the evolution of CBSCGs into SACCOs because of the clear implications of reinforcing the SACCO movement. Linkages should also be encouraged between members of CBSCGs who have demonstrated strong entrepreneurial capacities and good credit histories within the group and formal financial service providers. Banks in Mozambique who have had CBSCG members as clients are enthusiastic, often to the extent of waiving their collateral requirements because of their conscientious repayment mentality groomed during their CBSCG experience.

The MFU should play a catalytic role in promoting the evolution of CBSCGs to SACCOs in collaboration with CBSCG promoters (in particular Imbita), the CDD and SASSCO applying lessons learned from other country experiences[5]. The MFU should also take an active role in linking successful entrepreneurs emerging from CBSCGs to formal financial providers.

4. Rethinking the Role of Micro-Lenders and Issue of Savings vs. Investments

21. Both the Finscope studies conducted in 2014 for Swaziland and Mozambique found a resistance by Mozambican and Swazi adults towards savings in banks. The FSDIP, and likely the FIS, are pushing for higher savings targets. But it is not clear to the consultant why Swazis are urged to save more in banks. As one observer very correctly put it during the presentation of the first draft of the FSDIP, the Swazi banks are promoting “de-banking” with their high banking fees. If it were not for the risk factor and convenience, it would be more rational to keep one’s money under a tree where it will at least keep its value. Evidence provided by Fincorp about the loan book of its subsidiary bank First Finance, the largest micro-lender in Swaziland now, suggests that we should reconsider the behavior of the financially served. Half the loan volume conceded by First Finance is used for paying education fees while almost a third is used for the construction or rehabilitation of mainly rural houses while the rest is used mainly for the purchase of second hand cars (known locally as “Dubais”) and household goods. This demonstrates that 80% of the loan volume is dedicated to human capital investment or asset building, not the consumption patterns that are normally associated with micro-lending institutions. Given the alternative of these options vs. eroding bank savings, it is not surprising that Swazis are minimizing the amounts they save in banks. The findings of MAP and Finscope 2014 Consumer Study provide some insight but raise some questions. Although the Finscope study captured the importance of education as reason for borrowing, housing did not feature at all under the credit section which would suggests that further investigation is merited based solely on prima facie evidence.

The MFU should re-examine the role of micro-credit institutions which have been hitherto assumed to mainly propogate consumer spending but could in actual fact be

[4]Swaziland’s experience with SACCOs has been largely based on the strength of its agricultural cooperatives which have weakened in terms of their original objectives but strengthened in relation to their financial services. The SACCO concept and movement grew quickly to embrace government services such as the police and army and into the private sector where SACCOs can be found both at sector and enterprise levels. In Mozambique the approach towards building SACCOs has been more bottom through the evolution of CBSCGs which has been difficult because SACCOs are an unknown entity unlike in Swaziland where virtually everyone is aware of them and their financial advantages.

[5] The consultant is unaware of good country experiences involving the evolution of CBSCGs to SACCOS but recommends that the further investigation be made in looking at the experiences of Tanzania, Uganda and Kenya. The SACCO movement has been strong in Tanzania but less so in Kenya and Uganda. To what extent SACCOs evolved from CBSCGs is not known.

facilitating investments in education and housing. This could have important implications for the Financial Inclusion Strategy.

5. Comments on Some of the Consultancies Proposed by the 2015/16 AWPAB

22. As indicated in section 1, 7 consultancies and 9 disseminations have been programmed for the forthcoming financial year. 7 of these proposed consultancies will be briefly discussed below.

23. At random, the consultant has looked at two consultancies undertaken by Swazi consultancy companies over the past two years and in both cases considered quality lower than expected. The last one on the impact assessment of Inhlanyelo Fund was of very low quality. The low initial draft suggests that it may not be desirable to pursue “improved drafts” as the consultancy company has demonstrated its inability to comprehend the objectives of the consultancy, and the results emanating from the surveys. It is recommended that the MFU considers exploring better mechanism to control the quality of the consultant’s and work conducted e.g. by improving the selection criterion during procurement (to ensure high quality consultants) and by ensuring adequate technical review and feedback for each consultancies.

