



**EU/ACP Microfinance Framework Programme
Twelfth Quarterly Report
October-December 2007**

Summary

- Grantees are well on track implementing their actions. The EU/ACP Microfinance Programme and EC delegations reviewed annual reports of all but one grantee and has disbursed thus far 51% of the 6,5 million Euro grant. The Programme has planned a learning event in the second quarter of 2008 to bring the grantees together and learn from their experiences.
- The Programme prepared the Central African Policy Forum that it co-organises on 18-20 March 2008 in Yaoundé together with the Central Bank for Central Africa and CGAP.
- The Programme finalised the design of the Caribbean and Pacific regional initiatives. Both Carib-Cap and the Pacific Financial Inclusion Programme have been approved for funding by the Multilateral Investment Fund/ Inter-American Development Bank and UNDP/United Nations Capital Development Fund respectively.
- The Rating Fund approved a record number of 37 applications from ACP MFIs in the fourth and last quarter of 2007. After seven years of operations the Rating Fund stopped approvals of ratings at the end of December. Together with other funders and investors the EU/ACP programme is exploring how to continue strengthening transparency in the ACP microfinance sector.
- The Rating Fund organised a workshop on the future of the Fund and presented the 2006 Rating Market Outlook on the occasion of the European Microfinance Week in Luxembourg.
- Highlights of CGAP's activities involving ACP microfinance actors include: (i) Graduation pilot in Haiti; (ii) Policy advice and training to Rwanda, Madagascar and DRC and (iii) Aid effectiveness engagements with the African Development Bank, Making Finance Work for Africa and the Africa Enterprise Challenge Fund.
- The EU/ACP Microfinance Programme participated in the European Microfinance Week and organised a discussion on the development impact of remittances at the European Commission.

Upcoming events

Date	Event	Location
18-21 March	Central African Policy Forum	Yaoundé, Cameroun
13-15 May	Caribbean Microfinance Roundtable	Bahamas
May/June	Learning Event of the EU/ACP Microfinance Programme	Brussels, Belgium
4-6 June	CGAP Annual Meeting	Port-au-Prince Haiti

Report

The current report contains information on the progress the EU/ACP Microfinance Programme made between October and December 2007 in its three areas of intervention: (1) strengthening institutional capacity of ACP microfinance actors; (2) supporting and promoting the use of ratings; and (3) enhancing transparency and efficiency in the microfinance market. It also summarises the communication and coordination efforts of the Programme.

At the end of the quarter the EC signed the Financing Agreement for the Continuation of the EU/ACP Microfinance Programme, for an amount of 2,770,000 Euros. As a result the Programme will last until 31 December 2010. The ACP Secretariat countersigned it in February 2008. The new Agreement allows the Programme to commit funds again. It can now sign Contribution Agreements for the Caribbean and Pacific initiatives and launch its Mid-Term Review.

1. Programme area # 1: Strengthening institutional capacity of ACP microfinance actors

(i) Demand driven capacity building initiatives

The grantees are well on track meeting their targets and implementing their actions. For a summary of progress to date see Table 1 or read more detailed updates per project in Annex 1. AMFIU has had some delays in implementing a part of its activities. With Urwego Opportunity Microfinance Bank the Programme agreed to restructure the project and extend its first year until March 2008. Even though Urwego met the minimum performance targets, the Bank had not implemented a large part of the action foreseen for the first year due to the merger between Urwego and OI. During the past quarter the EU/ACP Microfinance Programme received and commented together with EC staff on the annual reports of Horus, ProCredit, KDA, AMFIU and Triodos. The EC delegations and headquarters proceeded with payments and by 31 December 2007, 51% of the 6,5 million Euros grants had been disbursed.

Table 1: Overview of Capacity building initiatives, Status at 31 December 2007

Initiative	Status	Performance
1. ProCredit, DRC	On Track	ProCredit Bank Congo submitted its annual report, met all its minimum performance thresholds and exceeded most targets. ProCredit Bank has spent less on staff capacity thanks to creation of local training centre and lower levels of recruitment due to slower branch expansion. It submitted a proposal to reallocate funding for staff training to opening a branch in East Congo.
2. LFS, Madagascar	On Track	AccessBanque Madagascar (ABM) again doubled its deposit base and has close to 5000 clients in less than 1 year of operations. It finances its nearly 2000 loans outstanding entirely from deposits.
3. KDA, Kenya	On Track	KDA met all minimum performance thresholds and all but one of its targets. It saw the numbers of poor rural Kenyans that are clients/shareholders of the FSAs increase with 7,738 in the last quarter. The Programme awaits information on the impact of the political turmoil in Kenya on the FSAs.
4. Horus, Cameroon	On Track	Advans Cameroon met the revised minimum performance thresholds in early October 2007 and grew steadily. The bank now has 300 depositors and 443 loan clients.
5. AMFIU, Uganda	To Watch	AMFIU presented its annual report on its consumer protection and education campaign and met -by the end of Q4 - its

