USAID/PVC Matching Grant Evaluation Series:

Faulu Africa Regional Micro-Enterprise Loan Program

Matching Grant FAO-0158-A-00-5011-00 between

Food for the Hungry and USAID/PVC

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Evaluation team members:

***Mesfin* Assaye (Food for the Hungry Coordinator)**
***James Dempsey* (MSI, Team Leader)**
***Victoria Michener* (MSI evaluator)**

Evaluation of "Faulu Africa Regional Micro-Enterprise Loan Program"
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TABLE OF CONTENTS

1.0 Executive Summary* 1
1.1 Overview 1
1.2 Key findings, conclusions and recommendations 3
1.3 Acknowledgements 7

2.0 Evaluation Methodology and Team Composition* 7

3.0 Matching Grant Background* 8
3.1 Historical & technical context and partners* 8
3.2 Project goal, objectives, and major hypotheses to be tested* 10

4.0 Purpose of the Evaluation* 14

5.0 Program Implementation Evaluation Questions 15
5.1 The Detailed Implementation Plan 15
5.1.1 Completed DIP and DIP accuracy 15
5.1.2 Quality of DIP and degree of its use in implementation 15
5.1.3 Familiarity with DIP and design* 16
5.1.4 Major successes and shortfalls in implementation* 18
5.1.5 Impact Results* 32
5.2 Assessment of project model and hypotheses 33
5.2.1 Project hypotheses articulated in CA* 33
5.3 Advocacy under the project 34
5.3.1 Advocacy activities and impact* 34
5.3.2 Partner/PVO roles in advocacy* 35
5.4 Implementation Lessons Learned 35

6.0 Partnership Questions 36
6.1 Analysis of Partnership Schemes* 36
6.2 Measuring Institutional Capacity* 36
6.3 Constraints to Partnership* 36
6.4 Information Technology* 36
6.5 Use of local networks and service organizations* 36

7.0 Program Management 37
7.1 Strategic Approach and Program Planning* 37
7.2 Country Initiatives 37
7.3 Conflict Management* 38
7.4 Monitoring and Evaluation* 38
7.5 Overall Management* 39
7.6 Sustainability* 40

7.6.1 Overall sustainability survey* 40
7.7 Financial Management 40
7.7.1 Effectiveness of financial management* 40
7.7.2 Leveraging other donor funds*..41
7.7.3 Cost effectiveness of technical approach*...41
7.7.4 Repercussions of “matching” requirement on program*..41
7.8 PVO’s Information Management* 41
7.9 Logistics* 42
7.10 Project Supervision*..42
7.11 USAID Management*..42

8.0 General Conclusions*..42

Afterward...44

List of Acronyms Used

BHR	Bureau of Humanitarian Relief
DFID	Department for International Development
DIP	Detailed Implementation Plan
FFP	Food for Peace
FH	Food for the Hungary
FHI	Food for the Hungary International
Faulu	"Success" in Swahili and the name of the FHI microfinance program
FY	Fiscal Year
HQ	Headquarters
ISA	Institutional Support Assistance
M&E	Monitoring and evaluation
MIS	Management Information Systems
MF	Microfinance
MFI	Microfinance Institution
MG	Matching Grant
NGO	Non-governmental organization
PAR	Portfolio at Risk
PL-480	Public Law 480
PVC	Private Voluntary Cooperation
PVO	Private Voluntary Organization
UN	United Nations
USAID	United States Agency for International Development
USPVO	US Based Private Voluntary Organization

Evaluation Identification Sheet

PVO name	Food for the Hungry
Matching Grant Title	Faulu Africa Regional Micro-Enterprise Loan Program
Cooperative agreement number	FAO-0158-A-00-5011-00
Amount of Grant	$3,400,00.00
Period of Grant	April 1, 1995- March 31, 2001
Any (cost/no cost) extensions?	No cost extension. March, 31 2000 to March, 31 2001
Current status of MG	Completed
USAID/PVC Grant Officer (s)	Devorah Miller (1995); Martin Hewitt (1995-99); Tom Kennedy (1999 to Present)
Technical area of grant	Microfinance
Date of the evaluation	October-November 2001
Countries of program activity	Uganda, Kenya
Country programs evaluated	Uganda, Kenya
Evaluation Team Members (organization)	James Dempsey, MSI Victoria Michener, MSI

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1.0 EXECUTIVE SUMMARY*

1.1 Overview

In 1995 USAID/BHR/PVC awarded a $3.4 million matching grant to Food for the Hungry (FH) USA that was transferred to and used by Food for the Hungary International (FHI) to start a microfinance program in East Africa. The grant goal as stated in the agreement is:

> To assist poor urban people to increase their income levels, through participation in a microenterprise loan program that fosters good business ethics and values, and which encourages an attitude of self-reliance and democratic participation, so that they are capable of determining and meeting their development needs.

The matching grant built on the success of a FHI pilot microloan program operated in the slums of Nairobi, which was financed through a 1991 PVC matching grant. For all practical purposes FHI was undertaking the development of a new technical program area much different in nature from the relief and social development programs it historically had run.

FHI met its goal of bringing microenterprise services to poor urban people. In the process, FHI built two strong MFIs, called "Faulu," which are recognized as leaders in ther respective countries. They became legally registered limited liability companies with solid operating systems, competent staff and engaged Boards of Directors. They utilize widely accepted microfinance performance standards and are on the path to being commercial profit-making companies that are reaching the working poor, mainly women, with microfinance services. In terms of service delivery in Kenya and Uganda, the matching grant, through its provision of seed capital for the two MFIs, is a success.

Results were mixed, however for the supporting objectives of the grant: to create a regional MFI with branches; to enhance FHI's institutional capacity in ME; and to spread the ME experiences to FHI programs on other continents.[1] For instance, it is not clear from present activities and capabilities in FHI and its Faulu Network whether the Faulu successes can be replicated in other countries. Costs in time and donor support for the two Faulus have been enormous. The evaluation team notes that the cost for the MFIs to reach financial viability will be 12 years and $9 million in grants for Kenya and 8 years and $4.5 million for Uganda.

It is important to note at the start of this report that the original MG operational plans for the Faulu structure were modified often during the first three years of the program and a final arrangement only ratified by USAID in March of 2000, after four years of implementation. The program modifications to Faulu Africa can be viewed as having two significant phases following the original scheme. However, the actual changes happened more in an evolutionary manner. Each change represents an adaptive strategy taken by FHI given the situation and circumstances. The changes were logical ones, and probably the best course of action to have taken, but they did deviate from the original structure of the grant. Although there have been changes in the institutional and management structure during the program, the solidarity

[1] The Afterward to this report describes some activities FHI claims to have undertaken since the evaluation, which address some of these shortcomings found by the evaluation.

group guarantee lending methodologies have remained at the core of the program. During the course of the MG, the three different structures that were planned and partially implemented for Faulu Africa were as follows.

Original Plan: FHI established an East Africa regional MFI with headquarters in Nairobi and planned branches in Kenya, Uganda and Ethiopia. It was owned and operated by Faulu, a program of FHI.

Autonomous FHI microfinance programs with Africa office support: Faulu operations in Uganda and Kenya were made autonomous programs and were to be supported by a regional office of FHI in Nairobi. FHI, with USAID concurrence, cancelled the planned program for Ethiopia because of a weak enabling environment for microfinance.

Faulu Network of Independent MFIs: Commercial MFIs in Kenya and Uganda were established as local companies with independent boards of directors. Ownership of the companies will be broadened with FHI ownership dropping to the 25-50% range. The regional office was closed and a small microfinance unit was established at FHI headquarters. A Faulu network council was established to promote communications and learning.

The FHI Faulu structure thus has evolved from a FHI regional bank to a traditional structure of autonomous country programs supported by a unit in headquarters and all linked in a network council.

The changes in the structure of the program made it difficult for the evaluation team to establish firm indicators and targets for successful performance. Additionally, the original Detailed Implementation Plan (DIP) was vague and lacked indicators and targets in many cases. Once the Faulu plans shifted, the DIP's value dropped even further. No revisions were made to it. The evaluation team faced a review without (1) a clear set of objectives and measures and (2) a consistent approach to Faulu structure. Even the grant goal presented above was modified in the amendment, and FHI capacity building, which plays a major role in the sub-objectives, is not included in the goal statement at all. The DIP was not used by FHI or Faulu as a management/performance monitoring tool. The Faulu's did develop high quality business plans, which essentially played the role of the DIP.

Looking for some constant, the evaluation team chose to use the five of the eight purposes set out in the DIP that were reconfirmed in the grant amendment of March 2000 as the basis against performance would be measured. The five purposes fall into two general categories: microfinance service delivery and FHI capacity building in microfinance. For service delivery, the team used standard MF performance measures in six areas (operations, MIS and controls, staffing, sustainability and efficiency, gender targets, and governance) to evaluate the local Faulu MFIs. To measure FHI capacity building in the absence of performance framework, the evaluation team looked at FHI commitment and structural approach, FHI ability to support and finance the model, and replication of Faulu in other countries. The evaluation team also identified major hypotheses upon which the MG award rested and reviewed the hypotheses against performance.

It should be noted that the outline for the evaluation report was determined by PVC and the contractor to facilitate the comparison of this MG evaluation with eleven others. The outline was based on a MG that had set out a detailed implementation plan and followed it. Since this was not case in this MG, the required outline does not fit the actual review needed given that the program evolved significantly and the DIP was not relevant for most of the MG life. The reader should note that Section 5.1.4, Major Successes and Shortfalls in Implementation, is where most of the evaluation details on the program are presented.

1.2 Key findings, conclusions and recommendations

Findings and Conclusions

Using the hypotheses as a framework for presentation, listed below are summary findings and conclusions.

1. Microfinance can reach and help the poor in Kenya, Uganda and Ethiopia through financially viable MFIs.

FHI is reaching 25,000 economically active poor in Kenya and Uganda. It has established and developed leading MFIs in the two countries. The Faulus are operating as limited liability companies with strong boards and staff and are on the path to financial sustainability. Some challenging years lie immediately ahead but they should achieve profitability in the next two to three years.[2] They are important institutions in the local microfinance industry. The hypothesis has been shown to be correct in two of the three countries. USAID and FHI agreed not to move forward in Ethiopia because of a weak enabling environment.

The success of the two Faulu field programs largely rests on strong staff that followed microfinance best practices and established necessary MFI systems to manage for results.

2. A separate office for microfinance development within FHI would enable it to build a capacity to establish and expand microfinance programs in Africa and then other regions.

The separate office for microfinance has not worked well for FHI in terms of expanding microfinance programs withing FHI. Its impact has been in establishing two independent programs that are now transforming to private companies with nearly complete autonomy from FHI. There has been no expansion of the Faulu network since 1995 when the Uganda program was started. Faulu has not had any measurable impact on FHI country programs, which remain without MFI activities. Outside of the two Faulus themselves, FHI field staffs have little capacity to develop and manage MF programs.

3. The establishment of Faulu programs in East Africa would create replicable models for MF expansion to new countries.

Outside of Kenya, Uganda and the aborted attempt in Ethiopia, no new Faulu country programs have been established.[3] FHI leadership has placed priority on making sure the two Faulu are working well before moving on to new programs. FHI has attracted substantial donor assistance, including three additional grants from USAID. But, all funds have been used to strengthen and expand the existing programs. The time, effort and money required to develop and support Faulu Kenya and Uganda (and initiate Ethiopia) has been great. The task is larger than FHI leadership envisaged at the start of the MG. It appears that the FHI efforts have had to be fully devoted to the two Faulus to make the model work. Little time, money, or effort remains for replication.

The difficulty of establishing MFIs in Kenya, Ethiopia, and Uganda was a much larger task than FHI envisaged at the start of the MG. Its resources, including those of the matching grant, were, and continue to be, stretched just to establish these two MFIs. Implementation to date of Faulu does not indicate a path

[2] After the completion of the evaluation, FHI reported that both Faulus had now reached financial sustainability. This was not substantiated by the evaluators. See Afterward.
[3] After the evaluation was completed, FHI claimed that it had now begun to establish a new program in Tanzania. See Afterward.

for expansion beyond the two Faulus. That six years has passed since the last Faulu was started suggests that little can be expected in the future. This reinforces the question about what capacity has been built at FHI through the MG.

4. A core staff of microfinance specialists, experienced in the Faulu model, would be stationed in Africa to lead future expansion of MF activity in FHI programs.

The original regional bank model for Faulu failed. A regional office in Nairobi could not be financially sustained and was disbanded. In the end a small unit was established in FHI headquarters to provide limited technical assistance to the increasingly commercial country programs. The capacity of this unit is adequate to maintain and grow Faulu Uganda and Faulu Kenya to commercial MFIs. This should be achieved in the next two or three years. Its role and place in FHI thereafter needs to be determined.

A matching grant that seeks to develop capacity of a PVO in a technical field new to the organization greatly increases the risk of failure if field implementation also tries to be innovative and on the cutting edge of the technical field. In hindsight, if FHI had set about establishing Faulu as a series of independent MFIs supported by a small headquarters office much time and money would have been saved. The plan for a regional bank was innovative in many aspects, but a true test of it could only be achieved with a deep and rich knowledge of MF practices and field experiences.

Although the regional office did not survive, FHI was successful at building microfinance capacity in the Faulu's themselves. The evaluators found Faulu staff in both countries to be knowledgeable and competent. FHI considers Faulu staff in Kenya, Uganda, and the MED to be its human resource in microfinance capacity. The extent to which FHI can tap this resource-- pulling staff away from their Faulu jobs to do work for FHI-- will testify to this capacity.

In summary, the evaluation team, based on its interviews and findings, believes that FHI did not have a full understanding of the needs and challenges of microfinance institutional development at the start of the grant. Therefore a lot of resources were necessary for FHI to meet the goal of brining MF services to the urban poor. Much effort and funding was used as FHI/Faulu tried to find the right institutional model for microfinance development. The MFI model that finally emerged is a traditional one. The grant's secondary purpose was to build FHI capacity based on its pilot experience in Kenya. FHI's small technical staff is stretched to maintain and grow the existing programs. Establishing and developing new MF programs is more than the unit can handle at present, with the existing Faulus still needing assistance, albeit less and less. Listed below is a summary chart of successes and shortcomings in the matching grant. Three key areas are listed: FHI capacity building, Faulu Kenya service delivery and Faulu Uganda service delivery.

Major Successes	***Major Shortcomings***
FHI Capacity Building in Microfinance	
1. Put into place two MFIs with strong service delivery capacity.	1. There is little evidence that FHI, as a PVO, has significantly increased its capacity in MF outside of the Faulus themselves.
2. FHI HQ vision and commitment to MF are high.	2. FHI field offices do not share HQ MF vision and mission.
3. FHI/Faulu provided excellent start-up assistance to Kenya and Uganda.	3. No other FHI field offices have replicated the Faulu model. Faulu is in only two countries. Attempts to open a third program in Ethiopia had to be aborted due to the regulatory environment.
4. The Faulu program complemented local USAID	4. Regional bank and regional office approaches did

Mission objectives for microfinance development	not work. There were significant expenditures on both with unclear benefits after the start-up phase.
MICROFINANCE SERVICE DELIVERY: FAULU KENYA	
1. Strong Board of Directors, staff, MIS and operational systems established which have resulted in high portfolio quality.	1. Growth has been moderate. To a large extent this has been caused by very high client desertion.
2. Faulu is a commercially oriented MFI that is achieving increasing efficiency and is close to operational sustainability.	2. Faulu Kenya has not achieved the MG objective of financial sustainability.
3. The MG was critical to the start up and success of Faulu and has acted as seed capital to attract substantial other donor support.	3. Faulu Kenya has had high development costs almost exclusively provided through donor grants. High donor dependency limited its transformation to commercial operations.
4. Faulu has transformed, moving from a project of FHI to a legally registered limited liability company.	
5. Faulu is a leading Kenyan MFI that reaches the rural and urban poor. Over half its clients are women.	4. Faulu Kenya has only one loan product. It is planning to diversify products and become more client-responsive.
MICROFINANCE SERVICE DELIVERY: FAULU UGANDA	
1. Strong Board of Directors, staff, MIS, and operational systems established which have resulted in high portfolio quality.	1. Faulu Uganda operational efficiency is very low. There is much underutilized capacity, built in expectation of new donor support.
2. Loan portfolio has grown at a commendable pace. It has moved from a project of FHI to a legally registered limited liability company.	2. Faulu Uganda has recorded large losses over the last two years that are depleting its grant funded capital.
3. The MG was critical to the start up and success of Faulu and has acted as seed capital to attract needed other donor support.	3. The MG objective of financial sustainability was not realistic and was not met.
4. Faulu is emerging as a leading MFI in Uganda. It reaches the urban poor and over 70% of its clients are women.	
5. Faulu is a client-oriented institution that enables it to be successful in the competitive market of Kampala.	

Recommendations

For PVC:

1) The USAID requirement for detailed implementation planning, including a logical development framework to assess performance, needs to be applied to all grants and adjusted as appropriate to program modifications.

2) The matching grant cooperative agreement should set out the key indicators and targets for grant performance and results. Special attention should be given to the often-confusing area of capacity building. Periodic reporting against these indicators and targets should be mandated to keep grantees focused on implementation planning. USAID needs to be substantially involved when grant performance significantly misses targets.

3) In technical programs, such as micro lending, where there are industry-wide performance standards and targets, PVC should ensure that they are used in MG implementation planning. They are well tested and provide a set of peer group programs for comparison and learning. It is a credit to FHI and Faulu that they established excellent MIS and performance standards for their MFIs in Kenya and Uganda.

4) Innovative technical approaches funded under a MG need to be followed closely by technically qualified staff. If the program is not working out as technically planned, as was the case with the Faulu regional bank, the technical skills and judgment of the USAID technical officer are critical to guide revisions and protect USG grant "investments".

5) PVC needs strong and experienced microfinance staff or technical advisors available to them to review implementation and identify MF technical challenges as they arise. Experienced grant managers are not enough in the fast changing field of microfinance. Technical skills are necessary.

6) The award of a Matching Grant to a PVO that has little or no operational experience or technical capacity in the grant area needs to factor in the high cost and delays of start-up and learning. A collaborative arrangement with a technically strong NGO or consulting partner could reduce the mistakes and false starts made by the PVO as it moves along the learning curve.

7) PVC should require that the process by which capacity built under the MG will spread through the PVO and its programs be spelled out in the MG proposal for USAID review. The creation of technical capacity that exists independent of the PVO's main operation, as was the case with Faulu and FHI, is a structure with inherent weakness in reaching the institution as a whole. The substantial field staff and other resources of FHI were never actively engaged in the capacity building purpose of the MG.

For FHI:

8) There is very little MF development capacity in FHI and it will be fully utilized over the next few years supporting the two existing programs. Raising additional funds to start a new Faulu program is a daunting task. Nonetheless, FHI should examine its experiences and capabilities to see what might be successful strategies for further MF development after Faulu Kenya and Uganda.