24. A second issue is how relevant the consultancies are to achieving the objectives of the project. A third is the question of information management. Much money and energy has been spent on consultancies which should be readily disposable to MFU staff, government, consultants as well as IFAD missions. The MFU should create an information hub, indexing the work and findings for stakeholders and researchers to easily access.

25. In light of this, it is recommended that the MFU review the activities foreseen for the 2015/16 AWPAB bearing in mind three issues: i) the MFU has to start developing its own capacity to provide informed technical opinions and policy interventions for the microfinance sector; ii) the MFU should start doing more and more of the consultancy assignments themselves; and iii) when assignments are outsourced to consultants, a part of the assignment will be to facilitate for the MFU to do the job (rather than doing it for them) and capacity build them. It would be better to focus on a few strategic consultancies which builds the capacity of the MFU rather than doing a lot which they cannot follow-up on.

Review of foreseen consultancies and possible inputs for consideration:

Development of the MFI Sector

26. **Value chain finance linkage:** 40 days have been budgeted for this activity. It is not clear what this consultancy would achieve in the wake of the value chain study. The value chain study should provide a useful guide for those helping loan clients to apply for loans with the activities covered by the VC study. It should also help banks understand the nature of the types of businesses for which loans are requested. The VC study should be disseminated to banks offering SME and agricultural loans. The consultant fails to see how a further consultancy on value chain finance is going to provide value added. The MFU should use its staff to directly approach the financial institutions to discuss the viability of the activities and assess whether or not the financial institutions have products suitable for the targeted clients. The MFU should also catalyze the introduction of the financial institutions to the potential clients.

27. **Small business financial services guide.** This is a good initiative but the production of a one off brochure for fluid information is dangerous as the brochure quickly becomes outdated and the production of new brochures is expensive and not sustainable in the long run. Financial product information should be displayed at selected points around the country such as RDAs and also be available by SMS or through a type of hotline with regularly updated information provided through recorded message as a service provided by the MFU. This will be one of the critical tasks to be performed by the MFA so it is important that the MFU be as closely involved as possible in the development of this product. One of the main obstacles to this exercise is to get all the relevant financial service providers on board for the regular provision of their product information which should be seen as way of promoting their products. It is essential that the MFU is itself involved in building up a relationship of confidence with these institutions.

28. **Capacity building of MFIs.** MFIs have been the target of considerable capacity building. It is important that trainings are tailored to the specific needs of each institution and provided by

competent trainers with considerable MFI experience. Before allocating further funds for this activity, the MFU (and not a consultant) should assess how effective previous capacity building has been and what value added would be gained from further capacity building and where it should be channelled. It should also consider whether or not these funds would not be more usefully applied for building up the MFU's institutional capacity to take on the anticipated role as MFA (especially if funds are limited).

29. **Design manuals to coordinate and monitor performance of the microfinance sector.** 20 days have been budgeted for this activity. It is not clear why a manual is needed for this function. The MFU should first determine what information is being provided by the MFI sector to the FSRA which is responsible for supervision, regulating and monitoring NBFIs. Why should the MFU hire a consultant to do this work. At this stage the MFU should start to more clearly define its role and what sort of data it would like to obtain from its constituent institutions for its data base which should be simple i.e. number of clients (active and accumulated), accumulated value of loans conceded, value of loans outstanding, gender breakdown; distribution of loans by size and terms interest rate; for what activities; NPLs, PAR, etc. This should not be work commissioned out but should be a basic in-house exercise, perhaps under the guidance of a consultant for two days. This is the sort of exercise which is fundamental for the building up of the capacity of MFU staff.

30. **Development of the financial literacy programme.** 20 days has been allocated for this activity. Again, it is not clear why a consultant would be needed for 20 days to design such a programme and again, this is an activity that the MFU should devote itself to – identifying the target groups (e.g. CBSCGs, schools, Coops, Tinkundla, SACCOs), the methodology and the subjects. This is an exercise that should not take more than 2 days to conceptualize.