		minimum performance thresholds. It has experienced some delays in implementing activities and faces a difficult political microfinance environment. The EC delegation met with AMFIU and will review with them the best use of EU/ACP resources.
6 Urwego, Rwanda	Restructured	Even though Urwego is “on track” regarding most of its performance indicators, it has not been able to implement the activities planned for the project due to the merger. The EU/ACP has extended the first year up to March 2008. It has postponed payment of the second tranche pending the submission of UOMB’s business plan and explanation on how the project’s priorities and learning agenda is taken into account in UOMBs future plans.
7. Aquadev, Senegal	On Track	Aquadev continued technical assistance to the 15 MFIs discussed a “cadre de concertation” with several partners active in the region. Its partner Etimos undertook an evaluation of the project in the last quarter. Aquadev will take its recommendations into account in its annual report that is due in Q1 of 2008.
8. Opportunity Intl UK, multi-country	On Track	EU/ACP funding has been instrumental in piloting the MicroInsurance Agency, which during the last quarter received a grant from the Gates foundation to scale up its operations. OI UK replaced a beneficiary of the grant, Zambuko Trust from Zimbabwe, by another OI partner MFI, Faulu Uganda, due to the political and economic difficulties in Zimbabwe.
9. Triodos, multi-country	On Track	Triodos met its revised minimum performance thresholds and targets at the end of October, submitted its annual report and received its second tranche in December. By the end of December it had completed or started assignments on risk management with SOMED Uganda, WWB Ghana, Rwanda MF ltd, PRIDE Malawi, and on social reporting with Reliance Gambia and K-Rep Bank Kenya. Triodos Facet will publish tools developed in Q1 2008
10. SIDI, multi-country	On Track	SIDI undertook 7 missions to provide technical assistance to 5 MFIs and MUSOs in Mozambique, Guinee, Burundi, Mali, Senegal and DRC. It shared lessons learned from its support to les Mutuelles de Solidarites (MUSOs).
11. MIFED, Cameroon	On Track	MIFED continued to strengthen the management of the two regional unions of the networks of caisses villegoises with the respective technical service centres. The network expanded the number of clients with 1000 in the last quarter to 46,733. It may be difficult to reach the 60,000 threshold by June 2008.

Box 1: Status explanations on grantee performance

On Track = expected to meet minimum performance thresholds and largely in line with projected targets

To Watch = met or expected to meet minimum performance thresholds but performing lower on several targets

Off Track = did not meet one or several of the minimum performance thresholds

Restructured = thresholds and targets have been renegotiated for reasons indicated

The Programme coordinator is in close contact with the grantees to help them wherever possible to meet their targets and find solutions for problems arising. EC task managers in delegations and headquarters are also actively involved in this monitoring process. They reviewed and commented on annual reports and met with grantees.

EU/ACP Microfinance Programme website. The Programme posts updates on the progress of grantees and their lessons learned its website. To read more click [here](#). Following the revamping of Europeaid’s website the Programme updated its entire bilingual website during the last quarter with assistance of Europeaid’s webmaster and unit C4. Between November and mid February the home page of the site was visited by more than 1500 people (1215 English and 324 French site).

Financial sustainability. The EU/ACP Microfinance Programme attaches a high level of importance to the sustainability of the institutions it supports. Financial sustainability of financial service providers is key for increasing the numbers of poor people that have access to finance as stated in the fourth of the Key Principles of Microfinance that were endorsed by the G8 in Sea Island in 2004. (see box 2).

Box 2. Financial sustainability is necessary to reach significant numbers of poor people

“Most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only way to reach significant scale and impact far beyond what donor agencies can fund. Sustainability is the ability of a microfinance provider to cover all of its costs. It allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the unbanked poor”.

Fourth of the Key Principles of Microfinance that were endorsed by the G8 in Sea Island in 2004¹.