9) FHI leadership, together with the Faulu Network, should review its microfinance experiences and capacities to see if there are ways to more fully utilize them to expand FHI MF programs. FHI country directors and field staff should be encouraged to build on Faulu and expand MF activities.

10) The Faulu country programs should revise their client and loan application forms to gather a better baseline on clients that could be used in future impact assessments. Creating a computer database with this information would be desirable and could be undertaken at low cost by FHI.

11) USAID's Microenterprise Development Office has undertaken a series of reviews of MFIs under stress. These include case studies, operational research and lessons learned for institutions that have faced natural and man-made disaster, conflict situations, economic crises and HIV/AIDS challenges. Both Faulus should have senior staff review the information and learning on MFIs facing stress. This information can be found on the web at www.mip.org. Based on the review the Faulus should prepare contingency or mitigation programs as circumstances and needs dictate.

1.3 Acknowledgements

Members of the evaluation team wish to express our deep appreciation for the confidence placed in us and for giving us this opportunity to work with USAID and FHI/Faulu to review these exciting microfinance programs.

Our special thanks go to the staff of FHI in Scottsdale and the Faulu field staff in Kenya and Uganda for the spirit of cooperation with which they received our requests for information and facilitated our work. Faulu Kenya and Uganda are leading MFIs in their respective countries. We are also grateful to the USAID microfinance officers in Kenya and Uganda who shared their time, knowledge and opinions with us. Finally, the background and program insights provided by the PVC staff were invaluable. Each of the individuals contacted made a significant contribution to the overall results recorded here. We thank them all.

2.0 EVALUATION METHODOLOGY AND TEAM COMPOSITION*

Approach

The three-member team included two from MSI, and one from FHI. The methodology employed consisted of document review, interviews with key informants and discussions among team members to confirm findings, conclusions and recommendations. Evaluation tasks were undertaken during the following four phases:

Phase One:

- ♦ Preparatory work in Washington - Half-day Team Planning Meeting with FHI and USAID officials (October 17th 2001) and document review intermittently over the period October 9-23; interviews in Washington with the USAID/BHR/PVC CTO, the former Directors of Faulu Africa and Faulu Uganda.

Phase Two:

- ♦ Visit to FHI Headquarters – Two-day visit to Scottsdale, AZ by the Team Leader to interview key staff and collect additional documents (October 24th and 25th).

Phase Three:

- ♦ Field visit to FHI/Faulu Uganda and Kenya - The full team traveled to Kampala (November 2nd to 9th) and Nairobi (November 9th – 15th) and two members also visited a rural area in Kenya, the Nakuru District Hub, on a day trip. Tasks involved further review of key documents and interviews with Faulu and FHI staff as well as key consultants, clients and USAID officials.

Phase Four:

- ♦ Preparation/submission of draft report during the period January-February 2002.
- ♦ Incorporation of USAID and FHI/Faulu comments (March 2002), and production of final report

As indicated in the various sections of this report, data were verified through the review of key documents (see ***Annex I*** for a listing) and interviews with relevant individuals and groups (***Annex G*** provides a list of persons contacted). Findings are based on the information collected, while conclusions and recommendations are the opinions and contributions offered by the evaluation team.

Report Format
It should be noted that the team used a pre-determined format for the preparation of this report. That is because this is one of a set of 12 final evaluations of Matching Grants for which MSI was contracted by USAID/PVC. Therefore, to facilitate possible future study at the level of the overall PVC grant program, it was determined that all reports would employ the same sections and sequence. Non-applicable sections are marked simply “N/A.”

Team Composition
Based on the Scope of Work (see ***Annex C***), the evaluation team was comprised of the following members:

- **Jim Dempsey**, MSI Senior Associate, a highly experienced microfinance specialist, was selected to serve as Team Leader. Mr. Dempsey has led a large number of USAID evaluations. In addition to being a specialist in MF, he has 23 years of USAID planning and operational experience. His last assignment before retiring from USAID was as a Microenterprise Development Officer focusing on programs in Africa. Mr. Dempsey was also the Director of Program, Planning and Evaluation for the Bureau for Humanitarian Affairs which included the PVC Office.
- **Victoria Michener**, MSI Program Associate, has broad experience with USAID evaluation and monitoring, and has worked for NGOs in Africa.
- **Mesfin Assaye,** from FHI headquarters, was selected by the grantee to serve on this team. Mr. Assaye has been with FHI for over 15 years, and has been the controller for FHI Africa Programs, the Faulu Financial Manager, and is presently head of FHI’s Microenterprise Division in its headquarters. He is well versed in the various aspects of the grant under review.

3.0 MATCHING GRANT BACKGROUND*

3.1 Historical & technical context and partners*

In 1995 USAID/BHR/PVC awarded a $3.4 million matching grant to Food for the Hungary (FH) USA that was transferred to and used by the Food for the Hungary International (FHI) to start a microfinance program in East Africa. FHI is an international faith-based relief and development non-governmental organization, supported by eight Food for the Hungary national organizations that raise funds for the development and relief work of FHI. FH/USA raises the largest amount of funding for FHI. As a registered USPVO, it is qualified to receive matching grants from PVC. Across all FHI’s programs, about two-thirds of expenditures are for relief work while the remaining third is for development activities.

Food for the Hungry International was founded in 1971 with the general objective of helping to alleviate world hunger. From 1971 to 1979 FHI activities consisted solely of relief work in just a few countries and continued in the early eighties with primary emphasis on helping refugees in Southeast Asia and Somalia, along with relief programs and child sponsorship in the Latin America and Caribbean region. FHI underwent a change in leadership in 1984 and from 1985 through 1988 FHI added to its relief priorities, more programs for development assistance. Funding and programs then expanded rapidly and the organization gave priority to diversifying its donor base and improving the quality of internal systems. Today FHI describes its focus as *providing child-focused development and relief programs in close to 30 countries and is committed to working to help poor people overcome hunger and poverty through integrated self-development and relief programs*. The motivation and direction of the organization remains based in a Christian vision that is shared across the Food for the Hungry Network organizations. Although FHI staffs are Christians, beneficiaries and clients are not asked their religion nor denied assistance on religious grounds.

In the mid-eighties, FHI chose three main development areas in which to work: water, agriculture, and primary health care, "however as the emphasis on sustainability grew, an underlying frustration surfaced time and again: the lack of money available to the beneficiaries to make programs sustainable. In addition, as FH began to eye the urban needs, it was realized that our rural-based approach to meeting basic needs would not work in an urban environment."[4] Thus they added a fourth area of emphasis: income generation. At the time that the MG proposal was written, FHI operated small lending programs in Kenya, Mozambique, Bangladesh, the Philippines, Bolivia, Peru, Guatemala, and the Dominican Republic. The programs varied greatly from one another in targets, funding source and methodology. FHI leadership came to the conclusion that "it would be helpful to have a model to share with field [offices] wanting to significantly expand their ME programs."[5] The Kenya model, "The Faulu Loan Scheme", was chosen to be replicated in Africa. *Faulu* means *success* in Kiswahili. The FHI Field Office Directors in Africa confirmed the priority and noted that they lacked the technical expertise to implement a significant microfinance (MF) program. Thus, the matching grant goal of building capacity in FHI to establish and operate microfinance programs met a clear organizational need. FHI, for all practical purposes, was undertaking the development of a new technical program area much different in nature from the relief and social development programs it historically had run.

The five-year PVC matching grant was awarded on April 1, 1995 and became effective in early 1996. The grant was active until March 31, 2001 (a one-year no-cost extension was awarded). The grant built upon the success of an FHI microloan program operated in the slums of Nairobi, which had been financed through a 1991 PVC matching grant to FHI to expand its Kenya program. This earlier microfinance program was only one element of a larger FHI project in Kenya. The grant goal as stated in the agreement is:

> To assist poor urban people to increase their income levels, through participation in a microenterprise loan program that fosters good business ethics and values, and which encourages an attitude of self-reliance and democratic participation, so that they are capable of determining and meeting their development needs.

On the technical and operational side, the approach proposed in the MG application was to establish a separate program within FHI called *Faulu* that would operate out of a regional office for Africa located in Nairobi. This independent program would then develop microfinance lending operations based on the solidarity group guarantee method that was modeled on the lending already being implemented in the Mathare Valley slums of Nairobi. This method was essentially the Grameen Bank approach that was proving replicable and successful around the world. From a management/operations standpoint the approach was innovative in that it proposed a regional bank structure. Faulu Africa would be the headquarters for a series of bank branches in Kenya, Uganda and Ethiopia to be set-up during the life of the grant. Further expansion in Africa and to countries in other regions was the longer-term goal set out in the grant application. One of the matching grant purposes was "to establish a link to FHI field programs in Latin America and Asia, so they can benefit from the methodologies, models, systems, lessons learned and staff experiences being developed in Africa."

This regional bank approach stands in contrast to the standard MF practices. Usually a microfinance institution is established and operated autonomously as a local lending entity within a given country. Where there is a network of local MFIs under a single USPVO (the plan as proposed by FHI), there would be shared systems and learning across countries as well as some common element of governance to start. However the entities (most often programs to start) would be financially and operationally

[4] 1995, Faulu Africa Regional Micro-Enterprise Loan Program, Matching Grant Application, Food for the Hungry.
[5] Ibid.

independent of one another. Differing local MF rules and regulations across countries as well as control, management and motivational challenges of a multi-country program are the main reasons why local autonomous programs are what work best in MF. The Faulu regional approach proposed by FHI would make the country programs into branches of a regional bank, rather than independent entities.

3.2 Project goal, objectives, and major hypotheses to be tested*

The following table summarizes the hierarchy of objectives, as presented in the Detailed Implementation Plan (DIP). In the DIP, the objectives were described as purposes.

Table 3.2: Project Hierarchy of objectives

Goal:	Assist poor urban people to increase their income levels, through participation in a micro-enterprise loan program that fosters good business ethics and values, and which encourages an attitude of self-reliance and democratic participation, so that they are capable of determining and meeting their development needs.
Purpose 1:	Provide increased access to credit services for poor in Ethiopia, Kenya and Uganda
Purpose 2:	Create a regional microenterprise loan program, Faulu Africa, that will consist of regional coordinating office and network of branch lending offices in participating African countries, which will be self-sustaining operationally and financially, both as branches and overall.
Purpose 3:	Encourage women to be involved in ME through involvement as loan clients within leadership of the client groups, and as Faula Africa staff.
Purpose 4:	Enhance FHI's institutional ability to establish, professionally manage, evaluate, and monitor quality ME loan programs
Purpose 5:	Establish an inter-regional link to FHI field offices in Latin America and Asia, so they can benefit from the methodologies, models systems, lessons learned and staff expertise being developed in Africa

The MG hypotheses are not clearly articulated in the cooperative agreement. However, we can infer that the main hypotheses underlying the Faulu approach were:

1) Microfinance can reach and help the poor in Kenya, Uganda and Ethiopia through financially viable MFIs.

2) An independent structure for microfinance development within FHI (Faulu) would enable it to build a capacity to establish and expand microfinance programs in Africa and then other regions.

3) The establishment of Faulu programs in East Africa would create replicable models for MF expansion to new countries.

4) A core staff of microfinance specialists, experienced in the Faulu model would be stationed in Africa to lead future expansion of MF activity in FHI programs.

See section 5.2.1 for a more detailed discussion of the hypotheses.

It is important to note that the original MG operational plans for the Faulu structure were modified often during the first three years of the program and a final arrangement was ratified by USAID in March 2000, after four years of implementation. Furthermore, the original DIP does not set out clear program targets and indicators. These combined circumstances make it challenging to evaluate the achievements of the program against previously established criteria. The modifications to the Faulu approach which took place during the matching grant did not result in any change to the five purposes listed above, which have remained constant through the course of the MG program. An additional three objectives were mentioned

in the matching grant proposal and the DIP. FHI/Faulu management stated in a March 2000 letter to USAID that even though these three purposes were in the DIP, FHI does not want to be held accountable for specific achievements related to these purposes. USAID agreed to limit FHI accountability for results to the five purposes. The three MG purposes eliminated were:

- Improvements in business ethnics and values,
- Encouragement of democratic participation, and
- Advocacy to improve the policy and enabling environment for MF

Although there have been changes in the institutional and management structure during the program, the group guarantee lending methodologies have remained at the core of the program. Operations and lending have been in line with MF best practices.

Altogether the program modifications to Faulu Africa can be viewed as having resulted in two significant phases along with the original approach. Thus during the course of the MG, three different structures were planned and partially implemented for Faulu Africa. Presented below are summaries of the original approach and the two overall adjustments. The review team cautions the reader that Faulu Africa adjustments were more evolutionary than in three distinct stages, but to give the reader an overview of the evolution, the three stages do present a full view of the changes. Each change represents an adaptive strategy taken by FHI given the situation and circumstances. The changes were logical ones, and probably the best course of action to have taken, but they did deviate from the original structure of the grant. These modifications were reported by Faulu in its annual and quarterly reports but no official approval of the grant modifications were made with USAID until the final approach was ratified by USAID in March 2000.

1. Original Approach: A Regional Microfinance Program for the Poor

FHI did, in fact, establish a regional headquarters in Nairobi (Faulu Africa) that was going to act as a central bank and provide technical assistance to two MF branches in Kenya, and one each in Uganda and Ethiopia. Each of the four branches would have approximately 2400 clients and seven loan officers. The branch offices would provide increased access to credit services for the poor in the three countries. The branches were to be semi-autonomous and expatriate managers would head Faulu/Africa and the branches in Kenya, Uganda and Ethiopia during an initial phase.

Faulu Africa began providing start-up and technical support to the Kenya branches and Faulu Uganda planning began in late 1995 with operations commencing in early 1996. The 1997 Year-End Report for the MG provides a good summary of the Faulu structure at that time.

> The Faulu Africa regional office coordinates the continued development and improvement of all systems necessary for the success of each MFI unit and all units overall. Thus the efforts are combined to surpass what any one could do cost effectively on its own. Overall coordination, management, cross-national training and quality control are provided. Accessing major donors, investors and capital markets to efficiently acquire needed capital resources is and will be a key function. Loan product innovation is facilitated and lessons disseminated. A core regional staff provides these services, utilizing the talents of, and working through, staff within various country-based MFI units. Professional regional positions include Director; Controller; MIS Manager; Research and Evaluation (R&E) Coordinator; and Administration Coordinator. Each branch, country MFI unit and Faulu Africa overall are run as businesses, with institution building being a

major issue. Each level is charged with becoming operationally and financially self-sustaining as soon as possible.[6]

Faulu/Africa would be FHI's field unit to coordinate, support and expand microfinance in Africa and as such it would "enhance FHI's institutional ability to establish, professionally manage, evaluate and monitor quality ME loan programs" – a key purpose of the MG. As mentioned previously, the multi-country bank approach was innovative and its success would be attractive to PVC because of the potential efficiency of having a central headquarters functions and overhead costs spread across at least three countries. This structure would also appear to facilitate expansion to other African countries, given Faulu/Africa's capabilities and experience. The FHI plan to link Faulu/Africa and its field offices in Latin America and Asia was a purpose set out in the MG.

2. Second Stage Approach: Country Based MFIs Supported by a Regional Office

Almost from the start of the MG grant, the regional bank structure was an issue. DFID (then ODA) awarded Faulu/Kenya a grant of $2.25 million in 1995 that supported the objective of an autonomous, self-sufficient and expanded branch network in Kenya alone. How that would best fit with Faulu Africa was the question. Both the Director of Faulu and his supervisor in FHI (currently the President of FHI) reported that in 1997 and 1998, plans were shifting toward a more traditional MFI structure. The 1998 End of Year Report for the MG stated:

> As part of the evolution of Faulu Africa and its units, during 1998 FHI analyzed a number of factors to determine potential adjustments with its Faulu Africa microfinance program. Implementation has begun for Faulu Africa to be positioned as an approach for economic development and nation building in Africa. This will be undertaken by a network of locally incorporated companies in various African countries…. They will provide, on a cost recovery and sustainable basis, appropriate and affordable financial services to large numbers of low income, urban and rural micro and small entrepreneurs.
> (underline added) [7]

In early 1998, the question of what to do with the regional office of Faulu Africa was a central concern. The mid-term evaluation of the MG found that the main challenges for the remainder of the grant were the organizational structure of the network and role and sustainability of the regional office. It highlighted the need to find a role and the means to financially sustain the regional office now that the country programs were becoming independent. Faulu Africa's regional office had shifted from a MFI headquarters type of operation to more of a support and service entity. The mid-term evaluation stated in July 1998:

> Questions remain unanswered as to what the network will look like and how the units will relate to the regional office. Some issues revolve around the legal status the units will need, others deal with the degree of autonomy and self-governance that will be given as the units mature. How Faulu Africa ultimately defines itself will influence its prospects for sustainability. The path that must be followed to achieve financial sustainability at the unit level is well marked. Given these clear performance benchmarks, progress of the units will be easy to determine. The path for sustainability of Faulu Africa in total, however, is not so clear…. Key to survival is the identification of sources of earned income for the regional office that will permit Faulu Africa to continue and pursue its vision.[8]

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[6] Matching Grant Year End Report: 1 January1997 – 31 December 1997, page 1.
[7] Matching Grant Year End Report 1 January 1998 – 31 December 1998, page 2.
[8] Food for the Hungry, Inc., Matching Grant II, Mid-term Evaluation, July 1998, page vi.

The mid term evaluation then goes on to suggest four options or some combination of them to help make the regional office sustainable. It also called for the completion of a business plan in the near term to set a course for sustainability.

Plans for an Ethiopian program were cancelled, with USAID concurrence, in March of 1998, which further undermined the need for a regional office. FHI plans were for Faulu Ethiopia to start off as a program of FHI, the legal entity allowed to operate in the country. In 1996 the National Bank of Ethiopia announced it would regulate all microfinance institutions but the rules and their application were not fully settled. In October 1997, the National Bank indicated that effective immediately Faulu had to comply with a legal requirement that all Board member be Ethiopian and that all share capital also be owned by Ethiopians. This effectively prohibited the ability to make foreign investments that could be repatriated or moved to other Faulu offices. Although FHI had started the Faulu Ethiopia development process, it decided along with USAID that Ethiopia did not provide an enabling environment for MF at that time. USAID agreed to reprogram the funds into the rest of the MG and Faulu would complete a report exploring the options for a third Faulu country program. Faulu did complete a review of establishing a Faulu in Tanzania but adequate funding to start the operation was not found.

3. End of Program Approach: The Faulu Africa Network

This third stage is different from the second in that there is no longer a regional office and the two local Faulu are not only autonomous from Faulu Africa but are also on the road to becoming independent of FHI. The decision to close the Faulu Africa's regional office in Nairobi was made in late 1998. FHI did not adopt any of the options or the business planning exercise suggested in the mid-term evaluation. The office was to be replaced by Faulu Investments and a Faulu Network Council. Again in the MG 1998 Year End Report, FHI states it plans.