31. **Institutional support to informal traders (needs assessment and strategic plan development).** There is no need to undertake a needs assessment. There are literally thousands of MFIs offering loans to informal traders. A quick chat to Standard Bank or Fincorp would provide information on loan sizes and terms that would suit the traders. What is more complex is to develop a mechanism to deliver the product. It would be foolish to set up a new MFI to manage the fund when experienced operators such as Imbita are looking for loan capital to re-initiate their MF lending activities or Dups Financial Solutions which is seeking to launch similar activities in the same area.

Appropriate Financial Products

32. **Development of CBSCGs (leadership and entrepreneurship)**. As far as the consultant can work out, this activity would be undertaken through 24 one-day workshops. The consultant questions why the MFU would want to get involved in CBSCG training. This should be left up to the CBSCG promoters and done in situ and not in conference room type settings with free lunches, transport, etc. It is not necessary and should not be done.

Fion de Vletter
Mbabane
31 March, 2015

Technical Annex 3: Management

1. The MFU is implementing a rather complex programme including two broad mandates, capacity building rural entrepreneurs and rural finance. Implementation is also heavily dependent upon project partners which the MFU often have limited leverage on.

2. Implementation of component 1 seem to be progressing well and have shown some good results, especially in terms of the honey and indigenous chicken value chains. The policy dialogue under component 2 also show promise, but there is limited results in terms of improving access to finance for rural entrepreneurs as of yet. Going forward, it is important that implementation of activities in both components are seen within the context of each other and how they improve access to rural finance. As the programme is in its last phase, it is important that the MFU now consolidate activities and try to phase out of component 1 while transitioning into its envisaged institution post-RFEDP. The foreseen Road-map or exit strategy should be developed as a guide to support this process. It does not need to be a very heavy document but rather a strategic plan which the MFU can use to ensure it is working strategically and is on track. In this regard, the plan should include:

   i) The key activities currently ongoing and what these are trying to achieve

   ii) Who the key partners are implementing these activities

   iii) What is needed for these partners to continue the intervention after RFEDP and how can RFEDP make sure this is in place?

3. The roadmap should also have clear milestones for which progress can be measured against. When criterions are met, where partners are at a stage where the MFU expect partners to be independent from RFEDP, the MFU can phase out and transfer all responsibilities to the partners.

4. This is very important because the key success criterion of the programme is to what extent access to financial services is improved in a sustainable way. If the MFU does not address the underlying mechanisms rather than the symptoms, then the risk is that everything will go back to the way it was after closure.

5. An example of mechanisms vs symptoms is that of the Portfolio at Risk (PAR) of financial institutions. To improve the PAR, RFEDP have provided training to entrepreneurs having received a loan from MFIs. The rationale behind this approach is fair, that one improves the likelihood of these entrepreneurs to succeed, and thus repay the loan. This in turn may convince the financial institutions to continue engaging with rural entrepreneurs. However, the challenge is that one cannot compare the bankability of an entrepreneur who have received training with one who has not. It is therefore unlikely that it will encourage the MFIs to engage with untrained entrepreneurs. Hence, the systematic issue preventing rural entrepreneurs have not been addressed.

6. Looking at the mechanisms, one could try to find sustainable ways for this training to be upheld after the programme. Are there partners that have an interest in this? Could it be integrated as a part of the loan product by the MFIs? Could the MFU use the experience to provide a low-cost best practice training module which they will champion with financial institutions? And so forth.

7. In this regard, it is important that the MFU is always keeping sustainability and exit in mind for future activities, and is proactive in finding solutions to ensure holistic and sustainable interventions as project closure is approaching. This may require the MFU to shift their mind-set from implementing a project, whereby things are done because it is in the design or they are being reported on, to facilitating for sustainable development. It is recognized that the MFU have obligations to partners, Government, and IFAD, and should uphold these. At the same time, this last phase is about exiting and consolidating, so the sustainability impact is important and should be focused on.