Through the quarterly and annual reports the EU/ACP Programme tracks the financial performance and outreach of the institutions it aims to strengthen. There are different measures used for the sustainability, including operational and financial self sufficiency (OSS and FSS), return on assets or equity (ROA, ROE). To find out more about these ratios and their measurement, click [here](#). An overview of the evolution of EU/ACP grantees’ performance is listed in table 2. In all but one case there has been a positive trend. The decrease in operational self sufficiency of Urwego is explained by the heavy investments done in automating the systems of the bank and the recent merger.

All together the EU/ACP grantees managed to increase the number of clients reached with more than 480,000 between their start in the second half of 2006 and the end of 2007. This is an increase in outreach of 53% compared to the base line at the start of the projects funded by the EU/ACP.

Table 2. Evolution of Financial performance EU/ACP grantees

Beneficiaries	Measure of Financial Performance used	December 2006	December 2007
ProCredit Bank DRC	ROA	0.86%	1.56%*
AccesBanque Madagascar	OSS	Created Feb.2007	72%
Advans Cameroun	OSS	Created May 2007	6%
Urwego Opportunity Microfinance Bank, Rwanda	OSS	129%	56%
CVECAs assisted by MIFED in Cameroun	Average OSS	50%	95%
OI’s African partners (6)	Average Operating ROE	-1.11%	2.52%
KDA supported FSAs in rural Kenya (70)	# with OSS >100%	16	47
Aquadev supported MFIs in	# with ROA >0	4	4*

¹ Key Principles of Microfinance endorsed by the G8 in Sea Island in 2004

http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/KeyPrincMicrofinance_CG_eng.pdf

Saint Louise, Senegal (15)			
SIDI supported MFIs throughout francophone Africa (12)	# ROA >0	6	7

* data as of September 2007

(ii) Other capacity building initiatives

Policy makers. The Central Bank for Central Africa agreed to co-organise the Central African Policy Forum with the EU/ACP Microfinance Programme and CGAP. The three parties started preparations for the event that will take place on 18-20 March 2008 in Yaoundé. The forum will bring together ministers of finance, governors of central banks, and the directors of government microfinance units from ten countries (Cameroon, Central African Republic, Congo, Gabon, Equatorial Guinea, Chad, Burundi, Madagascar, Democratic Republic of Congo and Rwanda). During the forum, participants will discuss key regional policy issues including supervision of financial cooperatives, new banking technologies, regulation of branchless banking, transparency of financial information, and consumer protection.

Caribbean. Together with colleagues from the InterAmerican Development Bank (IADB) and Multilateral Investment Fund (MIF) the Programme finalised the project proposal for the joint capacity building project, Carib-Cap. Carib-Cap aims to improve the financial performance and outreach of Caribbean MFIs through (i) performance assessments of MFIs; (ii) implementation of Capacity-Building Plans; (iii) award of Good Practice Incentives; (iv) strengthening of the knowledge management and advocacy capacity of the Caribbean Microfinance Network; and (v) dissemination of lessons learned. The total budget of Carib-Cap is approximately 3 million \$. EC funding amounts to 420,000 Euros. The EC will sign a contribution agreement with the IADB for the implementation and a consulting firm will assist the IADB/MIF in the executing of Carib-Cap.

Pacific. The EU/ACP Microfinance Programme contributed significantly to the finalisation of the proposal for the Pacific Financial Inclusion Programme (PFIP). UNDP and UNCDF approved funding of the PFIP in a joint committee. The PFIP's objective is to contribute to a sustainable offer of pro-poor financial services by a range of actors, including banks, MFIs, telecom operators etc. using technology and other forms of branchless banking throughout the Pacific. The EU/ACP Programme drafted the contribution agreement with the UNDP Pacific Resource Centre in Fiji for the implementation of the PFIP.

2. Programme Area #2: Supporting and promoting the use of ratings

Seventy two ratings of ACP MFIs approved in 2007. In the fourth quarter of 2007, the demand from ACP MFIs for the Rating Fund exploded. The Fund approved 37 applications bringing the total for 2007 to 72, which is extremely successful compared to 21 approvals in 2005 and 17 in 2006. All but two ratings approved are first time ratings, 2 are for Caribbean MFIs (Haiti) and the rest are African. (see the full list in Annex 2). In total the EU/ACP Microfinance Programme has approved 105 ratings (6 approvals did not translate in actual ratings). The strong increase in the last year is partly thanks to the awareness raising activities funded by the EU/ACP Microfinance Programme in the two previous years and partly because of the closure of the Fund.