> The Faulu Investments office, as a division of FHI, will be part of a new department within FHI [Headquarters in Arizona] …. [The Division Staff] will be available as a resource for FHI fields [offices] around the world concerning various aspects of and opportunities for a wide range of creative and sustainable economic development activities. It is part of the FHI capacity building that is being built as an output of the USAID Matching Grant. It also disseminates lessons learned from the Faulu Africa experience.[9]

Complementing the Faulu Investment office is a Faulu Network Council which was established in 1999 and provides a forum for dialogue, cooperation and learning among the two local Faulus, Faulu Investments, and FHI. It currently has three working groups that deal with MIS, accounting and training. Faulu Investment has the responsibility to manage for FHI its shares in the local Faulu companies in Kenya and Uganda. The FHI Microenterprise Development Division, the name chosen for the new unit in FHI headquarters, provides the operational support and direction through one full time member (specialty in finance) and a part time MIS specialist. Both of the individuals worked in the Faulu Africa regional office. The larger and deeper pool of technical support that the MG funded in the regional office no longer exists – a major change in FHI capacity.

In June 1999, FHI legally established Faulu/Kenya as a limited liability company and the agreement became effective in January 2000. Faulu Uganda was established as a company in December 2000. This effectively completed the evolution of Faulu to its new structure of independent private companies owned by FHI and supported in selected technical areas by a small unit in its headquarters. FHI as owner did not direct the boards' members. They operated and made decisions on their own. Plans are to further the

[9] *Ibid*, page 3.

independence of the two local Faulu by bringing in new capital and owners which could reduce FHI ownership to the 25-50% range.

The focus of FHI work since the new structure has been put in place has been to assist Faulu Kenya and Uganda to become successful profit-making companies. FHI and Faulu have not started a new program in Africa since Uganda in 1995 and there are no firm funding or operational plans for a new program at present. However, a formal proposal was submitted but rejected for a new MF program in Tanzania.

The FHI Faulu structure thus has evolved from a regional bank to a traditional structure of autonomous MFIs and finally to a commercial MFI operating independent of FHI directions with decreasing links to its former parent NGO. The original MG premise that a regional bank structure offers much potential for expanding MF in FHI was not tested.

Finally, to complete the picture of the evolution, presented below are the total expenditures (rounded) by MG operational units. A more complete financial picture is presented in section 7.7. The purpose here is to show how FHI used its MG funds to support the units of Faulu over the six-year period of the grant. It should be noted that much of the regional office expenses were in fact used to help in the start-up and consolidation of the Faulu Kenya

FHI MG Program Component	*Total Expenditures - $*
Faulu Regional Office	760,000
Faulu Kenya	1,100,000
Faulu Uganda	1,396,000
Faulu Ethiopia	124,000
FHI: Headquarters/Field Offices	20,000
Total	3,400,000

4.0 PURPOSE OF THE EVALUATION*

The primary purpose of this final evaluation is to fulfill the requirements of USAID/BHR/PVC's Matching Grant Program, which calls for an independent review of grant effectiveness and lessons learned. PVC will use the findings, conclusions and recommendations to assess how well the MG met its objectives and to assist in the review of any follow-on proposals presented by FHI or other PVOs proposing similar programs. In addition, together with other MG assessments, this evaluation is designed to assist PVC in:

- determining patterns and emerging issues across all MG funded programs;
- identifying the technical support needs for the PVC Office and its grantees;
- shaping new MG Request for Applications;
- developing internal and external documents to demonstrate the effectiveness of the MG program; and
- sharing lessons learned with the entire PVO community.

PVC may use the evaluation information in its annual Results Report and in USAID's annual report to Congress.

The second purpose of the evaluation is to help Food for the Hungry assess and learn from its experiences in implementing the Faulu MG initiative over the past six years. Though technically a *summative*

evaluation (in the sense that the MG is finished), it can actually be seen as a *formative* evaluation in that FHI has stated its intention to continue Faulu microfinance activities. This review should help enhance program design, improve monitoring and evaluation and guide FHI/Faulu into the future.

The scope of work for this evaluation appears in **Annex C**.

5.0 PROGRAM IMPLEMENTATION EVALUATION QUESTIONS

5.1 The Detailed Implementation Plan

5.1.1 Completed DIP and DIP accuracy

Findings and Conclusions

Drawing on the original proposal and the DIP submitted in July 1995 by FHI, the evaluation team created the Detailed Implementation Plan Table that appears in **Annex B**. The DIP submitted by FHI consists primarily of narrative description as opposed to logframe-type tables laying out the strategy, with the exception of one table laying out the plan for Kenya. Because of the many changes that were made in the structure of Faulu, many of the indicators were not relevant, or where they remained useful, the end of grant targets were not. The Faulu's regularly collect data and report on the microfinance service delivery objectives, however there is no evidence that they monitored progress or collected data on the FHI capacity building objectives.

5.1.2 Quality of DIP and degree of its use in implementation

Findings and Conclusions

Compared to the performance-based management systems now in place in USAID and many of its cooperative agreements, the FHI/Faulu DIP is not of high quality. It does not provide a management and results structure to measure performance. Objectives are vague and there is no chain of causality linking different levels of objectives. Few indicators and almost no targets are spelled out. The DIP did not play any significant role in the implementation of the Faulu program. It was not used to guide management or performance. There was not an adequate planning structure for the capacity building purposes of FHI/Faulu. The lack of such a structure may have been a significant cause or at least exacerbated the lack of direction and changing responsibilities and role for Faulu Africa. The DIP did not contribute to the success of the program. It was not a successful planning and management tool in this MG.

That is not to say that there were no management and performance systems in place. Strong MFI performance standards including management information systems, indicators and targets were developed during program implementation for the country level MFIs. However, the strengths in planning, targets and performance measurement relate exclusively to the functioning of the microenterprise programs at the country level.

The conclusion is that the original DIP was not strong and, as the MG changed, the DIP was not revised. For most of the MG the DIP did not reflect program plans. Listed below are the five main purposes with specifics findings and conclusions on DIP quality and overall success in implementation. General recommendations are provided at the end of this section.

<u>Purpose 1: Provide increased access to credit services for poor in Kenya, Uganda and Ethiopia</u>

The indicators in the DIP are the number of branches and clients. The program changes essentially make the targets irrelevant. No revisions in the DIP was completed, but both Faulus completed detailed business plans with specific targets following the standard performance measures accepted in the microfinance industry and required under USAID policy (See the 1995 Microenterprise Development Policy Paper[10]). They also introduced to both Faulus a powerful accounting package that was used by FHI. Although the DIP was weak for this objective, at the country level the finding is that the systems put in place by the two Faulu country programs to measure performance and track management were strong.

Purpose 2: Create a regional microenterprise loan program, Faulu Africa, that will consist of regional coordinating office and network of branch lending offices in participating African countries, which will be self-sustaining operationally and financially, both as branches and overall.

No revisions were made in the DIP. FHI did implement this objective but it evolved significantly over time.As noted in the previous section, the final structure of Faulu came out much different than what was presented in this purpose.

Purpose 3: Encourage women to be involved in ME through involvement as loan clients, within leadership of the client groups, and as Faulu Africa staff.

This purpose should have been articulated as a sub-objective to purpose number one. The targets were to have over 50% of the clients be women and 35% of the staff. Faulu tracks the percent of its clients that are women and has chosen a lending method (solidarity group guaranteed lending) that generally facilitates women's participation. The Faulu's do not seem to explicitly track the ratio of staff who are women, although both Faulu's are very conscious of the number of women on their board of directors.

Purpose 4: Enhance FHI's institutional ability to establish, professionally manage, evaluate, and monitor quality ME loan programs.

The activity that supported this purpose as reported in the DIP is "to gather and grow a strong team of specialists at Faulu Africa" so that Faulu Africa will be the agent inside FHI to expand microfinance programs. There are no indicators to suggest the desired quality and degree of enhanced institutional capabilities at the end of the grant. Indicators and targets to achieve these ends are lacking in the DIP. The changes in the structure of Faulu that evolved through the grant period made the vague capacity building objectives found at the start in the DIP even more inscrutable.

Purpose 5: Establish an inter-regional link to FHI field offices in Latin America and Asia, so they can benefit from the methodologies, models systems, lessons learned and staff expertise being developed in Africa

Although FHI listed this as a purpose on the same level as those above, it is in fact a supporting set of activities to Purpose 4. The measurement indicators are set forth for this activity but since no linkages activity were completed, the objective was not implemented.

5.1.3 Familiarity with DIP and design*

Findings and Conclusions

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[10] *Microenterprise Development Policy Paper*, USAID, 1995.

The individuals at FHI/HQ that have a detailed familiarity with the Faulu program design and evolution including the Faulu Officer/Finance Advisor, the MIS Specialist, the Director of International Programs and the President of FHI. No one was familiar in detail with the DIP document. But, this is not surprising since the design of Faulu evolved without the DIP being revised. The key here is that there is a good understanding within this group of the actual evolution of the MG.

Faulu/Uganda and Faulu/Kenya staff are not familiar with the matching grant DIP because it did not reflect what was happening in the programs. This is consistent with the fact that the DIP was not a management or performance assessment tool used by Faulu. However, there was an understanding of the elements of the grant among the senior staff of Faulu Kenya than Faulu Uganda. The team also interviewed select members of the Boards of the two Faulu. They, too, were not familiar with the DIP, but understood the role of the MG in helping to start-up Faulu.

The former Director of Faulu and the General Manager of Faulu/Uganda, both of whom are expatriates who have now left FHI/Faulu, showed excellent knowledge of the program and the DIP. However, both recognized that the DIP was not a tool that was central to management and performance. It was viewed more as a requirement to start the MG.

It is useful to note here that although Faulu Kenya and Uganda staff were generally not familiar with the MG DIP, they were aware of and made use of the business plans and their performance targets established by each country program. In effect, the business plans, the projections and the MIS that collected and calculated performance measures and targets played the role that a DIP would do when it is most effective. On a weekly basis a series of monitoring reports were produced for loan officers, branch managers, and HQ staff to check program and staff performance. There is also a report (Periodic Transaction Report) that is prepared for clients to review at their weekly meetings. The report provides a full and up-to-date record of client accounts. It provides key data to clients, solidarity group officers and the loan officers. It is especially important for arrearages.

Recommendations for Section 5.1.1 – 5.1.3

From the findings and conclusions set out in the previous three sections, the following recommendations are made.

1) The USAID requirement for detailed implementation planning, including a logical development framework to assess performance, needs to be applied to all grants and adjusted as appropriate to program modifications.

2) The matching grant cooperative agreement should set out the key indicators and targets for grant performance and results. Special attention should be given to capacity building. Periodic reporting against these indicators and targets should be mandated to keep grantees focused on implementation planning. USAID will need to be substantially involved when grant performance significantly misses targets.

3) In technical programs, such as micro-credit, where there are industry-wide performance standards and targets, PVC should ensure that they are used in implementation planning. They are well tested and provide a set of peer group programs for comparison and learning. It is a credit to FHI and Faulu that they, in fact, established excellent MIS and performance standards for their MFIs in Kenya and Uganda.

4) Innovative technical approaches funded under a MG need to be followed closely by technically qualified staff. If the program is not working out as technically planned, as was the case with the

Faulu regional bank, the technical skills and judgment of the officer are critical to guide revisions and protect USG grant "investments".

5.1.4 Major successes and shortfalls in implementation*

To best understand the success and shortfalls of the Faulu Matching Grant, the evaluations team has divided this section into two general areas:

FHI Capacity Building in MF which addresses the grant purposes Four and Five having to do with enhancing FHI's institutional ability to establish, professionally manage, evaluate, and monitor quality ME loan programs; and

Microfinance Service Delivery which addresses grant purposes One, Two, and Three having to do with providing increased access to credit services, how the services would be managed and what target audience would benefit.

To measure FHI capacity building in the absence of a performance framework, the evaluation team looked at FHI commitment and structural approach, FHI's ability to support and finance the model, and replication of Faulu in other countries. For service delivery, the team used standard MF performance measures in six areas (operations, MIS and controls, staffing, sustainability and efficiency, gender targets, and governance) to evaluate the local Faulu MFIs.

FHI Capacity Building in Microfinance

Findings

Commitment of FHI and Structure of Faulu

The commitment of FHI to microfinance development at the leadership and management level at its headquarters is strong. The present President has been integral to all decisions made about Faulu from the start of the MG. He sits on the boards of both Faulu Kenya and Uganda. The expansion of the FHI vision and mission from relief, welfare and social development to a commercial MFI model for business lending is a remarkable shift. There is no question of the commitment of the leadership in headquarters to the Faulu model.

Faulu Africa and then Faulu Investments have operated as independent programs within FHI. The idea was to build a cadre of technically strong microfinance staff members that could promote and expand the Faulu approach developed in Kenya, Uganda and Ethiopia to other East African countries and eventually other regions. The extensive system of FHI country offices and staff would operate separately from Faulu to start.

After more than six years of implementation Faulu Africa has become a combination of two country programs. The program in Ethiopia was halted at a very early stage and the funds reprogrammed into the existing activities. The target of three country programs was not achieved. There has been no new Faulu country program established since Uganda in 1995.

At the time of this evaluation in late 2001, the FHI country offices had not been used in any significant way to expand microfinance. Even in Kenya and Uganda the overlap of Faulu and the FHI country program is minimal. Faulu is urban and business oriented; the country programs are rural and relief focused. The independent Faulu structure meant that FHI did not take advantage of its extensive field network to expand Faulu. As FHI moved away from the regional bank model and eventually established a

technical office in its headquarters, it kept Faulu as an independent program. It did not try to integrate Faulu or its lessons about microfinance into its country programs.

In summary, even though there has been a high level of commitment at FHI HQ to Faulu specifically, this commitment has not resulted in new microfinance country programs and it appears that FHI country staff do not share the HQ vision for Faulu type microfinance programs in FHI countries.

The Faulu Model: FHI Support and Faulu Costs

Development of the Faulu approach has not been easy for FHI. The struggle and false starts in testing and developing the Faulu model have been costly and at times frustrating. There were two sets of challenges: one that centered on FHI support and links to the local Faulus through a regional banks, regional office or HQ technical unit; and the other on the operations of the MFI, basically service delivery. The service delivery challenge is discussed in detail in the next section of this evaluation but it suffices to say here that the Faulu approach was based on industry-wide best practices that were generally implemented well and have shown good results. However, there are some cost issues related to the establishment of Faulu with important implications for the replication of Faulu.

The original regional bank approach with branch networks in various countries did not work for FHI/Faulu. The most often quoted reason for this was the desirability of autonomy for country programs so as to build a sense of ownership and commitment to local operations. Also there were differences in country rules and regulations that made the single regional bank more difficult.

The FHI President pointed out that a defining issue for Faulu Africa, once the regional bank concept proved unattractive, was how the regional office could be financially sustained. No arrangement could be found to achieve this end. The regional office was closed. The two local country programs were not earning income and were, in fact, operating at substantial losses. They could not contribute to regional office support. Further, the need to for technical assistance was decreasing as the Faulus matured. Donor funds, including USAID's, were available for direct support to the local Faulus but not to regional offices. Almost all microfinance donor funding is provided in direct support to a particular MFI to expand service delivery. Overhead costs such as a regional office are generally not funded. FHI was not able to raise such funds. The option of a new grant to start another Faulu supported in its start-up by the regional office was a suggestion of the mid-term evaluation. Such funding did not materialize.

On the positive side, the regional staff's technical and operational support in the start-up and early expansion of the two Faulus was of critical importance by all accounts. The training and systems laid the groundwork for the successful operations of the two organizations. Discussions with field staff revealed that the regional office had played an important start-up function for expanding Kenya and opening Uganda, but it outlived its usefulness. Not a single person we talked to thought that closing the regional office was the wrong thing to do. As to start-up assistance, the team found that the benefit came from the technical input of the staff and that the debate and work on the structure of Faulu Africa contributed little to the local operations. In fact, the structural issues and work may have drawn staff away form the technical and operational tasks. The team also found that the Faulu Africa regional staff continued to play a role in Kenya operations to the detriment of the development of the local management team.

In terms of the present structure of FHI/Faulu, the FHI the Microenterprise Development Division provides MIS and financial assistance that is viewed as valuable by the local offices. It also takes a lead in donor fund raising and completing the reporting requirements for donors. It has been very helpful in arranging out-of-country training for staff. The head of the Division is deputized to represent FHI at board meetings when the FHI President cannot attend. Complementing the Division is a Faulu Network Council that was established in 1999 and provides a forum for dialogue, cooperation and learning among the two local Faulus, Faulu Investments, and FHI. It presently has three working groups that deal with MIS,

accounting and training. Faulu Investment has the responsibility to manage for FHI its shares in the local Faulu companies in Kenya and Uganda.

Since the MED Division in FHI headquarters is small, it is a low cost operation that for all practical purposes is self-sustaining with support from the FH networks and others. Likewise the Faulu Network Council is a sustainable and low-cost approach to lateral learning in FHI/Faulu. Both can be seen as products of the matching grant.

The MG to date has leveraged $7.15 million for the local Faulus with an additional $3.0 million expected in the near future from DFID. Adding in the MG funding means that approximately $13.5 million has gone to Faulu with about $8.5 to Kenya and about half that to Uganda. The remainder is for the regional office and other costs. Much of the success that the two Faulu programs have had in raising additional donor support rests on the work of the regional and then the HQ staff. The significant contributions and operational achievements of the Faulu Kenya and Uganda should not, however, be overlooked in attracting donor support. Presented in **Annex H** is a summary of non Matching Grant income that presents the details of the significant donor support to Faulu. Although not capacity building per se, the fact that FHI/Faulu has been able to attract substantial other donor support is a credit to their operations as well as to the MG.

On the other hand, that the local Faulus, especially Kenya, have cost so much, i.e. received such large amounts of grant funds, and the goal of financial sustainability remains years into the future does raise a question about the cost effectiveness of the approach. It also has an impact on FHI's programming decisions to establish new Faulus. The evaluation team does find that Faulu Kenya's performance must be seen in the context of FHI undertaking its first venture into microfinance with Faulu Kenya. There was a first time learning curve that has created extra costs. In fact, the grant needs for Faulu Uganda to reach financial sustainability are likely to be in the $4.5 million range, half that of Kenya. Admittedly it also rests on the fact that Kenya is a more difficult environment in which to lend.

Replication of Local Faulus

Now that a sustainable and low cost HQ approach has been established at FHI for Faulu, the question is can FHI replicate the local Faulus. That no new Faulu has been established since 1995 is a major concern. There is still much to do for the two Faulu to achieve sustainability. FHI leadership has placed priority on making sure the two Faulu are working before moving on to new programs. FHI has attracted substantial donor assistance, including three additional grants from USAID. But, all funds have been used to strengthen and expand the existing two field programs. The time, effort, and money required to develop and support commercial and financially viable MFIs has been large. The task is larger than FHI leadership envisaged at the start of the MG. The cost and the need for input in a wide range of technical areas makes the replication of a local Faulu a daunting task to FHI. A good measure of FHI capacity building in MF would have been one or two new programs started in the last few years. That no new programs were started really means that the matching grant was used for the start-up of the programs in Kenya and Uganda.