8. The MFU has and is relying heavily on consultancies, whereby a large amount of assignments are planned for the upcoming year. The mission reviewed some previous reports at random and

question the applicability and quality of some of the work, and to what extent these assignments have been reviewed, and received adequate technical guidance. It is important that consultancies are well planned in advanced. Procurement can be a great tool to use to ensure high quality consultants are selected through well thought through criterion. It is also a difficult challenge for consultants to come into a situation and understand exactly what is needed and required. It is therefore important that they receive adequate technical support and guidance by a technical peer who can make sure the consultant is delivering what is expected. All documents should be adequately reviewed and commented upon, whereby a revision phase is planned for the consultant to act on the comments and improve the quality of the report.

9. Once completed, it is important that the valuable information in reports and documents produced are not lost and inaccessible. It was therefore agreed that the MFU will create an online and offline library where reports can be accessed and highlighted by everyone.

10. It is a huge risk with consultancies that reports are being made without any significant capacity transfer whereby a consultant produces a report and then leaves. The MFU will now also focus on building their own capacity to prepare for the future institutional objective. In this regard, future consultancies should focus on transferring capacity as an integral part of the consultancy rather than only producing certain outputs. For example, a consultant can be hired to carry out the respective assignment in conjunction with a dedicated staff at the MFU and/or partnering institutions to facilitate knowledge transfer and capacity development.

11. Massive Open Online Courses (MOOC) is a new educational model where classes from some of the top universities in the world is available online and free of charge. These offers classes on a vast array of subjects including business, economics, finance, development, public speaking and so forth. Although they may not have courses specifically on rural finance, there might be some interesting courses that the MFU staff could attend to further build capacities. Some providers of MOOC are: Coursera, Khan Academy, Udacity, edX, and Academic Earth.

12. To further develop capacities at the MFU, it is recommended that the MFU does a capacity knowledge gap whereby they identify areas in-line with the future role of the institution where staff could benefit from receiving training. This should also look at the roles within the MFU and what the structure of the unit should look like going forward. This exercise should guide any further capacity development in the MFU going forward.

Technical Annex 4: Monitoring, Evaluation and Knowledge Management

M&E

1. The M&E system for the RFEDP is still weak. A new M&E and communication officer was hired by the project back in December 2014. He managed to review the M&E framework, and other MFU documents. In addition, he worked on reviewing the RIMS indicators and AWPB. As a results an action plan was prepared for the quarter January-March.
2. This new personnel is qualified to do the job and has the skills required to undertake the different tasks required for his position. However, it was clear during the supervision mission that the M&E system is still in need of further improvements in order to be fully complied with IFAD requirements in terms of planning, monitoring, reporting and evaluation of the project activities and interventions.
3. In the following key issues related to the M&E system will be highlighted with emphasis on the focus needed by the project.

The role of M&E in IFAD projects

4. The following table summarizes the expected M&E tasks during the main implementation stage and phasing-out and completion in IFAD projects life cycle. The focus of the project at this stage will be on the phasing out and completion stage in which the project will be working on delegating the implementation responsibilities to its partners.

Phase	Tasks
Main implementation	• Ensure information needs for management are met. • Coordinate information gathering and management. • Facilitate informal information gathering and communication. • Support regular review meetings and processes with all implementers. • Prepare for supervision missions. • Prepare for and facilitate the annual project review. • Conduct focused studies on emerging questions. • Communicate results to stakeholders. • Prepare annual progress reports.
Phasing-out and completion	• Assess what the implementers can do to sustain impact and sustain M&E after closing down - and implement these ideas. • Hold workshops and do field studies with key stakeholders to assess impacts. • Identify lessons learned for the next phase and/or other projects.

Setting up the M&E system

M&E Matrix

5. The first step for the M&E officer is to develop the M&E matrix in order to make sure that all indicators in the log frame are included in the matrix along with means of collecting data and appraisal targets. It was agreed with the M&E officer that he will be working in the first 2 weeks of April on developing the matrix. The matrix will include the following:

- List of all project indicators according to hierarchy (outputs, outcomes)
- Periodical collection of data for each indicator
- Source of data
- Reporting period
- Person responsible for collecting the information

- RIMS level one and level two indicators

6. Given the fact that the project is in the phasing out phase, the M&E officer will have to utilize what is in hand and planning for the M&E needed tasks for the phasing out phase. It is expected that this task will be completed by mid-April 2015.