Rating Fund activities. The Rating Fund undertook activities in (i) awareness raising, (ii) increasing market information and (iii) strengthening raters. The Rating Fund presented at a conference organised by the African Microfinance Association MAIN in Pretoria. The Fund published the Global Rating Market Outlook 2006 which it also presented at a workshop held at the European Microfinance Week in Luxembourg. At this workshop participants discussed the future of the African microfinance rating market with Planet Rating, Microfinanza Rating and the

African Microfinance Transparency Forum. ADA also updated the analysis of MFI feedback on ratings and shared it with the rating agencies to stimulate improvement in their performance. Two raters still received a capacity building grant, worth \$5,000 to invest in their staff capacity. CGAP and the EU/ACP Microfinance Programme launched an evaluation of the Rating Fund in order to extract lessons learned from the market building exercise. Please inform the Programme Coordinator if you wish to receive the full quarterly report of the Rating Fund.

Rating Fund exit. After seven years of operations the Rating Fund stopped approvals of ratings at the end of 2007. In the interest of innovation and product diversification of rating agencies the Rating Fund Steering Committee decided 2 years ago to gradually phase out transaction subsidies for ratings. As a result the rating industry has become more dynamic and responsive to demand. Some ACP rating markets remain relatively underdeveloped. Other products or approaches may be more appropriate and/or cost-efficient to advancing transparency. Following the end of the Rating Fund, investors have also become more vocal in expressing their interest in ratings and their importance.

Together with the African Microfinance Transparency Forum², the EU/ACP Microfinance Programme explores ways to continue supporting transparency of MFIs, especially the smaller ones, possibly in a public-private partnership with investors. The Programme currently advises on the design of a potential successor to the Rating Fund based on the lessons learned from the previous one. These lessons are drawn up in the final evaluation that will be publicly available in March 2008.

EU/ACP budget for ratings. In total the EU/ACP Microfinance Programme disbursed three tranches of 375,000 EUR each (+/- 1,401,086 \$) for the management and administration of the Rating Fund to CGAP. By the end of 2007 the Rating Fund had committed 1,384,589\$ of which 80% for the co-financing of MFI ratings. Compared to the original budget that was foreseen for ratings, an amount of around 950,000\$ remained. Following a rider to the Financing Agreement the Steering Committee committed \$800,000 to an Information Systems Program. It will contribute to the IS Program from the first quarter of 2008.

3. Programme area #3: Enhancing transparency and efficiency in the microfinance market

The EU/ACP Microfinance Programme contributes to the CGAP annual work plan, which benefits microfinance actors in ACP countries with a focus on promoting institutional and product diversity, building transparency, and enhancing regulatory and policy frameworks. Highlights of the fourth quarter of 2007 relate to (i) Graduation pilot, (ii) Policy advice and training for ACP policymakers; and (iii) Aid effectiveness.

(i) Graduation pilot Haiti

CGAP hosted a donor visit to Haiti to introduce interested donors to the "graduation" methodology, which links social safety net programs with microfinance as a way of "graduating" the poorest into sustainable livelihoods and access to financial services. Representatives from the Inter-American Development Bank, Oikocredit, USAID, Plan International, and other agencies

² The African Microfinance Transparency Forum, used to be known as the African Performance Evaluation and Assessment Forum, brings together African MFIs that have been rated and raters active in Africa, with a view to develop the market for ratings of African MFIs benefiting their growth, development and professionalism

joined CGAP on field visits to Boucan Carré, where Fonkoze and Concern Worldwide are rolling out the first phase of the graduation pilot. The visit ended with a day of discussion, resulting in requests for donor visits to other pilot sites and proposals for additional pilots. Another pilot is planned in Ethiopia.

(ii) Policy advice to African governments and training of supervisors

Training of central bank supervisors and external auditors in Rwanda. CAPAF, CGAP's regional hub in francophone Africa, held the second course of a series of courses for the supervisory staff of the National Bank of Rwanda. The course on Operational Risk Management focused on human resources, internal control processes, and external audits. CAPAF also facilitated a workshop on microfinance audits for Rwandan external auditors.