In summary, the evaluation team based on its interviews and findings, believes that FHI did not have a full understanding of the needs and challenges of microfinance institutional development at the start of the grant. The grant's purpose was to build FHI capacity based on its pilot experience in Kenya. Much effort and funding was used as FHI/Faulu tried to find the right institutional model for microfinance development. The MFI model that in the end did emerge is a traditional one. FHI's small technical staff is stretched to maintain and grow the existing programs. Establishing and developing new MF programs is more than the unit can handle at present with the existing Faulus still needing assistance. Further the cost of a new Faulu, based on FHI experiences with Kenya and Uganda, is large. It remains committed and focused on raising the needed money for the existing field programs.

Highlights of implementation experience, based on review of the program are summarized in the table below.

Table 5.1.4(a): Major Successes and Shortcomings in Implementation

Implementation Experience at a Glance	
Major Successes	*Major Shortcomings*
FHI CAPACITY BUILDING IN MICROFINANCE	
Put into place two MFIs with strong service delivery capacity.	There is little evidence that FHI as a PVO has significantly increased its capacity in MF
FHI HQ vision and commitment to MF are high.	FHI field offices do not share HQ MF vision and mission.
FHI/Faulu provided excellent start-up assistance to Kenya and Uganda.	No other FH field offices in Africa or other regions have replicated the Faulu model. Faulu is in only two countries.
The Faulu program complemented local USAID Mission objectives for microfinance development	Regional bank and regional office approaches did not work. There were significant expenditures on both with unclear benefits after the start-up phase.

Conclusions

1) Although there is a high level of commitment at FHI headquarters, the field staff and regular country programs have not embraced microfinance as part of their operations and planning. The Faulu program is largely separate from the mainstream of FHI operations.[11] A microfinance and small business development vision has been grafted on to FHI's mission but it has not been integrated with it.

2) The original Faulu regional bank model did not work and the process of establishing a new approach and structure was costly and time-consuming. In the end the new approach turned out to be a rather standard arrangement of autonomous field offices linked through a network and supported by a technical unit in headquarters. The technical unit is small, with one full-time and one half time specialist. Approximately $1.6 million was spent on the regional office of which the USAID contribution was $760,000.

3) Although the regional office did not survive, FHI was successful at building microfinance capacity in the Faulu's themselves. The evaluators found Faulu staff in both countries to be knowledgeable and competent. FHI considers Faulu staff in Kenya, Uganda, and the MED to be its human resource in microfinance capacity. The extent to which FHI can tap this resource-- pulling staff away from their Faulu jobs to do work for FHI-- will testify to this capacity.

4) The support provided in the start-up phase and then the assistance of the HQ staff in finance and MIS have been helpful to the local Faulus. There was universal praise for the start-up assistance to train the staff and establish management and operational systems. There was also unanimity among Faulu field staff that closing the regional office was the right decision after start-up.

5) That the Faulu system has attracted over $7.0 million in other donor grants attests to the seed capital nature of the MG.

[11] Several months after the evaluation was completed, FHI told the evaluators that it is now trying to better integrate MF programs with other FHI activities in Kenya and Uganda.

6) That FHI has not established a new MF program in Africa or another region in seven years raises questions about its institutional and fund raising capacity to develop new MFI loan programs like Faulu.[12]

Microfinance Service Delivery

Findings and Conclusions

FHI is meeting its MG purpose of providing increased access to credit services for the poor through its country based Faulu programs in Kenya and Uganda. Since these are limited liability companies with independent business plans and boards, a separate review of the findings and conclusions for each provides the best evaluation. They do, however, share a vision of being a leading provider of financial services to low income populations. As Christian faith-based institutions, they carry out their lending activities as part of a vision, which seeks to contribute to physical and spiritual transformation.

USAID's standard MFI reporting format, Table 1, is presented in **Annex J** for Faulu Kenya and Faula Uganda. It provides a simplified activity and financial statements that are used for the much of the analyses that follows on the two Faulus.

Faulu Kenya

Operations and Portfolio

Faulu Kenya is headquartered in Nairobi where three of its five branches are located and these service the urban and peri-urban areas of the capital. The fourth branch is located in the town of Nyeri and covers the region around Mount Kenya. The fifth is a special case in that it represents about 40% of the clients and is spread throughout rural areas to the West and South of Nairobi through four hubs that in effect operate like small branches. Most clients operate businesses in important market towns around the hubs. This branch is the fastest growing part of Faulu. Total staff now numbers 108 of which 56 are loan officers.

Faulu Kenya had a average outstanding loan portfolio of $3.054 million for 2000 with an end of year balance of $3.286 while at the time of the evaluation visit at the end of November 2001 the outstanding portfolio stood at $3.903 million, approximately a 20.5% annualized growth rate for 2001. The total number of outstanding loans at the end of 2000 was 9528. Faulu uses an individual loan, group guarantee method with a forced saving component (25% of loan amount) held in the Loan Security Fund (LSF). Faulu introduced in 1998 a voluntary savings product whose deposits are added to the LSF. At the end of 2000, the fund held $1.867 million or approximately 57% of the outstanding portfolio. Faulu Kenya has not used these funds as security for a local loan to date.

The total number of registered clients stood at 14,965 at the end of 2000. Faulu allows its clients to forego borrowing but remain in the groups, thus the number of registered clients is greater than outstanding loans. Faulu started as an urban based program but has expanded substantially in recent years to towns and rural areas that now represent approximately 40% of the portfolio and is the fastest growing area. Commerce and services are the main activities of about 80% of Faulu clients.

Faulu essentially has only one type of loan method with two products. The method is an individual loan with a guarantee by a group that ranges in size from 10-40 and averages 23. The first and base product is the standard working capital loan that accounts for 85-90% of the portfolio. The loan runs for periods from 6 to 12 months, stepped up by loan cycle from six, nine and then twelve months. A grace period of a

[12] Several months after the evaluation was completed, FHI told the evaluators that it had begun activities to open a program in Tanzania. See Afterward.

month is built into almost all loans. The first loan is typically for Ksh 20,000 or about $255 at the present exchange rate of Ksh78/$1.00. Each successive loan can be up to twice the amount of the previous loan. The average outstanding loan balance at the end of 2000 was $345. The largest loans stood at Ksh 1.0 million. Repayments are made at the group meetings that are held weekly. The interest rate used is 22% flat which is a competitive rate in Kenya. There is also a 1% set up fee, a training fee of Ksh150 and registration costs of Ksh 100. Faulu also has an innovative insurance product that cost 2% of the loan amount and provides commercial coverage for death, disability and fire. It can be extended to cover other members of the household. Faulu pays the commercial provider 1.7% and keeps the remaining .3% to cover its costs.

The second product is the family needs loan that is offered to existing clients and is typically used to pay medical or school fees. These loans can be processed and disbursed quickly, often in just a week. They are shorter in term (up to six months) and carry an interest rate of 5% per month. They are paid weekly using the same groups and procedures as the working capital loans. Faulu Kenya had experimented with individual loans without the group guarantee but the arrearages could not be controlled and the loans product was discontinued.

Although Faulu uses just one loan method, it has introduced much flexibility in its use. The Faulu loan tracking systems are strong and thus permit individual group members to have different loan terms and amounts borrowed in the same cycle as long as the group members agree to the guarantee. Early payoff and a second borrowing within a single loan cycle are also allowed. The family needs loan product allows the clients to increase their borrowing up to Ksh 30,000 with a application processing time of just a week or two. The loan security deposits are held by the individual members not the group accounts. A voluntary savings product has been added to the loan security accounts. Although there is much flexibility in the group guaranteed loan program, the staff of Faulu believes that new products are needed now. They note that the availability of only group lending is in part the cause of the high client exit rates that are found in Faulu programs. The evaluation team agrees that only having a single product after ten years of operation is a major limitation on operations and growth.

Faulu Kenya has an impressive marketing and research division that has recently been expanded to 4 staff members. They have been trained in the latest client assessment techniques as found in the AIMS tools and the MicroSave techniques. They have carried out client and product studies, completed market analyses, and prepared marketing brochures. They did a major market survey in 2000 that included interviewing other MFI's clients as well as individuals not participating in any MF programs. The R&D unit's immediate objective is to identify new products and perhaps business service that will help Faulu deal with its limited product offering and the low client retention rates. The R&D unit as well as Faulu management in general recognizes the increasingly competitive market in Kenya that requires innovation in response to client needs.

Portfolio growth over the last two years has been relatively slow for Faulu at about 20% per year while the portfolio yield has remained steady in the 33-35% range. The key factors that have limited growth have been the high exit rate for clients coupled with a reduction in the average loan size that in 1999 stood at $414 but dropped in 2000 to $345. Faulu management reported a dropout rate of 15 % per annum over the third quarter of 2001 which represents a drop from previous levels which were reported as high as 2.7% per month.[13] The reduction in average loan size reflects a change in client demand as a result of the deteriorating economic conditions in Kenya and the lower level of need in towns and rural areas where Faulu is growing fastest. The conclusion is that the portfolio is growing at a pace that is acceptable and prudent given economic uncertainties in Kenya. Faulu projections for business planning continue to target

[13] MicroRate Faulu Kenya Report, June 2001, page 6.

portfolio growth in 20% range. This modest growth rate reflects the continued economic troubles as well as the potential political disruptions resulting from President Moi's departure at the end of his term.

Portfolio quality has been strong throughout Faulu's operational life. The group guarantee method provides a first and primary line of loan loss protection that has kept the portfolio at risk (PAR) > 30 days at about .5 % with some slippage in the last six months to over 1.0%. The LSF accounts provide Faulu with a second line of protection while the clients commercial insurance provides a third. If anything, Faulu may be considered too risk-averse and there may be room to expand the portfolio and earnings at the cost of some increased loan losses. However, it is reasonable to conclude that the conservative approach to loan quality is a prudent stratagem for Faulu.

Gender Targets

Fifty-two percent of the outstanding loans at the end of 2000 were to women which exceed the 50% target set in the DIP. The office did not provide data on the gender ratio of staff.

Management Information Systems and Operational Controls

Faulu uses the MicroBanker for its MIS and a Sun System for accounting which have to be reconciled manually. The systems are all handled from headquarters where there is a staff of 13 that is responsible for data entry and management. The management and operational reports that are distributed weekly to branches and line managers are accurate and although a bit overly complicated are used and highly valued by managers and line staff. Loan officers share the Period Transaction Reports (PTRs) with the group leadership and individual clients who value the strong record keeping of Faulu. On the savings side, Faulu does not have an individually held saving passbook or similar record that is recorded by the institution. The PTRs are an excellent check on group operations in that they are reconciled with the local banks that handle the cash transactions for the group.

The computer hardware owned and used by Faulu is impressive and offers the capacity to upgrade the software systems that presently have some inefficiencies. A Windows based MicroBanker will be installed soon. Overall the MIS and accounting systems offer strong controls and provide information that managers are using to run its programs.

The business planning that Faulu has prepared is thorough and realistic. It reflects the basic strategy and mission that the organization espouses. It is based on reasonable and sound business projections which provide operational and performance targets for loan officers, branches and Faulu in general. At the field level the Faulu Kenya business plan provides all that the MG DIP is suppose to do.

Altogether the systems provide Faulu with the operational controls to ensure a quality portfolio and increasingly efficient operation.

Staffing

Faulu has recruited and retained top quality staff for most of its senior positions, which has meant a continuity of operations that has helped steady Faulu's performance in this new industry in Kenya. The newer staff added or promoted from within have been technically strong and have benefited from the experience of the others. A key exception on the retention side is the Managing Director/Chief Executive position which has been filled by four different individuals since the start of the MG. The present Chief Executive has been in place for about two years and has motivated the staff and brought a commercial orientation to operations. He is a well respected and strong leader who has taken full advantage of his experienced staff to delegate authority and accountability. Up to his arrival, the changes in the managing director appear to have caused some shifting in priorities and drifting as different management styles were

applied to Faulu. Slower growth during this period may have been one result. It is important to note that this was also the period when the nature and structure of Faulu Africa was being discussed and determined.

There was high consistency among Faulu Kenya managers regarding the objectives of Faulu. Nearly all said that the principle objective is for Faulu to become a top rate MFI—competitive, profitable, cutting edge, and large. It is to be a leading provider of microfinance services, to maximize shareholder value and to further the holistic development of its clients.

Faulu uses a centralized head office structure where all systems are maintained and support staff work performed. Branch offices may have computers, but they are used to provide data for review. All data entry is in the headquarters. The loan officers are the key staff upon which a MFI succeeds or falters. There are 56 credit officers out of a total staff of 108, which is a reasonable ratio, though not as high as Faulu Uganda. There may be some room to expand credit staff and improve delegation to better motivate the loan officers. Faulu is in the process of introducing a performance incentive system to add to credit staff and managers salaries. This is considered of highest priority by Faulu management and staff. The evaluation team concurs with this priority.

Senior management praised the loan officers and the evaluation team experience with those few with whom we interacted was positive. The new entry-training program for loan officers is strong. It starts with the trainee accompanying an experienced loan officer to get a feel for the work and client, and only then does the classroom training starts. Staff turnover rates have been about 9% over the last year, which has been a concern of Faulu management. Thus, they are trying to establish career path systems to provide challenges and opportunities for loan officers to move up through the ranks of Faulu. The nature and shape of this system is still under review.

For other training, Faulu, with the assistance of FHI, has taken advantage of the richness of international training that is provided for microfinance. Faulu staff have participated in the CGAP training program in East Africa, and have been sent to the USAID developed MFI training in Boulder, CO.

Most managers identified the reputation of the field staff being honest and trustworthy among clients as a major competitive advantage of Faulu. There is no objectively verifiable indicator of this; rather it rests on the belief that the Christian faith-based principles of the staff are recognized and appreciated by clients.

The evaluation team noted that the ratio of active loans to loan officer continues in the 170 range which is low for the group methods used by Faulu and other programs in Africa. The MicroBanking Bulletin shows both the small and medium/large MFIs in Africa have an active loan/loan officer ratio in the 300 range.[14] Admittedly, portfolio quality is high at Faulu and loan officers deserve much of the credit for this. Nonetheless, there is potential, and probably in the competitive micro lending market in which Faulu operates, there is a need for the loan officers to increase their efficiency by adding new clients. Faulu projections for 2002 and 2003 have the ratio move to 242 and 270 respectively. Average loan size is projected to continue to decline as the political economy weakens and rural lending with its smaller loan sizes becomes an even larger proportion of the portfolio. To achieve these ends, Faulu is taking one of the critical steps to improve the performance of the loans officers, the establishment of a comprehensive loan officer incentive system. This new system is planned for rollout in early 2002.

Overall, Faulu has a talented and motivated staff that is recognized as being honest and hard working by clients and potential clients. It is taking a number of important steps to continue to strengthen its staff and their performance.

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[14] *The MicroBanking Bulletin*, Issue No. 6, April 2001, Table 4, pages 50-51.

Governance

Faulu Kenya has a board of directors that includes the FHI President and Kenya Program Director, as well as five others of whom one is a woman. Although FHI owns all stock, the board does not see itself as an agent of FHI but rather as an independent entity that is moving Faulu to be commercially viable and profitable. To date, the Board and FHI have not disagreed on direction in large part because of their shared Christian vision. FHI Board members have been selected in part for their Christian experience. Board members bring a range of useful skills to the organization: business, accounting, audit, marketing, banking and legal. They receive a small honorarium, and appear motivated by social responsibility and Christian principles. The board sets objectives at the beginning of each year and members are evaluated based on how much they have worked toward the goals. The board appears to have a real sense of ownership of Faulu. It operates well with the Faulu leadership in that it knows its role is governance, not management. The board exercises real authority but does not micro-manage. The role of the board is to provide policy and general direction to management, to be the ultimate custodians of the vision and the assets, to hire the CEO, and to oversee Faulu's progress toward targets. Board training and development has focused on its purposes and responsibilities, roles, relationships and self-assessments. In summary, the Board is an independent entity that is active and engaged in transforming Faulu into a successful and profitable MFI that is helping the poor in Kenya.

Sustainability and Efficiency

The Faulu MG proposal set out financial sustainability as an objective for its Kenya program. That objective has not been met.[15] Its adjusted return on operations for 2000 was just short 75%, with total client revenues at $1,041,611, while adjusted expenses were $1,397,031. Faulu's operational sustainability where no adjustment is made for financial expenses is expected to be very close to break-even in 2001. One of the key factors in the last two years to bring Faulu closer to its financial goals is its increased efficiency, as shown in its operating expense ratio that has dropped from 47.5% in 1999 to 37.1% in 2000. This is a remarkable drop considering there has been little improvement in the number of clients per loan officer. The increased efficiency has largely come from cost cutting measures in the purchase of supplies ratio and services coupled with moderate growth in the portfolio. General operating expenses dropped by 16.8% in 2000 while the portfolio increased by 20.5%. This improved efficiency puts Faulu on a clear path to operating surpluses. Although Faulu has taken some important steps to transform itself to a commercially oriented MFI, its efficiency and financial position remain tenuous. It is not in a position to depend on commercial sources of loan capital financing.

The high cost of establishing Faulu Kenya is relevant here in that it shows the very large amount of grant funds ($8.5 million) that will be needed to make Faulu Kenya sustainable. Donor support to Faulu Kenya, including the MG, has been $6.5 million, with a substantial portion of the $1.4 million spent on the Faulu regional office. Faulu Kenya is about to receive another $1.5 million from DFID. Total support in the form of donor grants will be close to $8.5 million from 1995 to date. Faulu projections are that with the next round of DFID funds, the MFI will still be close to financial sustainability at the end of 2003. There will be substantial operational surplus and 19,000 outstanding client loans. From the standpoint of having the MG leverage other donor support, the grants are an impressive total and make the case for the MG as seed capital. From the standpoint that it takes gifts of $8.5 million to establish an operationally self-sufficient microfinance institution in Kenya, a question arises as to the adequacy of benefits achieved compared to the amount of the grants. Are there special circumstances in Kenya that are causing a low return on MF grant "investments"? Are the donors creating institutions that are grant dependent and inefficient compared to commercial operations? The evaluation team does find that Faulu Kenya's

[15] Several months after the evaluation, FHI claimed that Faulu Kenya reported operational sustainability at the end of 2001 and financial sustainability in May 2002. This has not been confirmed by the evaluators. See Afterword.

performance must be seen in the context of FHI undertaking its first venture into microfinance with Faulu Kenya. There was and is a first time learning curve that has created extra costs. In fact, the grant needs for Faulu Uganda to reach financial sustainability are likely to be in the $4.5 million range, half that of Kenya. At this lower level, the "bang for the buck" is more in line with what is found in other MFI development programs.

On the other hand, the evaluation team has found that Faulu is one of the top two or three MFI in Kenya. It has played an important demonstration role in the Kenya MF industry, which has been a particularly difficult one in which to work in terms of the high client exit rates and unfavorable business environment in recent years. Thus, with Faulu Kenya, FHI has taken on a much larger challenge than it had originally envisaged. Yet for Kenya, its program has been a leader in a difficult environment. That FHI and the MG have leveraged so much donor funding reflects the central role that Faulu has played in Kenya.