AWPB

7. The second step will inquire revising the AWPB and progress report formats. The M&E officer will work on assuring that the AWPB will include the following:

   i) Summary of the AWPB including budget by components and financier
   ii) Expected activities per component/sub component
   iii) Expected outputs per component/sub component
   iv) challenges and lessons learnt from previous implementation and critical actions on what will be done differently to improve performance

8. The role of M&E officer is to finalize the AWPB, while each of the project staff shall be required to do their respective contributions to the AWPB. It is important that all the project staff have a sense of ownership of the project M&E system as a tool for supporting the management of the project.

9. The AWPB for the year 2015/2016 was prepared and approved by the RFEDP steering committee on 23 January 2015. However, the project shall work on revising the AWPB as agreed with the mission for inclusion of physical targets and realistic budget.

10. In addition, during reviewing the AWPB for the year 2015/2016 the following issues were noted:

   i) The project has reported on the expected activities, along with physical resources needed and budget, while there was not reporting on the expected outputs for those activities. For example training will result in number of people trained (male/female).
   Suggestion: for all activities in the AWPB include the expected outputs from the activity.
   ii) There is no clear pointing to the progress done by the project in the last AWPB 2014/2015, lessons learned, and key implementation issues.
   Suggestion: include in the AWPB lessons learned from previous implementation, progress achieved, and barriers/obstacles facing the project and key suggestions to overcome these.
   iii) The organization of the AWPB narrative section is constructed according to implementation of activities rather than by component.
   Suggestion: revise the AWPB to organize the activities by component which will be consistent with the budget as well.

Progress Reporting

11. The progress reports for the RFEDP is prepared on quarterly basis and is submitted to IFAD on regular basis. However, the progress reports lack key issues related for the physical progress of the project implementation.

12. The progress report for the quarter October 2014- December 2014 was reviewed and the following key issues were noted:

   i) There is no reporting on the progress achieved during the quarter, although the project has reported on cumulative progress to date including the percentage of the overall project target.
   Suggestion: Include in the progress report data on the planned activities and progress made for the reporting period.
   ii) No disaggregated gender data.
   Suggestion: provide gender disaggregated data for indicators on beneficiaries in order to monitor the female empowerment and gender focus.

iii) A number of indicators is missing in the report.
Suggestion: add all indicators of the project in the report to provide a clear idea on where the project is standing. In addition, include indicators on the total project outreach for the reporting period and cumulative.

iv) Too much focus on finances.
Suggestion: while it is of equal importance to provide information on project finances, yet the report included component expenditure analysis, category expenditure analysis, balance sheet, incomes and expenditures. However, these clear analysis can be included in the annual progress report only. The project should report on the financial analysis for project activities, such as unit costs for different training activities. This will assist on guiding the project in planning for expenditures.

13. The progress reports are going to be modified to provide the following:

i) Review current progress compared to planned activities, and expenditure compared to budget;
ii) Overall status information on the project since it started, in terms of physical progress and total expenditure;
iii) Identify problems during the reporting period and steps to solve these problems;
iv) Discuss quantitative and qualitative progress made in achieving overall objectives;
v) Provide strategic direction for the next planning cycle.

14. Accordingly, the M&E officer shall work along with other project staff on modifying the formats of the progress reports.

Knowledge Management, learning, and innovation

15. The project main innovations were observed during the field visits by the mission team to beneficiaries in the field. There were clear introduction of innovative ideas that have the potential to be replicated and scaled up by the project which will result in significant impact on the project beneficiaries.

16. The innovations included introduction of egg hatching incubator by one of the project beneficiaries who is member of the Women Farmers Foundation. This beneficiary who is an indigenous chicken breeder managed to reduce her losses from eggs and reduced the time for the cycle. Through the introduction of this innovative product, the beneficiary managed to increase her gross income by more than five times. Also, one other beneficiary introduced drip irrigation into her 3.5 ha farm. This beneficiary managed to save a lot of water and reduce the running cost by introducing the drip irrigation. Moreover, as a result this innovative beneficiary is planning to expand her farm in the near future and is aiming at utilizing drip irrigation in the new farm.