Technical assistance to Malagasy Central Bank. CGAP drafted a financial transparency framework with suggested MFI reporting for both prudential and non-prudential indicators. To vet this proposed framework, CGAP co-organised two two-day workshops with the Banking Commission with more than 75 participants each. Participants included Banking Commission staff from Tana and regional offices, MFIs, professional associations, Ministry of Finance staff, and funders. The Banking Commission will use the outputs of these workshops to draft new regulations on MFI reporting and to structure their off-site supervision database.

Support to the Central Bank of Democratic Republic of Congo. CGAP organized a two day workshop on accounting and audit standards for technical committee in charge of developing accounting reference guide for the Central Bank in DRC. CGAP has also commented on the draft chart of accounts for MFIs developed by the Central Bank.

(iii) Improving aid effectiveness

Strategic Discussions with AfDB Management Team. Following overall re-organization at African Development Bank (AfDB), CGAP met with AfDB's new president and new management in the private sector department. Important progress has been made to set the foundation for stepped-up work in microfinance, including placing microfinance within the private sector development department. The new microfinance team has ambitious plans to direct equity investments to greenfield banks, with a focus on post-conflict countries. AfDB also seeks to partner with Development Finance Institutions and has joined the REGMIFA and TCX multi-donor funds.

Mapping of Funders of Microfinance in Africa. CGAP presented its third annual funder survey at the Making Finance Work for Africa (MFW4A) retreat. The project reports information on 641 programs from 27 funders supporting access to finance in Africa. The MFW4A decided to build on CGAP's mapping as part of its workplan. Hosted by BMZ and led by WB, BMZ, and AfDB, the MFW4A retreat included about 30 representatives from key funding agencies supporting financial sector development in Africa. CGAP has been asked to join the core advisory group and next steps include recruiting the manager for the MFW4A initiative.

Africa Enterprise Challenge Fund (AECF). CGAP participated in the Steering Committee of the AECF and advised on its creation which is led by DFID. Other funders include the Dutch, IFAD, and AfDB. The AECF will focus on access to finance in Africa, in addition to a second focus on agribusiness and rural markets development. AGRA, (A Green Revolution for Africa), new foundation set up by the Gates and Rockefeller Foundations in Kenya, will also fund AECF and serve as host for AECF.

Funder roundtable on National Microfinance Strategies. In the past 3 years, an increasing number of ACP countries have adopted national microfinance strategies. CGAP presented the

results of its review of 29 national microfinance strategies, including 16 in ACP countries, during a roundtable of key donors that fund these strategies. The meeting concluded that donors need to take a much more prudent approach to supporting these strategies because the risks often outweigh the benefits. For example, donors should ensure the sector diagnostics that precede most national microfinance strategies are comprehensive. Donors also should ensure that microfinance strategies are integrated into the broader financial sector context.

4. Promotion and coordination efforts of EU/ACP Microfinance Framework Programme

The EU/ACP Microfinance Programme participated in the European Microfinance Week organized by the European Microfinance Platform (e-MPF). The e-MFP has about 60 members and was founded in 2006 to stimulate synergies among European microfinance actors. The EU/ACP Programme led a workshop on the future of the MFI ratings market. The EC organized together with CGAP a meeting of the EU Microfinance Expert Group.

The EU/ACP Microfinance Programme organised a discussion on the development impact of remittances with EC staff. One of CGAP's lead microfinance specialist provided advice on ways to optimize the development impact of remittances at a meeting on migration and microfinance organized by the European Commission in Brussels in December. The EC jointly funds the [Financing Facility for Remittances](#), together with IFAD, IADB, CGAP, Luxembourg, UNCDF and Spain.

Table 3: Relevant Events in which EC, ACP or CGAP staff or the Programme Coordinator took part

Date	Events that took place during the quarter	Location
8 October	National Strategies Meeting	Paris, France
12-13 October	Making Finance Work for Africa	Berlin, Germany
6-7 November	Organisation internationale de la Francophonie Workshop for the WAEMU countries	Ouagadougou, Burkina Faso
7-9 November	INAFI Global Remittances Conference	Cotounou, Benin
7-9 November	European Development Days	Lisbon, Portugal
13 November	Lunch meeting Prof Yunus	Brussels, Belgium
27-29 November	European Microfinance Week	Luxembourg,
4 December	Meeting on Remittances and Microfinance	Brussels, Belgium
10 December	Presentation de Kafo Jiginew	Brussels, Belgium