Highlights of Faulu Kenya implementation experience are summarized in the table below.

Table 5.1.4(b): Major Successes and Shortcomings in Implementation

Implementation Experience at a Glance	
Major Successes	*Major Shortcomings*
MICROFINANCE SERVICE DELIVERY: FAULU KENYA	
Strong Board of Directors, staff and MIS and operational systems established which have resulted in high portfolio quality.	Faulu Kenya's growth has been moderate and to a large extent this has been caused by very high client desertion.
Faulu is a commercially oriented MFI that is achieving increasing efficiency and is close to operational sustainability.	Faulu Kenya has not achieved the MG objective of financial sustainability.
The MG was critical to the start-up and success of Faulu and has acted as seed capital to attract substantial other donor support.	Faulu Kenya has had high development costs almost exclusively provided through donor grants. High donor dependency limited its transformation to commercial operations in the past.
Faulu has transformed moving from a project of FHI to a legally registered limited liability company.	
Faulu is a leading Kenyan MFI that reaches the rural and urban poor. Over half its clients are women.	Faulu Kenya has only one loan product. It is planning to diversify products and become more client responsive.

Faulu Uganda

Operations and Portfolio

Faulu Uganda was established in 1995 and made its first loans in 1996. It has a headquarters office and four branches all located in Kampala. Until 2000 Faulu has had a very small headquarters staff that was managed from its start until the summer 2001 by an expatriate funded by the MG. It is now managed by a Ugandan who was brought in from a managing director position at a competitor. Total staff now numbers 77, of which 50 are credit officers. Faulu moved from a project of FHI to a limited liability company in December 2000.

Faulu Uganda's lending approach and systems were generally drawn from Faulu Kenya and its predominant methodology of solidarity lending. The solidarity groups are comprised of five borrowers that are brought together in larger groups of 5-8 to form a unit that acts like the groups in Kenya. The group of five provides the first level of guarantee, which is backed by a guarantee of the larger group members. A cash guarantee in a Loan Security Fund is also used, with 35% of the loan amount required

to be deposited before loan approval. Voluntary savings are collected and also go in the LSF. The lending rate is 36% flat, with fees similar to Kenya's. An insurance product is part of the loan package. Uganda, like its sister organization has a loan product that can be added to existing solidarity loans by good clients. It is called a "School Fee loan," and has a slightly lower rate and a length that is tied to the school term.

Faulu Uganda has recognized the need for individual loans and added such a product in June 2001. Training for new assessment procedures for these loans has been extensive and to date Faulu Uganda experience with them has been positive, unlike Kenyas. To maintain the focus on poor clients, the Board approved a policy that the high value individual loans cannot exceed 20% of Faulu Uganda's total portfolio. Individual loans can range up to $5,500.

Faulu operates only in the urban and peri-urban areas of Kampala, which is a highly competitive market. Faulu is client-oriented and has modified its basic solidarity product to be flexible and responsive to client needs. The changes are similar to those described for Faulu Kenya. The voluntary saving and individual loan are additions to further respond to client demands. A competitive advantage that Faulu has is the reputation that its loan officers have for honesty and integrity. Also, Faulu processes its loan faster than its competitors, with no gap in borrowing between loan cycles.

Faulu has had rapid growth is in its portfolio and clients from 1998 through the present, with some deceleration in growth in 2001. Portfolio growth was 30% in 1999 and 60% in 2000. The number of active loans has jumped from just under 2,000 at the end of 1998 to almost 5,000 by the end of 2000. The total number of clients has reached the 10,000. Growth in 2001 has been good, but constrained by limited loan capital. Faulu has been waiting for a $1.5 million grant from DFID to enable it to return to aggressive growth.

With the expectation of additional loan capital available in 2000, Faulu increased its staff and training to build capacity. The failure of the additional funds to become available in a timely manner for expansion has resulted in a record loss in 2000 because of the added expenditures without the portfolio growth. Projections for 2001 show a greatly reduced loss, in part because of the real cut in operating expenses coupled with a still respectable 30% growth in the portfolio. The return on operations jumps from 44.8% in 2000 to 71.5% in 2001.

As of December 2001, it appears that DFID funds will be released and the latest projections show that financial sustainability could be achieved in 2003. How quickly Faulu moves to financial sustainability depends on its decisions on how and where to expand. A decision to open new branches in rural areas versus urban or peri-urban will be expensive. However, the ability to reach the poor is greater in rural areas. It is a priority for Faulu and the government. The Board and staff of Faulu are weighing expansion options, with present projections as shown in Table 1 based on the more costly move into rural areas.

Two key factors should enable Faulu to move to financial sustainability quickly. It has a high portfolio yield that has remained in the 60% range and at the same time the portfolio quality has been excellent, with portfolio at risk remaining below 1.5%. One the other hand, the average loan size is low at about $150, which makes the cost of expansion higher. This small loan size is a good indicator that Faulu Uganda is reaching the poor.

The Loan Security Fund that includes both the cash security and voluntary savings of clients stood at $423,503 at the end of 2000. This represents 58.4% of the outstanding portfolio at the end of the year and provides substantial security. Faulu Uganda has not used these funds as security for a local loan to date.

Gender Targets

The percent of clients that are women has been consistently above 70%, which is well above the MG target of 50%. A review of the most current gender numbers show a slight drop to 65%, which may reflect the fact Faulu Uganda's new individual loan program had only 46% of its clients as women. Most MFIs achieve a high level of women clients by selecting products that best fit the needs of women clients. Solidarity loans in general have a higher percentage of women clients than individual loans.

While the majority of loan officers are women and all four of the branch managers are women, Faulu Uganda top management at headquarters consists of one woman and three males. Faulu/Uganda is currently recruiting for another management position-- an internal auditor-- and they would like a woman to staff this position. The percent of staff overall who are women is 65% which surpasses the 35% target set in the MG.

Management Information Systems and Operational Controls

The systems that are used in Uganda are nearly identical to those used in Kenya. Three points are important in this area.

- The MIS is strong, and is used and valued by staff. The system helps staff manage for results.
- The business plan is a key tool used at all levels of the organization to guide implementation and measure performance.
- The strong systems enable the staff to keep appropriate controls on lending operations, thus ensuring a high quality portfolio.

Staffing

Unlike Kenya, where there is a relatively large and experienced headquarter staff, Faulu Uganda is a lean operation with only four senior officers and a Managing Director. For most of Faulu Uganda's life, an expatriate Managing Director and two senior staff ran the central operation. A recent expansion included the addition of a Human Resource/Administration Officer who is developing the systems to manage, motivate and develop the increased staff. The addition of HQ staff and the cost of central processing of all data and reports have meant that the central office expenses have jumped to 60% of total expenses.[16] However, this percentage should drop as field operations and staff expands in the near term using DFID loan capital to increase Faulu loan portfolio. Faulu is well positioned with 50 field staff out of a total of 77 to achieve the planned and substantial portfolio growth. On the other hand, the clients per loan officer ratio is low at 132. The fact that loan officers are not reaching high levels of productivity clearly is another contributing factor to the operating losses. The targets to increase the clients per loan officer ratio to 152 by the end of 2002 and to 205 by 2003 are positive, but may not be enough. Given the continued increases in loan office productivity that are being recorded throughout the world, higher targets and more productive loan officers seem possible. In the adjustment of the business plan projections in the future, loan officer productivity should be carefully considered. Some loss in portfolio quality may be worth the increased efficiency and earnings from more productive loan officers.

Faulu/Uganda invests significantly in staff training. The first 2-3 months for any new staff member at Faulu are spent accompanying an experience loan officer in the field. The new employee is paired with a client whose case is followed. Following the field experience, new employees receive classroom training and through the rest of their tenure they have the opportunity to attend additional training sessions outside

[16] MicroRate Faulu Uganda Report, December 2000, page 5

of Faulu/Uganda from the USAID Mission program, SPEED, the Ugandan Institute of Bankers, the CGAP supported program, AFCAP, and the Ugandan Management Institute. A training needs assessment is conducted each year which provides input to the training committee that decides on priorities. Loan officers who administer individual loans have been a recent priority and received extra training.

In terms of Faulu staff vision of the institution, managers consistently stated that Faulu's objective is to meet the needs of their clients who come from lower income groups. Several staff members added that Faulu/Uganda also works to meet more holistic needs of its clients by exposing them to democratic institutions, teaching them discipline, and instilling values. The General Manager added that the objective is to develop a sustainable institution that would meet the financial service needs of its clients, including as many women as possible.

In the nine months of 2001, Faulu/Uganda has lost 6 employees, three of whom were loan officers (50 total). This eight percent annual turnover is acceptable. An important factor in the improving morale is the staff salary incentives system tied to performance that was introduced this year.

Governance

The Faulu/Uganda board of directors is made up of six board members. The board is actively recruiting for a seventh member, which they hope to be a woman in order to incur gender diversity, since currently only one member is a woman. As a group, the members have much experience in governance and strong skills in the relevant areas of accounting, business operations, and banking. Additionally, the individual members are educating themselves about microenterprise; two board members have been to microenterprise training in Boulder, Colorado. As is the case in Kenya, FHI is the sole Faulu shareholder and has two people on the Board of Directors, the FHI President and the FHI Kenya Director. FHI does not dictate decisions and policy but is in fact encouraging the board to act independently. Faulu/Uganda has been very careful in its selection of board members as demonstrated by board chairperson recruitment, which was lengthy and thorough. Commitment to a set of Christian principles is central to the board members choice. One of Faulu/Uganda's board members is the board chairman from Faulu Kenya. This has allowed Uganda to learn from Kenya's experiences and vice versa.

The board operates well with the Faulu leadership in that it knows its role is governance, not management. The board exercises real authority but does not micro-manage. The role of the board is to provide policy and general direction to management, to be the ultimate custodians of the vision and the assets, to hire the CEO and to oversee Faulu's progress toward targets. Board training and development has focused on its purposes and responsibilities, roles, relationships and self-assessment. The Board is an independent entity that is active and engaged in transforming Faulu to a successful and profitable MFI that is helping the poor in Uganda.

Sustainability and Efficiency

The Faulu MFG proposal set out financial sustainability as an objective for its Uganda program. This was an unrealistic objective for Faulu Uganda and had not even begun to operate.[17] What is a reasonable level of cost recovery for Faulu at this stage? First, achieving sustainability is a primary goal for Faulu, and they are working toward that end. However, Faulu has recorded substantial losses over the last two years. Projections for 2001 show some improvements, but losses will still be in the $135,000 range and come

[17] Several months after the evaluation, FHI claimed that Faulu Uganda reported operational sustainability at the beginning of of 2002 and financial sustainability in May 2002. This has not been confirmed by the evaluators. See Afterword.

out of the capital built up through donations. As noted above, the cause for much of the loss is the cost of staff and capacity building added by Faulu in expectation of a large DFID grant for loan capital. With the delay of the loan, an expansion that could make use of this capacity and increase earnings did not happen. That this capacity exists and that the grant is now ready for award are positive signs for future growth and an accelerated pace toward sustainability. The unused added capacity has meant that efficiency of operations is low. For example, the ratio of active loans to loan officers is 132 and the portfolio balance per loan officer is only $19,000. The MicroBanking Bulletin (April 2001) peer group for Faulu has an active loan/loan officer ratio of 285. Even the higher ratio targets set by Faulu of 152 in 2002 and 204.5 in 2003 seem low.

A key measure of MFI efficiency is the ratio of administrative expenses to the average loan amount outstanding. In 2000, this ratio for Faulu Uganda was 117%, which means that it spent $1.17 to make a loan of $1.00. Projections for 2001 lower this ratio to 78%. The Faulu peer group of 11 small African MFIs set out in the MicroBanker Bulletin has an average ratio of 71%. Faulu efficiency is only slightly less than its peers, but for comparison purposes, the ratio for larger African MFI is 17%. Faulu projections for 2003 still show a ratio of almost 50%. A more typical level is close to 25%. Because of the high portfolio yield that Faulu achieves, an administrative expense ratio in the 50% range still enables them to achieve financial sustainability. However, if competition drives down interest rates as it surely will, then the portfolio yield will drop and financial sustainability will not be reached. Increasing efficiency is essential in such cases.

A significant efficiency issue is the dropout or desertion rate. Desertions were at 19% in 1999 and 18% in 2000, but have recently dropped to 15%. The new individual loan product is helping to deal with client dissatisfaction with the solidarity groups and probably resulting in improvements in client retention. Further efforts to understand the root causes of the desertions are needed to understand the problems and potential adjustments.

Highlights of implementation experience of Faulu Uganda are summarized in the table below.

Table 5.1.4(c): Major Successes and Shortcomings in Implementation

Implementation Experience at a Glance	
Major Successes	*Major Shortcomings*
MICROFINANCE SERVICE DELIVERY: FAULU UGANDA	
Strong Board of Directors, staff and MIS and operational systems established, which have resulted in high portfolio quality.	Faulu Uganda's operational efficiency is very low. There is much underutilized capacity built in expectation of new donor support.
Faulu's loan portfolio has grown at a commendable pace. It has moved from a project of FHI to a legally register limited liability company.	Faulu Uganda has recorded large losses over the last two years that are depleting its grant-funded equity.
The MG was critical to the start up and success of Faulu and has acted as seed capital to attract needed other donor support.	The MG objective of financial sustainability was not realistic and was not met.
Faulu is emerging as a leading MFI in Uganda. It reaches the urban poor and over 70% of its clients are women.	
Faulu is a client-oriented institution which enables it to be successful in the competitive market of Kampala.	

Recommendation for Section 5.1.4

From the findings and conclusions set out in the previous three parts of Section 5.1.4, the following recommendations are made.

1) The award of a Matching Grant to a PVO that has little or no operational experience or technical capacity in the grant area needs to factor in the high cost and delays of start-up and learning. A collaborative arrangement with a technically strong NGO or consulting partner will reduce the mistakes and false starts made by the PVO as it moves along the learning curve.

2) PVC should require that the process by which capacity built under the MG will spread through the PVO and its programs be spelled out in the MG proposal for USAID review. The creation of technical capacity that exists independent of the PVO main operations, as was the case with Faulu and FHI, is a structure with inherent weakness in reaching the institution as a whole.

3) FHI leadership with the Faulu Network should review its microfinance experiences and capacities to see if there are ways to more fully utilize them to expand FHI MF programs. FHI country directors and field staff should be encouraged to build on Faulu and expand MF activities.[18]

4) PVC needs strong and experienced microfinance staff or technical advisors available to them to review implementation and identify MF technical challenges as they arise. Experienced grant managers are not enough in the fast changing field of microfinance. Technical skills are necessary.

5.1.5 Impact Results*

Findings and Conclusions

In the absence of impact indicators against which to measure grant performance, it is difficult to set out findings and conclusions at this higher level. The MG's institutional impact is found in Kenya and Uganda's MF industries where the two local MFIs are leaders in their field per interviews with key informants. There are no quantifiable measures of this. However, the Faulus are demonstrating approaches to microfinance that are working.

End-result or client impact is difficult and expensive to determine in microfinance institutional development programs such as Faulu. The fungibility of the loan makes it difficult to determine the actual use of the funds. A full understanding of household expenditures needs to be established to find the real impact of the infusion of loan money. This is time-consuming and difficult and done with donor funding to meet donor need to know impact. No funding was provided to FHI to measure this client level of impact. Neither of the two Faulu programs has a system to collect client impact data. FHI does report on employment and job creation, but this may be more misleading than revealing in that it uses a standard factors that are multiplied by loans and businesses to determine employment impacts. No data are collected. As the Faulus become more commercially oriented, they will be even less interested in spending their income and time on impact measurement to meet donor needs. Thus, donor support will be required for any future impact review.

There is much anecdotal evidence that the Faulu programs are having positive impacts. They are increasing income, expanding businesses and employment, protecting assets, improving household nutrition, and meeting family needs for education, health care and social responsibilities. Faulu produced a collection of client stories that demonstrate the impact and success of the program.

Recommendations

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[18] After the evaluation was completed, FHI reported that it had just given an orientation on microfinance to FHI Regional Directors and Accountants. See Afterward.

1) The recommendation in Section 5.1.1 to ensure appropriate indicators and targets at all levels is reinforced by the findings here on the lack of impact indicators and targets.

2) The evaluation team does recommend that the Faulus revise their client and loan application forms to gather a better baseline on clients that could be used in future impact assessments. Creating a computer database with this information, including the information that is captured on the exit form, would be desirable and could be undertaken at low cost by FHI.

5.2 Assessment of project model and hypotheses

5.2.1 Project hypotheses articulated in CA*

The MG hypotheses are not clearly articulated in the cooperative agreement. However, we can infer that the main hypotheses underlying the Faulu approach were:

1) Microfinance can reach and help the poor in Kenya, Uganda and Ethiopia through financially viable MFIs.

2) An independent structure for microfinance development within FHI (Faulu) would enable it to build a capacity to establish and expand microfinance programs in Africa and then other regions.

3) The establishment of Faulu programs in East Africa would create replicable models for MF expansion to new countries.

4) A core staff of microfinance specialists, experienced in the Faulu model, would be stationed in Africa to lead future expansion of MF activity in FHI programs.

Findings and Conclusions

Discussions of the findings and conclusions related to these hypotheses are presented in previous sections, especially Section 5.1.4. A short discussion summarizing the findings and conclusions is presented for each below.

1) Microfinance can reach and help the poor in Kenya, Uganda and Ethiopia through financially viable MFIs.

FHI is reaching 25,000 economically active poor in Kenya and Uganda. It has established and developed leading MFIs in the two countries. The Faulus are operating as limited liability companies with strong boards and staff and are on the path to financial sustainability. Some challenging years lie immediately ahead, but they should achieve profitability in the next two to three years. They are important institutions in the local microfinance industry. The hypotheses have been shown to be correct in two of the three countries. USAID and FHI agreed not to move forward in Ethiopia because of a weak enabling environment.

2) A separate office for microfinance development within FHI would enable it to build a capacity to establish and expand microfinance programs in Africa and then other regions.

The separate office for microfinance has not worked well for FHI in terms of expanding microfinance programs within FHI. Its impact has been in establishing two independent programs that are now transforming to private companies with nearly complete autonomy from FHI. There has been no expansion of the Faulu network since 1995 when the Uganda program was started. Faulu has not had any

measurable impact on FHI country programs, which remain without MFI activities. FHI field staff members have not received microfinance training and have little capacity to develop and manage MF programs.

3) The establishment of Faulu programs in East Africa would create replicable models for MF expansion to new countries.

No new Faulu country programs have been established. FHI leadership has placed priority on making sure the two Faulu are working well before moving on to new programs. FHI has attracted substantial donor assistance, including three additional grants from USAID, but all funds have been used to strengthen and expand the existing programs. The time effort and money required to develop and support commercial and financially viable MFIs has been large. The task is larger than FHI leadership envisaged at the start of the MG. The cost and the need for input in a wide range of technical areas makes the replication of a local Faulu a daunting task to FHI.