17. Knowledge management is almost non-existent in the project due to the fact that the M&E system is still weak and is not yet utilized by the project as management tool.

Other issues

Baseline survey

18. A RIMS baseline survey was conducted in December 2014 by SA Business Resources Institute (SABRI). The survey was the standard RIMS survey which aims at assessing two mandatory indicators: 1) Prevalence of malnourished children as an indicator of hunger reduction and 2) Number of households with improvement in household assets ownership index.

19. Although the survey was the standard RIMS survey using the standard RIMS questionnaire and sampling methodology, yet there are some critical points that were not clear in the survey report which need to be addressed in order to avoid repeating them in the completion survey.

- The report pointed out that there is 2 datasets each of 900 households yet there is no clear point if the two data sets (samples) are one intervention and one control or both are intervention.

- While the survey is aimed as baseline survey for the RFEDP, yet the sample included villages in the LUSIP project which put the sampling methodology into questioning.
- The dataset was not provided to the project, while it should be part of the M&E system and a source of knowledge.

20. **Completion survey (impact assessment).** During the final year of project a completion survey will be conducted**.** Results will be compared against baseline to allow for comparison and measurement of project impact. During this survey the sample will include both intervention and control villages. This will provide more accurate measure for project interventions.

21. The points highlighted for the baseline survey will be taken in to consideration for the implementation of the project completion survey.

Trainings provided by the project

22. The project has achieved a lot in terms of training provided to beneficiaries on income generating activities and business and entrepreneurship skills. However, there is no clear tracking for such a progress.

23. In order to follow-up on the training provided for beneficiaries and evaluate the performance of the implementing partners, the following will be conducted for each course:

    - A list of training participants for every training course will be provided to the project including information about each participant (name, age, address, mobile/phone number, gender).
    - The M&E officer that the selection criteria for the project purpose is met.
    - The M&E officer will select randomly 20% of the participants and conduct a phone call to receive their feedback and assure that they have participated in the training.
    - For the purpose of evaluating the outcome of the training another stratified random list of about 20% will be selected for direct observations and follow up. The purpose of this activity is to ensure that the training beneficiaries are applying what they have been trained on.
    - The M&E officer will select on purpose between 2-4 participants who managed to improve this practices for case studies and success stories.

24. However, given the fact that the project is in the phasing out stage, this approach will be applied only for the new training courses.

Monitoring of partners performance

25. One of the critical issues that need to be highlighted by the project is to monitor the performance of implementing partners. This will be one of the key issues in phasing out.

26. Key indicators for partners:

    - **Full capacity to provide the service.** This could be monitored through assessing the service provided. For example, after the training provided by one of the implementing partners the project will assess the outcomes of the training and the performance of the implementing partner through the criteria highlighted under the training section. At the end of each training a score will be given to each implementing partner. Once, based on the criteria selected and score given, if an implementing partner is achieving at least 85-90% score will be considered as having the full capacity to provide the service.
    - **Operational costs and sustainability.** It was clear during the mission that different partners are not able to cover all the costs needed to fully operate. This issue need to be addressed by the project and different scenarios should be presented in order to assure that the implementing partners will be able to fully cover their operational costs.
    - **Micro finance monitoring.** There are several indicators that need to be monitored regarding the performance of MFIs participating in the project. A full list of these indicators and how to measure them and monitor is available at IFAD website: www.ifad.org/ruralfinance/dt/e/5.pdf.

Key recommendations

- Provide capacity building for the project M&E officer with focus on the core M&E methods.
- Revise the M&E system to include all indicators needed to monitor the project performance and make sure that all indicators in the log frame are included in the M&E matrix.
- Promote for innovation and learning environment through capturing the key innovations and focus on scaling them up.
- Record in the M&E system all data sets for all surveys/studies conducted for the project.
- Record case studies on best practices by beneficiaries.
- Develop a database for the project beneficiaries including all basic information such as name, age, gender, address and interventions received from the project.