4) A core staff of microfinance specialists, experienced in the Faulu model, would be stationed in Africa to lead future expansion of MF activity in FHI programs.

The original regional bank model for Faulu failed. A regional office in Nairobi could not be financially sustained and was disbanded. In the end, a small unit was established in FHI headquarters to provide limited technical assistance to the increasingly commercial country programs. The capacity of this unit is adequate to maintain and grow the Faulu Uganda and Faulu Kenya to commercial MFIs. This should be achieved in the next two or three years. Its role and place in FHI thereafter needs to be determined.

In summary, based on its interviews and findings, the evaluation team believes that FHI did not have a full understanding of the needs and challenges of microfinance institutional development at the start of the grant. The grants purpose was in fact to build FHI capacity based on its pilot experience in Kenya. Much effort and funding was used as FHI/Faulu tried to find the right institutional model for microfinance development. The MFI model that in the end did emerge is a traditional one. FHI's small technical staff is stretched to maintain and grow the existing programs. Establishing and developing new MF programs is more than the unit can handle at present with the existing Faulus still needing assistance.

5.2.2 Replication and scale-up of approaches in project area or elsewhere*

Replication was part of the MG purposes and is discussed in detail in section 5.1.4, Major Success and Shortfalls in Implementation. Hypotheses 2, 3, and 4 in the previous section provide a summary of the findings and conclusions on replication.

5.3 Advocacy under the project

5.3.1 Advocacy activities and impact*

As noted in Section 5.1.1, the Faulu objectives related to advocacy that were originally in the proposal were dropped from the grant. FHI/Faulu is not being held accountable for results in this area. Nonetheless, both Faulu Kenya and Uganda have been active members in the local microfinance associations in their countries. Faulu Uganda belongs to the Association of Microfinance Institutions in Uganda. Stemming from the organizations work on standards, the association began a dialogue with the government and the Central Bank on regulations in the MFI industry. They educated the Central Bank and generated interest about MF to such an extent that Central Bank employees received MF training in Boulder CO. The former Faulu/Uganda general manager was closely involved with the development of the draft legislation, a second iteration of which is currently in the Legislature for review.

Faulu Kenya participates in the Association of Microfinance Institutions (AMFI), which is a younger institution than the one in Uganda, with fewer resources. However, AMFI, with Faulu participating, was involved in the drafting of a Microfinance Act that is currently in the Attorney General's office awaiting action. USAID/Kenya is currently helping AMFI to develop its secretariat.

The evaluators found no evidence of further advocacy activities.

5.3.2 Partner/PVO roles in advocacy*

The two Faulu, as noted above, worked with the local MFI associations in which they were members to push forward regulatory and supervisory legislation. Both associations are being supported by the local USAID Missions and USAID central funding. They are the main channels in country for MF related advocacy activities.

5.4 Implementation Lessons Learned

1) A strong implementation plan is needed for all aspects of the grant program that spells out the hierarchy of developmental objectives, indicators of achievement of the objectives and periodic targets. This Detailed Implementation Plan needs to be updated if parts of it prove to be unrealistic or impossible to achieve.

2) USAID technical managers need to be involved and provide technical judgments on program modifications. A microfinance specialist was needed to help FHI/Faulu through the process of the Faulu Africa evolution.

3) The success of the two Faulu field programs largely rests on strong staff that followed microfinance best practices and established needed MFI systems to manage for results.

4) A matching grant that seeks to develop capacity of an NGO in a technical field new to the organization greatly increases the risk of failure if field implementation also tries to be innovative and on the cutting edge of the technical field. In hindsight, if FHI had set about establishing Faulu as a series of independent MFIs supported by a small headquarters office, much time and money would have been saved. The plan for a regional bank was innovative in many aspects, but a true test of it could only be achieved a deep and rich knowledge of MF practices and field experiences.

5) Building capacity in microfinance in an independent unit such as Faulu Africa makes the spread of MF capacity and the development of new MF programs more difficult. The substantial field staff and other resources of FHI were never actively engaged in the capacity building purpose of the MG.

6) The difficulty of establishing MFIs in Kenya and Uganda was a much greater than FHI envisaged at the start of the MG. Its resources, including those of the matching grant, were and continue to be stretched just to establish these two MFIs. Implementation to date of Faulu does not indicate a path for expansion beyond the two Faulus. That six years has passed since the last Faulu was started suggests that little can be expected in the future. This reinforces the question about what capacity has been built at FHI through the MG.

6.0 PARTNERSHIP QUESTIONS

FHI's Faulu programs do not have any partners per se, in the sense of local NGO or community based organizations that are sub-grantees or implementing partners. The Faulu's partners consist of its various donors, other MFIs in the region, and the government and Central Bank. Therefore, the program has no formal partnership scheme, institutional capacity measurement system, constraints to partnerships, or IT technical assistance to LNGO or CBO partners.

In the sense that the Faulus are now independent limited liability companies, they are partners to FHI, which is their sole shareholder. As explained previously, the current relationship between the Faulus and FHI is that FHI is the sole shareholder and holds two seats on the Board of each Faulu. FHI takes a hands-off approach, putting decision-making power genuinely in the hands of the boards, both to empower the board and establish the governance needed for a commercial MFI. FHI is planning to expand ownership by finding new partners to invest in Faulu Uganda and Faulu Kenya. No specific investors have been identified to date.

6.1 Analysis of Partnership Schemes*

N/A

6.2 Measuring Institutional Capacity*

N/A

6.3 Constraints to Partnership*

N/A

6.4 Information Technology*

N/A

6.5 Use of local networks and service organizations*

The two Faulu as noted above are active members of the local MFI associations, whose objectives and work include acting as a forum and communication channel for their membership, building capacity, training, establishing performance standards and codes of conduct, providing TA for members, serving as a credit reference bureau, developing regulatory and supervisory laws for the MFI industry, and completing other advocacy activities. The local USAID Missions, as well as the USAID Microenterprise Development office, are supporting both associations. Additionally in Uganda, the major donors supporting microfinance have come together to support the sector under the Uganda Bankers Association. Faulu is receiving training and other support from the Bankers Association and is targeted for assistance by SPEED to help it reach financial sustainability.

7.0 PROGRAM MANAGEMENT

7.1 Strategic Approach and Program Planning*

Findings and Conclusions

Compared to the performance-based management systems now in place in USAID and many of its cooperative agreements, the FHI/Faulu DIP is not of high quality and was not used in any significant way. It does not provide a management and results structure to measure performance. It was not used to guide management or performance. There was not an adequate planning structure for the capacity building purposes of FHI/Faulu. The lack of such a structure may have been a significant cause or at least contributed to the lack of direction and changing responsibilities and role for Faulu Africa. The DIP objectives are too vague, no chain of causality links different levels of objectives exists, and few indicators and almost no targets are spelled out. This is not to say that there were no management and performance systems in place; there were at the field level for the MFI service delivery. The business plans and their performance targets developed by the two Faulu were excellent planning systems that in many ways were built from the operational level up after the initial start-up of the programs. The plans were important to the boards, management and all levels of the field staff. From the Board down to the loan officers, the Faulu MIS produced various periodic reports that set out specific targets. On a weekly basis a series of monitoring reports were produced for loan officers, branch managers, and HQ staff to check program and staff performance. There is also a report (Periodic Transaction Report) that is prepared for the client groups to review at their weekly meetings. The report provides a full and up-to-date record of client accounts. It provides key data to clients, solidarity group officers and the loan officers. It is especially important for arrearages. In effect, the business plans, the projections and the MIS that collected and calculated performance measures and targets did for the Faulus what a DIP would do when it was most effective.

Recommendation

The previous recommendations to have technical MF staff in PVC (Section 5.1.4, Recommendation # 4) and for PVC to include its in MF grants standard MF performance measures (Section 5.1.1-5.1.3, recommendation #3) are strongly supported by the findings and conclusions presented here.

7.2 Country Initiatives

Findings and Conclusions

The Faulus in both Kenya and Uganda have fit within the USAID Mission strategic objectives. In fact, both have received grant awards from the microenterprise development activities in their respective countries. Faulu Kenya received a capacity building grant of $400,000 from MicroPed that was used for training and to upgrade computer equipment. Faulu Kenya also received an Implementation Grant of $500,000 from USAID's Microenterprise Development Office to expand outreach and support the institutions sustainability. A grant of $500,000 from the PRESTO Project in Uganda helped the local Faulu to expand its operations.

In both Uganda and Kenya, the local USAID staffs have been involved with the Faulu programs. The Mission staff has managed the grant and monitored Faulu through progress reports. In Uganda, Mission staff is following Faulu's performance closely. That microenterprise development is important strategically to both Missions has reinforced staff involvement and commitment to understand the two Faulus. However, both Missions were not aware of the history and lessons to be learned from the evolution of FHI program from a regional bank through a regional office to the present structure of an HQ

microfinance unit. Since most of the decisions and actions were taken in 1997 and 1998, the importance and impact may have faded in the Mission's institutional memory.

Other donors who are or have been supporting the Faulus are aware of the their performance. In Uganda, the microfinance sector support component of the Mission's SPEED program works with key other donors, DFID, World Bank, and GTZ, through the Uganda Bankers Association. The Association and its supporting donors are fully aware of Faulu performance and needs.

7.3 Conflict Management*

Findings and Conclusions

The evaluation team looked at the issue of conflict management more broadly to include disaster and crisis issues, as well as responses to conflict. Faulu Uganda does not have a crisis contingency plan. One board member explained that the last 15 years have been stable in Uganda so no one sees a need for such a plan to protect Faulu staff or to assist clients in the event of a crisis. Food for the Hungry in Uganda has no contingency plan either, although after a vehicle was ambushed in northern Uganda early in 2001, they have begun thinking about security issues and operational measures to mitigate them.

Faulu Kenya also does not have explicit contingency plans for dealing with conflict or disaster. However, several staff members spoke to us about ongoing economic troubles and upcoming political uncertainties in Kenya. They noted that their clients are among the most vulnerable to economic and political problems. Given the upcoming elections and the uncertainty surrounding them, clients have begun to slow down their borrowing. The economic downturn may also explain some of the increase in late payments. The new business plan does adjust performance targets downward to reflect the economic uncertainties and has identified certain budget line items that can be cut or reduced if need be. However, these business adjustments do not get at the issue of what to do and how to mitigate a crisis or disaster that disrupts operations.

Recommendation

USAID's Microenterprise Development Office has undertaken a series of reviews of MFIs under stress. These include case studies, operational research and lessons learned for institutions that have faced natural and man-made disaster, conflict situations, economic crises and HIV/AIDS challenges. Both Faulus should have senior staff review the information and learning on MFIs facing stress. This information can be found on the web at www.mip.org. Based on the review, the Faulus should prepare contingency or mitigation programs as circumstances and needs dictate.

7.4 Monitoring and Evaluation*

Findings and Conclusions

Monitoring and evaluation of the grant met the requirements set out in the agreement, except that no final report has yet to be submitted. The annual reports provided a good summary of yearly activities, issues, and plans, but performance measurement was vague and reflected the weakness at the grant level of the lack of indicators and targets for most parts of the Detailed Implementation Plan. This shortcoming and adequacy of the DIP were discussed in full in Section 5. FHI/ Faulu did an outstanding job of putting in place monitoring systems specific to its two microfinance institutions. As a new technical area, FHI did not have experience with microfinance, so putting a good system in place quickly and effectively was all the more impressive. The MIS and financial monitoring systems have provided FHI leadership, Faulu

managers, and the board of directors with up to date information to monitor performance and manage for results.

USAID policy is that a summary of MFI performance and financial data be prepared for all MFIs that are receiving USAID support in the standard format of a Simplified Activity and Financial Statement (Table 1). For this evaluation, the two Faulus each completed Table 1, which can be found in **Annex J**. The grant did not require such technical MF reporting and was awarded at about the same time that the USAID ME policy was promulgated. PVC did not ask Faulu for a Table 1 during the grant. It is fair to say that much of the data that is required for Table 1 was in fact presented in annual and other reports from Faulu. However, the complete Table 1 presented with historical data is an excellent tool/format to review performance and identify potential problems. Faulu collects all of the data needed for the form and its completion would be a simple task. Faulu Kenya, after receiving an Implementation Grant in 1998 from USAID MD Office did complete Table 1 on a semi annual basis and submitted to the MD Office. Although the MF data of Table 1 did not make it to PVC, the evaluation team again points out that the information and ratios were used effectively by the Faulu to monitor performance and manage for results.

Table 1 is a good monitoring tool because it not only records results but also sets yearly targets for key financial data and ratios. A review of those targets compared to actual performance is inherent in the use of Table 1. The MD Office set the target for Faulu Kenya performance as part of its grant and rated their performance against the targets on a semi-annual basis. The targets for growth (number of clients and portfolio size) were aggressive and Faulu/Kenya fell short on them. FHI believes that they were too high. The MD Office took no action to adjust the grant to improve outreach. There was in fact much progress made during the MDO grant period (1998-2000) in spite of the moderate growth. With hindsight, the evaluation team can see that the very high dropout rates during the period were a key factor in slowing growth. PVC monitoring through Table 1 during the grant would have enabled the office to adjust the grant or provide other assistance to help Faulu better deal with the challenge.

Recommendation

The previous recommendations to have technical MF staff in PVC (Section 5.1.4, Recommendation # 4) and for PVC to include its in MF grants standard MF performance measures (Section 5.1.1-5.1.3, recommendation #3) are strongly supported by the findings and conclusion on monitoring and evaluation presented here. The USAID standard Table 1 is the recommended format to present the standard performance measures.

7.5 Overall Management*

Findings and Conclusions

The overall management of the MG shifted as the evolution of Faulu Africa progressed. The history of the changes is described in the MG Background, Section 3.0. It is difficult to rate the overall management as strong when the technical changes in the approach led to shifts and unproductive work in the early stages of the program. The starting and stopping of the regional bank and then regional office and the related changes in the country programs made management difficult. Deciding upon and implementing management autonomy of Faulu Kenya independent of the regional office was identified as a serious issue by several senior staff.

By 1999, the structural decision and arrangements were settled and management tasks became more predictable. At that point, management of the MG and the Faulu field programs were good. Each of the Faulus was being managed as independent MFIs. Although there were some problems of changing

leadership of Faulu Kenya, which had four managing directors, overall the field offices were well run. The local Faulu successes described in Section 5.1.4 attest to the strength of leadership and management. At FHI, the management tasks were simplified by a clear mission that envisaged independent Faulus that required much less technical support and were brought together through a network council. Management was also greatly simplified in that there were no new MF programs added to FHI operations. Management focused on the getting the two existing programs to operate well.

7.6 Sustainability*

7.6.1 Overall sustainability survey*

Findings and Conclusions

The sustainability issues are discussed in detail in Section 5.1.4. The sustainability of Faulu Africa and its country level programs were specific targets of the MG and the lack of sustainability of all components was a major shortcoming of Faulu MG. Faulu Kenya is close to operational sustainability while the Uganda program continues to show substantial operational losses. However, the evaluation team believes that it was an unrealistic goal to set out sustainability as an objective for Faulu Uganda. The changing nature of Faulu Africa did make it difficult to determine what was to be sustainable. Clearly the regional bank and regional support office that were set out in the early years of the grant were not sustainable. The evaluation team found that the small MF unit in FHI headquarters is operating without MG support. FHI is ensuring that adequate funds are available to support it. However, its impact on field operations compared to the original regional office is limited.

7.7 Financial Management

7.7.1 Effectiveness of financial management*

Findings and Conclusions

From a review of the financial records and discussions with the FHI financial controller and USAID grants manager, the evaluation team found that financial management by FHI and the local Faulus was good. The systems used were strong and record keeping was well managed. FHI met all reporting requirements. Their expenditures were in line with budget plans. The original budget, the revised budget resulting from the modifications of the grant program in the summer of 2000, and a listing of final expenditures are included in **Annex H**.

The revisions of the program and the related budget that were authorized in the summer of 2000 did occur after major program changes and related expenditures were made. This was noted in the March 24th 2000 letter from FHI to USAID and made part of the no-cost extension to the Cooperative Agreement approved on March 31, 2000.

7.7.2 Leveraging other donor funds*

Findings and Conclusions

The Matching Grant support for the two Faulu programs acted as seed capital to start the microfinance programs in Kenya and Uganda. According to FHI records, other donor support to the Faulu program has totaled $6,396,977, plus $754,925 from FHI through direct support and seconded staff. Thus, to date, donor support to the Faulu program is $7,151,902, the details of which are provided in **Annex H**. Also included is a pipeline of additional grant funds to be used of about $350,000 and additional new grants from DFID of 1,000,000 British Pounds to each of the Faulus. Thus total donor support is about $10.5 million, plus $3.4 million from the MG. A discussion of this support to Faulu Kenya and Uganda appears in Section 5.1. 4. The evaluation team expressed concern that the substantial amount of donated funds may have created a donor dependency and reduced efficiency at the institution in the past. This is a key issue since Faulu is seeking to be a profitable commercial MFI. Over the last 18 months, Faulu Kenya's efficiency has increased and has become much more of a commercial entity. The evaluation team has found that Faulu is one of the top two or three MFI in Kenya and has played an important demonstration role in the Kenya MF industry. That FHI and the MG have leveraged so much donor funding reflects the central place that Faulu has played in Kenya.

FHI has leveraged no other donor funds for Faulu programs in countries other than Kenya and Uganda. Its total support to the existing two Faulu programs at $754,925 represents a little more than 5% of the total that will be needed to make the two institutions financially viable. Clearly, if new Faulus were to be started, large donor support would be needed. FHI has not been successful in raising money for such programs. The high cost and resultant need for donor support to establish Faulu Kenya and Uganda as commercial MFIs have been the priority of FHI. Its fund raising has been for the existing programs not new ones.

7.7.3 Cost effectiveness of technical approach*

Findings and Conclusions

As noted in Section 5.1.4, the changing nature of the technical approach through 1998 was not cost effective. The final structure of program and its technical approach are standard for microfinance institutional development networks. As such, the two independent Faulus, the Faulu Network Council, and small FHI unit at is its headquarters represent a cost effective approach.

7.7.4 Repercussions of "matching" requirement on program*

Please see discussion in Section 7.7.2 above about the repercussions of the high cost of the Faulu on FHI and other donor support.

7.8 PVO's Information Management*

Findings and Conclusions

The local Faulus excel in the area of information management. The speed and accuracy of their loan tracking system allows loan officers to have up to date loan information every week. Client groups use this information to track their member's repayments, savings balance, etc. Faulu staff mentioned that the efficiency of this system gives them a competitive edge to control costs and arrearages as well as to provide loans funds and savings withdrawals faster than other local MFIs.

FHI has provided the required MG information on a timely basis. Through its Network Council it exchanges information on operational lessons learned, especially for the MIS and finance systems. That the Faulu experience and its lessons has not been communicated well to FHI field operations appears as an opportunity missed by FHI to build from Faulu and expand its field capacity. The extent to which this outreach to the field offices was part of the original grant was unclear in the DIP, but once the Faulu Africa regional office was abandoned, some form of outreach to the field offices needed to substitute for the regional approach.

7.9 Logistics*

The logistic arrangements were in accord with the grant. No issues were found with logistics.

7.10 Project Supervision*

Findings and Conclusions

Ted Vail was the Director of Faulu Africa for FHI from its inception until the summer of 1999, at which point Mesfin Assaye took over management of the new structure, Faulu Investment, and also became the head of the microfinance unit at FHI. Supervision of Faulu at FHI has essentially rested with Randy Hoag who was Vice President for International Operations at the start of the grant and moved up to his present position of President of FHI this past year. He has been actively involved in the grant and Faulu during its life. Overall FHI has devoted much management and supervisory staff time to the MG and Faulu. Management and supervisory skills were strong but overall operations did suffer from the lack of technical knowledge and skills in the early years of the grant. This is not unexpected as one of the purposes of the matching grant was to build FHI technical MF capacity. The changes in technical approaches that have been described and the resulting management time needed to deal with the evolving Faulu Africa were the result. They were discussed in detail in Section 5.1.4.

7.11 USAID Management*

Findings and Conclusions

The key finding in USAID management was the lack of technical supervision and input to FHI when they were shifting approaches and structure in the first two and a half years of the grant. In fact, it was not until March 2000 that USAID approved the changes in the grant that had been discussed in 1996 -1998 and implemented in 1997 through 1999. There were important technical decisions about Faulu Africa in which USAID should have participated. Adjustments related to the grant funds and MG purposes resulting from the changed approach were substantial. That PVC did not have a technical MF officer on staff from the start of the grant until the present MG manager and MF Specialist arrived in mid 1999 was a serious weakness. The MG manager during this period had a full load of other management responsibilities upon which Faulu and the other microenterprise development programs were added. He did not have MF technical background.

8.0 GENERAL CONCLUSIONS*

The FHI Matching Grant for Faulu established leading MFIs in Uganda and Kenya that are on the path to becoming commercial profit-making companies that are reaching the working poor with microfinance services. However, they still require two to three more years to achieve their commercial and self-sustaining objectives. Assuming that all goes well, their capacity to deliver services to ever greater numbers of the poor in their respective countries will be established. In terms of service delivery in Kenya and Uganda, the matching grant through its provision of seed capital for the two MFIs is a success.

On the other hand, it is not clear from present activities and capabilities in FHI and its Faulu Network if the two successes can be replicated in other countries. There is very little MF development capacity in FHI and it is fully utilized over the next few years supporting the two existing programs. FHI should examine its experiences and capabilities to see what might be successful strategies for further MF development after Faulu Kenya and Uganda.

AFTERWARD

Several months following the completion of the evaluation, the evaluators met the FHI MED Director. He reported several changes in FHI's MF activities, some of which were clearly inspired by the findings presented in the draft evaluation report and gave reactions to the report. The final report was edited to reflect FHI's comments. However, the evaluators have not investigated or substantiated the statements below and appearing in footnotes throughout the report. The FHI comments are presented for information only. The body of the report contains the independent evaluators' findings, conclusions and recommendations based on inputs from all sources and their own on-site reviews at the time of the evaluation.

In addition to implementing some of the recommendations of the report, FHI stated the following:

- In October 2001, after this evaluation was conducted, FHI's MED office gave a MF orientation to the FHI Regional Directors and Regional Accountants who are expected to transfer knowledge about MF to country offices. At an earlier date, the MED office conducted a survey of all FHI country offices to gather data about existing income-generating programs and potential interest in a Faulu-type program.

- Since the completion of the evaluation, FHI reports that it has initiated the process of opening a Faulu in Tanzania, as a limited liability company. A Board of Directors is purported to be in place. FHI will use its own funds to start this program. Staff from the MED office and the two Faulu's are providing the necessary knowledge to carry this out.

- FHI stated that Faulu/Kenya was operationally sustainable at the end of 2001 and Faulu Uganda by the end of the first quarter of 2002. Furthermore, FHI stated that both Faulus reported financial sustainability in May 2002.

ANNEXES

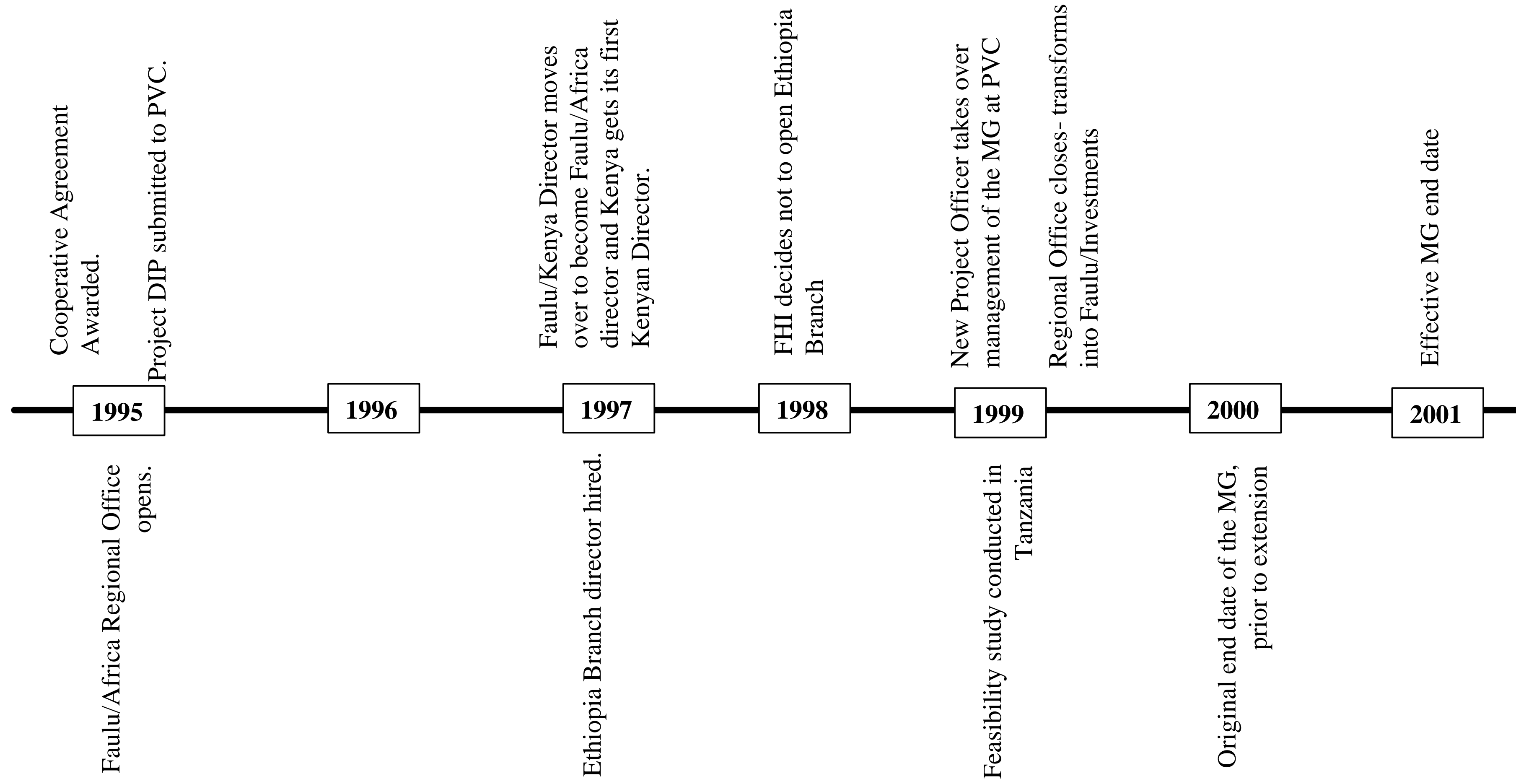
*Annex A: Key Events Timeline**

Tabular form

KENYA			UGANDA	
Date	***Event***		***Date***	***Event***
1991	Faulu/Kenya established its first program in Mathare Nairobi under FHI's first PVC matching grant			
Jan. 1993	Nairobi Central Branch opens			
Jan. 1995	DFID grant of $2.25 million awarded to Faulu/Kenya			
Jan. 1995	Nairobi East Branch opens			
Apr. 1, 1995	**Cooperative Agreement awarded**			
July 1995	**Project DIP submitted to PVC**			
			Nov. 1995	Faulu/Uganda established
1995	**Faulu/Africa Regional Office in Nairobi opens**			
Jan. 1996	Nairobi West branch opens			
			Jan. 1996	Namirembe branch established
May 1996	Mt. Kenya branch opens			
			May 1996	Faulu/Uganda begins issuing loans
May 1997	**Faulu/Kenya Director (Ted Vail) moves over to become Faulu/Africa Director and Kenya gets its first Kenyan director**			
June 1997	**Ethiopia Branch Director hired**			
Nov. 1997	Pete Ondeng becomes director of Faulu/Kenya			
Feb. 1998	**FHI decides not to open office in Ethiopia**			
Jan. 1999	Peter Ondeng leaves Faulu			
Jan. 1999	Faulu Kenya becomes a limited liability company incorporated in Kenya			
March 1999	Andrew Mnjama Mwikamba becomes CEO of Faulu/Kenya			
May 1999	**New Project Officer (Tom Kennedy) takes over management of the MG at PVC**			
			July 1999	Faulu Uganda becomes a limited liability company incorporated in Uganda
			Oct. 1999	Faulu Uganda receives $500,000 grant from USAID's PRESTO project

KENYA			UGANDA	
Oct. 1999	**Regional office closes- transforms into Faulu/Investments**			
			Oct. 1999	Owino Market Branch begins operations
Sept. 1999	Branch Five opens			
1999	**Feasibility Study conducted in Tanzania**			
			Jan. 2000	Kira Road ranch begins operations
			March 2000	Faulu/Uganda staffs up in anticipation of DFID funds
March 2000	Gerald Macharia becomes new CEO of Faulu/Kenya			
Mar. 31, 2000	**Original end date of the MG, prior to extension**			
July 2000	Ted Vail leaves Faulu and FHI			
Nov. 2000	Faulu/Kenya receives EU funding of $40,000			
Feb. 2001	Faulu/Kenya receives a MicroPed grant from USAID for $430,000			
Mar. 31, 2001	**Effective MG end date**			
			May 2001	Bruce Larson leaves F/Uganda and Alex Kikuru takes over as Director
			July 2001	Chair of Board in Uganda, Sam Owori, attends MF courses in Boulder, CO
			Oct. 2001	Kawempe Branch begins operations

Timeline in graphic form: Major events only-- see tabular timeline for details



*Annex B: Detailed Implementation Plan Table**

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified?[19]	Explanation for Variance	Target Met?
Goal: **Assist poor urban people to increase their income levels*, through participation in a micro-enterprise loan program that fosters good business ethics and values, and which encourages an attitude of self-reliance and democratic participation, so that they are capable of determining and meeting their development needs.**						
Objective 1: **Provide increased access to credit services for poor in Kenya and Uganda**						
Open new branches in Kenya and Uganda		The 6 branch regional network (4 in Kenya; 2 in Uganda) will give FH the capacity to help 15, 000 loan clients at a time.	No longer applies as the model changed from a network to independent country entitites. However, Kenya has 5 branches and Uganda has 4			Yes, given a change in overall structure
		Branches to become financially self-sustaining within 4 years of start-up	Neither Kenya nor Uganda are financially sustainable yet. Kenya is close to operational sustainability.		Evaluators believe the target was unreasonably high.	No.
		At least 2400 clients per branch by end of year 5	Between them, Kenya and Uganda reach over 25000 clients., rendering over 2700 per branch.			Yes.
Objective 2: **Create a regional microenterprise loan program, Faulu Africa, that will consist of regional coordinating office and network of branch lending offices in participating African countries, which will be self-sustaining operationally and financially, both as branches and overall.**						
			The DIP mentions several activities and			NA

[19] Enter "Y", if data were verified by evaluators and "N" if it was not possible for evaluators to substantiate PVO data. Items to be reviewed will be based on 1/5 random review of objectives/activities.

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified?[19]	Explanation for Variance	Target Met?
			outputs under this objective (i.e. "Regional office will develop an MIS which includes computerized client and loan tracking system, a financial system and a variety of operations standards and manuals.") but no targets or indicators were identified for this objective overall.			
Objective 3: **Encourage women to be involved in ME through involvement as loan clients within leadership of the client groups , and as Faula Africa staff.**						
		At least 50% of the loan clients in the entire branch system are women. (at any given time)	52% of loans in Kenya went to women. 70% of clients in Uganda are women.			Yes.
		At least 35% of the Faulu Africa staff are women	Data were not made available for Kenya. In Uganda 65% of staff are women.			Partially
Objective 4: **Enhance FH's institutional ability to establish, professionally manage, evaluate, and monitor quality ME loan programs; to implement viable ME programs by gathering and growing a strong team of specialists at Faulu Africa.**						
Faulu Africa will assist FH as an organization give birth to more microenterprise programs.		After the final evaluations, the grant will conclude with a capstone conference	No conference took place.		The "targets" we have inserted in this section are more like activities, but we included them in order to demonstrate depth of the program in the	No.

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified?[19]	Explanation for Variance	Target Met?
					absense of explicit targets	
		HQ will organize and fund regional conferences in LAC and Asia to share lessons learned from the Faulu Africa experience.	No conferences have taken place.			No.
Develop a vision and skill base for microfinance in FHI		Educational seminars for HQ and field staff on what is happening in the rapidly changing field of ME	The FHI Microenterprise Director has spoken at regional meetings about MF and has sent questionnaires to field offices.			Partially.
		Raise issues with top management related to FH implementing ME programs	The FHI Microenterprise Director does this.			Yes.
		Providing minimum standards for field offices wanting to be involved in ME programs.	Does not appear to have been done due to lack of interest on the part of field offices			No.
Objective 5: **Establish an inter-regional link to FHI field offices in Latin America and Asia, so they can benefit from the methodologies, models systems, lessons learned and staff expertise being developed in Africa**						
Inter-regional links formed through regional workshops and consultancies in Latin America/Carribean (LAC) and Asia.			This has not happened.			No.
Faulu staff will travel to LAC and Asia to share their expertise with FH offices and other NGOs.			At least one trip to Asia and Latin America was made by Faulu staff early in the project. Details of the trip are unavailable.			Partially
Faulu Africa will document and share its experiences.			There are reports, case studies, etc from the Faulus.	yes		Yes.

*Annex C: Evaluation Scope of Work **

USAID/BHR/PVC
MATCHING GRANTS EVALUATION
STATEMENT OF WORK
(OCTOBER 2001)

FOOD FOR THE HUNGARY/FAULU
MICROFINANCE PROGRAM FOR EAST AFRICA
FAO-A-00-95-00011-00

MATCHING GRANTS PROGRAM
OFFICE OF PRIVATE AND VOLUNTARY COOPERATION
BUREAU FOR HUMANITARIAN RESPONSE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

EVALUATION SCOPE OF WORK

"Evaluation is a relatively structured, analytical effort undertaken selectively to answer specific management questions regarding USAID-funded assistance programs or activities." (USAID ADS chapter 202.4). An evaluation scope of work (SOW) is a plan for conducting an evaluation. A good SOW provides clear directions to the evaluation team.

PVC uses information from the evaluation of the programs it funds as part of a yearly results reporting process. In order to get more consistent information across all Matching Grants (MG) funded programs a standard evaluation format is used. The questions in this evaluation SOW template are the questions that PVC is asking in all programs. The PVO and their local partners will need to review this template and add sections or questions that reflect their specific information needs.

ELEMENTS IN THE SOW

I. PROGRAM IDENTIFICATION

Include the following:
PVO name
Cooperative agreement number
Date of the evaluation
Country programs evaluated

II. PROGRAM BACKGROUND

Include the following information:

- Provide basic information on the program that will be evaluated
  Include a short statement on:
  - History of the program
  - Current implementation status
  - Local Partners

- Provide Program Planning Matrix, logframe or the section from the program design that lists:
  - Objective
  - Indicators
  - Data from baseline studies or description of the status of the intervention at the beginning of the project.

  Indicate what information and data are available for the external evaluator. PVC already sent a document that will give you an excellent idea of the documents that should be assembled and preparation needed prior to an evaluation.

- Include documentation of any changes that have taken place since the initiation of the program.

III. PURPOSE OF THE EVALUATION

This section should contain two components --- (1) identify the evaluation audience and (2) establish a set of evaluation questions that are relevant to each audience.
Outline the information needs of the evaluation audience (PVC, the PVO and local partners), and how each partner will use this information.

- Who wants the evaluation information,
- What do they want to know,
- What will the information be used for,
- When will it be needed, and
- How accurate must the information be?

For example: The final (or mid-term) evaluation fulfills the requirements of the USAID/BHR/PVC Matching Grant (MG) Program. The MG program will use the information to: assess how well the MG is meeting its objectives; determine patterns and emerging issues across all MG funded programs; determine technical support needs for grantees shape new RFAs and to review of any follow-on proposals; develop internal and external documents to demonstrate the effectiveness of the MG program and to share lessons learned with the entire PVO community. PVC will use information outlined in the SOW template in its annual Results Report and in USAID's annual report to Congress. Achievements cited in the evaluation need to be supported by evidence and should be verifiable. Observations on data quality or constrains to interpretation should be stated as data from these evaluations is used for USAID reporting purposes and is subject to audits. Technical/program opinions and observations are an important element of the evaluation --- but should be stated as the evaluator estimate, opinion or forecast.

IV. THE EVALUATION QUESTIONS

- PVC EVALUATION QUESTIONS.

The following are a set of questions that the MG division is asking in all evaluations. These questions relate to the objectives of the MG division and PVC's strategic plan. The evaluator or evaluation team will assess the following program and institutional questions, provide evidence, criteria for judgment and cite data sources. The evaluator(s) will assess both headquarters and the country-level programs.

The PVO will need to tailor the SOW to reflect their own and their local partners information needs by adding questions into each section, or adding additional sections if needed.

A. Program Implementation

1. Assess progress towards each major objective

   - Based on the logframe/program planning matrix, and statement of program purposes from the proposal, DIP and grant agreement, determine if the program objectives have been met, partially met or were unattained. This is the single most important element the evaluation must document and discuss. In addition to the discussion of project results in the text of the evaluation, this information should also be put into matrix format. List each objective, and key outcomes at the effects and/or impact level. In the text:

     - Identify major successes and constraints in achieving objectives and unanticipated effects.

       As part of this discussion, assess and discuss FHI, Faulu/Investment and the local Faulus capacities to do program monitoring and evaluation.

Note any constraints that prevented any of the entities from measuring achievement of program objectives. If the program does not have "baseline" and end-of-project data from which judgements can be made about the achievement of project objectives, this should be noted.

- Identify the grant program's detailed implementation plan (DIP) and the familiarity of operational staff with the project design, implementation plans, and monitoring and evaluation requirements.

- Assess effectiveness of Faulu/Africa's regional approach and it evolution over the life of the grant. Have the assumptions underlying the approach been supported by the experience. Has the approach resulted in a scaled-up in MF programs in the region or replicated in other regions?

- Has the Faulu engaged in program or policy advocacy? What was the focus of the advocacy and effects?

- Discuss what FHI and Faulu have "learned" implementing this project. Identify if these "lessons learned" have been applied elsewhere (other projects or countries)

2. Assess the status of Faulu/Africa's impact on the development of the local institutions of Faulu /Kenya and Faulu/Uganda. .

- Include a chart that:

  - Categorizes local level partners. Are the partners: NGOs, affiliates of the PVO, private or commercial groups, cooperatives, community-based organizations, regional or local governments or intermediate service organizations?
  - Identify the type of mechanism employed with the local Faulus, i.e. MOU, sub-grant, contract.
  - Outline the roles, responsibilities and decision-making responsibilities of the country programs.
  - Identify the fiscal autonomy and amount of grant funds directly managed by Faulu Africa over the course of the grant.

- Assess the process that FHI used to build and maintain Faulu Africa and the Faulu country programs.

  - Does FHI have a partnership policy and approach to local partnership?
  - Did the PVO do a formal assessment of local partner capacity and develop plans to build their capacity?
  - Document change in Faulu country program capacities
  - What were the major constraints to effective partnerships?
  - Has the project increased the Faulus' access to information technology? How?

- Assess the Faulus satisfaction with the partnership.

- Assess the FHI and Faulus involvement in local networks or with intermediate service organizations.

- What effect did participation in networks or service organizations (e.g. SEEP, Christian MED Network, or the Kenya MF network) have on the operational or technical capacity of the Faulus? What would make the participation more effective? Cite the major implementation lessons learned and recommendations flowing from network participation

B. Management Capacity/Institutional Strengthening

The objective of the MG is to build FHI headquarters and field organizational and technical capacity. This section of the evaluation should assess change in the FHI's operational and management capacity (organization, structure or quality of planning and management) as a result of PVC grant.

- Strategic Approach and Program Planning

Have changes occurred in Faulu and FHI headquarters capacity to:

- manage the planning process --- program renewal, strategy integration, new program design;
- address over-arching program issues of replicability, scale-up, sustainability across the FHI system; and
- use performance data to forecast emerging trends and develop strategic plans for MF program expansion and development ?

- Country Level Initiatives

Identify and assess (if relevant), FHI contributions in the following areas:

- FHI/Faulu cooperation and coordination with the USAID mission and other development partner programs including natl./local government agencies;
- Faulu advocacy activities: issues, goals, partners and results (Has the PVO used project data for advocacy with the public sector or consistently shared lessons learned with other PVOs in country or with non-partner NGOs?);
- If the country or program area has a history of violent conflict, other man-made/natural disasters, or food insecurity:

(a) PVO activities in conflict prevention, mitigation, resolution or post-conflict transition
(b) PVO's contingency plan to ensure the safety of program staff and program continuity.

- Monitoring and Evaluation

Has the Faulu implemented a process and put into place a sustainable system to monitor project performance and collect results (effects or impact) data? Provide evidence that the project:

- Established results oriented objectives and valid indicators for the technical intervention and capacity building components in the project; collected valid baseline data, and made realistic plans to collect end-of-project data and analyze differences; analyzed performance data and used findings to manage the project. If this is a final evaluation, has the PVO acted on recommendations from mid-term evaluation?

- Improved the knowledge and skills of field staff on how to measure performance and analyze data.
- Transferred monitoring and evaluation skills to the staff of the Faulu country programs?
    - What changes have occurred in the capacity of the Faulus to measure program performance and impact?
    - Have the Faulus increased M&E in their own activities (non-PVC-funded programs) as a result of skills gained through this project?
    - What would accelerate the capacity of the local partners to document performance?

Determine if the FHI has used the MG to develop a sustainable capacity at headquarters and in the field offices to monitor project performance and measure effects and impact. Has Faulu Africa and/or FHI headquarters:

- fostered analysis and self evaluation in country programs, or conducted quantitative or qualitative analysis to refine interventions;
- conducted periodic review of performance data by project personnel and taken actions as a result of review;
- institutionalized performance monitoring and impact evaluation systems developed with MG funds into other non-PVC grant funded programs?

What were the biggest constraints to improving project monitoring and evaluation and what are the recommendations for PVC and the PVO?

- <u>Sustainability</u>

    - Do Faulus and Faulu Investment have a system for addressing financial or operational sustainability?
    - Have the Faulus and Faulu Investment had business plans?
    - Describe the financial or operational elements that are intended to be sustained (objectives); the means for judging if the sustainability objectives have been achieved (indicators); and sustainability achievements and prospects for post-grant sustainability.
    - Identify and discuss the Faulus cost-recovery as MFIs. Identify and discuss Faulu/Africa's cost recovery mechanisms and achievements.

Other Management Systems

Financial Management

- Are adequate financial monitoring systems in place?
- Has FHI met the match?
- Has Faulu in general or its country programs leveraged additional resources (beyond the match)?
- How cost-effective are the technical approaches?

Information Management

- Comment on the utility and timeliness of PVOs required reports.

- ➢ Has the PVO developed, disseminated and used “lessons learned” from Faulu in other programs? Has the experience of one local program informed the other. t?
- ➢ What types of information technology were used and how effective were they?

Logistics

- ➢ Comment on the adequacy and timeliness of the FHI/Faulu material inputs.

▪ Supervision/HRD

- ➢ Assess if there were sufficient staff with the appropriate technical and management skills to oversee program activity at Faula/Africa, FHI headquarters and in the field programs over the life of the grant.

▪ USAID Management

- ➢ Comment on USAIDs oversight and backstopping of this cooperative agreement.

- ➢ Cite significant lessons learned and recommendations in this regard.

V. EVALUATION METHODOLDOGY

Give a brief description of the evaluation methodology use.
- Evaluation approach
- Methodology and instruments
- Criteria used for judgement, data source, and data analysis.

A. Approach

The FHI/Faulu grant program was developed and funded prior to the Agency's emphasis on results-oriented program designs and the development of PVC’s Strategic Plan. The data from all PVC-funded programs is critical to PVC's ability to report on achievements against the Office's Strategic Plan. Until all current PVC-funded programs have made the transition to a more results-oriented project plans, it will be necessary for the evaluator to conduct a *team-planning meeting* with the PVO and local partners to:

- ♦ refine and consolidate the purpose-level objectives and outputs into a set of results-oriented objectives; and
- ♦ Agree upon a set of appropriate indicators against which the evaluation will assess the achievement of project results outlined in the SOW and will be judged. And where necessary, identify criteria for judgement.

B. Methodology

The Evaluator will:

- ♦ explain the appropriateness of using the data collection approaches;
- ♦ use the Agency's microenterprise (ME) indicators to assess the status of the ME intervention;
- ♦ document data sources (data constraints, quality, etc.); and
- ♦ Provide, a copy (electronic or paper) of all primary data collected and analysis performed.

VI. TEAM COMPOSITION AND PARTICIPATION

INSTRUCTIONS:
Based on tasks outlined and the emphasis of each evaluation section determine skills needed and who will participate in the evaluation team ---- PVO, NGO and AID staff. Outline:
- Roles and responsibility of team leader and members
- Language requirements
- Technical expertise, or country experience
- Evaluation methods and data collection expertise

VII. SCHEDULE

INSTRUCTIONS:
Determine:
- Time needed at headquarters
- Time needed in the field
- Time necessary for report writing

VIII. REPORTING AND DISSEMINATION REQUIREMENTS

INSTRUCTIONS:
- The SOW will serve as the outline of the report
- Delivery schedule
- Review/revision policy

*Annex D: Advocacy Implementation Chain**

NA

*Annex E: Partnership Table, by Country Program Visited**

NA

Annex F: Sustainability Analysis

Table F 1: Uganda Sustainability Analysis

Item	Supporting factors	Inhibiting factors	Conclusion
Political			
	Uganda is in a position of relative political stability given its tumultuous history. Microfinance legislation currently under review.		
Institutional			
			Despite financial losses, Faulu/Kenya is well-established and recognized as a leading institution in its sector.
Financial			
	Faulu/Uganda has the capacity to expand and is awaiting expected donor funds	Faulu/Uganda has suffered financial losses over last two years	Achieving sustainability is a primary goal for Faulu and they are working toward that end.
Operational			
		Faulu/Uganda has had low efficiency.	Projections for 2001 show some improvements but losses will still be in the $135,000 range and come out of the capital built up through donations

Table F 2: Kenya Sustainability Analysis

Item	Supporting factors	Inhibiting factors	Conclusion
		Political	
	A draft of Microfinance legislation is being reviewed by the Attorney General.	Kenya is in a state of political uncertainty due to upcoming national elections. This is likely to spark unrest, regardless of the result. Uncertainty causes clients to reduce their borrowing and may have an impact on donor funds.	
		Institutional	
			Faulu/Kenya appears to be a well-established and stable institution. It's has stabilized leadership and will reach sustainability soon.
		Financial	
	Faulu Kenya is about to receive another $1.5 million from DFID.	See Political	Faulu/Kenya projections are that with the next round of DFID funds, the MFI will still be close to financial sustainability at the end of 2003.
Operational			
	Faulu/Kenya has made impressive efforts toward increased efficiency. It has strong management, operations and MIS systems	See Political	Faulu/Kenya's operational sustainability where no adjustment is made for financial expenses is expected to be very close to break-even in 2001.

Table F 3: Headquarters Continuing Effort to Support Changes

Item	Supporting factors	Inhibiting factors	Conclusion
		Political	
	FHI President espouses a strong commitment to the Faulus		
		Institutional	
	Headquarters will continue to support the Faulu's with technical assistance and via its role on the Board of Directors.		
		Financial	
	FHI President has pledged financial support for the start-up of a Faulu/Tanzania		
		Operational	
	NA		

Annex G: List of Persons Interviewed

Name	*Organization.Title*
Tom Kennedy	USAID PVC
Mesfin Assaye	Food for the Hungry, Director of Microenterprise Development
Bruce Larson	Former Faulu/Uganda General Manager
Ted Vail	Former Faulu/Africa Director
Christopher Musoke	Faulu/Uganda Finance Manager
Leiticia Kiyingi	Faulu/Uganda Accountant
Alex Kakuru	Faulu/Uganda General Manager
Grace Sebageni	Faulu/Uganda Kira Road branch Manager
Edward Kibirige	Food for the Hungry International Country Director for Uganda
Mary Stella Oyat	Faulu/Uganda Namirembe branch office Manager
8 Faulu/Uganda clients	Namirembe and Owino Markets
Patricia Tukahirwa	Faulu/Uganda HR Manager
Peter Waswa	Faulu/Uganda Training Manager
Sam Owori	Chairperson of the Faulu/Uganda Board of Directors
Harriet Kabuye	Faulu/Uganda Owino Branch Manager
Victoria Jemba	Faulu Uganda Kawempe Branch Manager
Rosaline	Faulu/Uganda Kawempe Branch loan officer
Jackie Wakheya and Ron Stryker	USAID/Uganda
Joanna Ledgerwood	USAID's SPEED Project, Uganda
Gerald Macharia	Faulu/Kenya Chief Executive
Roy Ngure	Faulu/Kenya Finance Manager
Mary Kishoiyian	Faulu/Kenya Marketing and Business Development Manager
Habel Mkombolu	Faulu/Kenya Computer /IT Specialist
Rose Wanjohi	Faulu/Kenya Human Resources and Admin Manager
Isaiah Kahuki	Faulu/Kenya Operations Manager
Grace Garia	Faulu/Kenya Acting Manager of Mathare Branch
Owen Koimburi	Faulu/Kenya Board member and chair of the board finance committee.
Tobias Mahiri	Food for the Hungry/Kenya, Acting Director
Helen Suji	Faulu/Kenya, Senior DFO in Nakuru hub of unit 5
Ken Wathome	Faulu/Kenya, Board Chair
Zachary Ratemo	USAID/Kenya, Enterprise Development Advisor

Annex H: MG Budgets and Expenditures

Food For The Hungry Faulu Africa Regional Microenterprise Loan Program
Matching Grant #FAO-0158-A-00-5011-00
Expenses Report - 31 March 2001

	REVISED BUDGET											
	Faulu Kenya		Faulu Uganda		Faulu Ethiopia		Regional Office		FHI Head Quarters		Total Revised	
	USAID	FHI	USAID	FHI	USAID	FHI	USAID	FHI	USAID	FHI	AID	FHI
Program Elements												
Salaries	$176,221	$1,619,366	$123,542	$364,745	$47,336	$0	$375,572	$247,399	$0	$0	$722,671	$2,231,510
Fringe Benefits												
Benefits - staff (Including housing-Expatriate staff)	$23,943	$315,940	$75,821	$113,506	$8,664	$0	$237,158	$129,108	$0	$0	$345,586	$558,554
Travel, Transport and Per Diem	$14,551	$200,519	$25,959	$75,637	$16,665	$3,789	$7,780	$94,690	$16,047	$0	$81,002	$374,635
Subcontracts												
Office Rent	$35,963	$186,491	$27,893	$38,345	$16,020	$0	$1,378	$6,469	$0	$0	$81,254	$231,305
Other Direct Costs												
Office Expenses and Supplies	$141,320	$1,079,003	$52,145	$155,814	$11,301	$7,968	$41,077	$203,914	$668	$0	$246,511	$1,446,699
Loan Capital	$545,072	$18,415,381	$921,301	$2,903,771	$0	$0	$0	$0	$0	$0	$1,466,373	$21,319,152
Sub Total- Program Elements	$937,070	$21,816,699	$1,226,661	$3,651,818	$99,987	$11,758	$662,965	$681,580	$16,715	$0	$2,943,398	$26,161,855
Procurement												
Consultancies												
Consulting	$4,609	$44,363	$34	$226	$2,938		$8,167	$25,123	$0	$0	$15,748	$69,712
Audit fees	$2,182	$54,461	$1,396	$20,472	$987		$2,131	$4,423	$0	$0	$6,696	$79,356
Legal Fees	$0	$18,120	$839	$2,389	$869		$259	$2,471	$0	$0	$1,968	$22,981
Temporary labor	$32,159	$115,663	$1,974	$7,428	$674		$544	$2,382	$0	$0	$35,351	$125,473
Training/Conference/Seminars	$13,730	$111,617	$16,578	$27,630	$1,843		$2,798	$33,288	$625	$0	$35,574	$172,535
Supplies												
Office Furniture/ Equipment	$15,281	$210,333	$18,548	$34,849	$4,171		$5,915	$2,535	$0	$0	$43,914	$247,718
Computers/Photocopies	$4,130	$27,424	$13,552	$6,435	$2,058		$4,622	$2,643	$0	$0	$24,362	$36,502
Vehicle	$0		$0	$0	$0		$0	$0	$0	$0	$0	$0
Sub total- Procurement	$72,090	$581,983	$52,922	$99,430	$13,540		$24,436	$72,865	$625	$0	$163,613	$754,278
Total Program Costs	$1,009,159	$22,398,682	$1,279,583	$3,751,248	$113,527	$11,758	$687,401	$754,445	$17,340	$0	$3,107,011	$26,916,133
Indirect costs - Average 9.1%	$95,162	$1,989,543	$120,670	$333,226	$10,728	$1,044	$64,855	$67,167	$1,575	$0	$292,990	$2,390,980
Total Program Budget	$1,104,321	$24,388,225	$1,400,253	$4,084,474	$124,255	$12,802	$752,256	$821,612	$18,915	$0	$3,400,001	$29,307,113

Food For The Hungry Faulu Africa Regional Microenterprise Loan Program
Matching Grant #FAO-0158-A-00-5011-00
Request for Revised Budget - 11 April 2000

REVISED BUDGET

	Faulu Kenya		Faulu Uganda		Faulu Ethiopia		Regional Office		FHI Head Quarters		Total Revised	
	USAID	FHI	USAID	FHI	USAID	FHI	USAID	FHI	USAID	FHI	AID	FHI
Program Elements												
Salaries	$176,221	$1,619,366	$123,542	$364,745	$47,336	$0	$367,830	$247,399	$0	$0	$714,930	$2,231,510
Fringe Benefits												
Benefits- staff (Including housing- Expatriate staff)	$23,943	$315,940	$75,821	$113,506	$8,664	$0	$244,495	$129,108	$0	$0	$352,923	$558,554
Travel, Transport and Per Diem	$14,551	$200,519	$25,959	$75,637	$16,905	$3,789	$13,443	$94,690	$16,047	$0	$86,905	$374,635
Subcontracts												
Office Rent	$35,963	$186,491	$27,893	$38,345	$16,020	$0	$442	$6,469	$0	$0	$80,318	$231,305
Other Direct Costs												
Office Expenses and Supplies	$141,320	$1,079,003	$52,230	$155,814	$11,301	$7,968	$43,848	$203,914	$668	$0	$249,367	$1,446,699
Loan Capital	$545,072	$18,415,381	$921,301	$2,903,771	$0	$0	$0	$0	$0	$0	$1,466,373	$21,319,152
Sub Total- Program Elements	$937,070	$21,816,699	$1,226,746	$3,651,818	$100,227	$11,758	$670,058	$681,580	$16,715	$0	$2,950,816	$26,161,855
Procurement												
Consultancies												
Consulting	$4,609	$44,363	$34	$226	$2,938		$8,167	$25,123	$0	$0	$15,748	$69,712
Audit fees	$2,182	$54,461	$1,396	$20,472	$987		$3,006	$4,423	$0	$0	$7,571	$79,356
Legal Fees	$0	$18,120	$839	$2,389	$869		$259	$2,471	$0	$0	$1,968	$22,981
Temporary labor	$32,159	$115,663	$1,974	$7,428	$674		$544	$2,382	$0	$0	$35,351	$125,473
Training/Conference/Seminars	$13,730	$111,617	$16,578	$27,630	$1,843		$2,711	$33,288	$625	$0	$35,486	$172,535
Supplies												
Office Furniture/Equipment	$15,281	$210,333	$18,548	$34,849	$4,171		$4,543	$2,535	$0	$0	$42,542	$247,718
Computers/Photocopies	$4,130	$27,424	$13,552	$6,435	$2,058		$7,495	$2,643	$0	$0	$27,235	$36,502
Vehicle	$0		$0	$0	$0		$0	$0	$0	$0	$0	$0
Sub total- Procurement	$72,090	$581,983	$52,922	$99,430	$13,540		$26,725	$72,865	$625	$0	$165,901	$754,278
Total Program Costs	$1,009,159	$22,398,682	$1,279,668	$3,751,248	$113,767	$11,758	$696,783	$754,445	$17,340	$0	$3,116,717	$26,916,133
Indirect costs - Average 9.1%	$91,676	$2,017,313	$116,253	$337,852	$10,313	$1,059	$63,466	$67,948	$1,575		$283,283	$2,424,172
Total Program Budget	$1,100,835	$24,415,995	$1,395,921	$4,089,100	$124,080	$12,817	$760,249	$822,393	$18,915	$0	$3,400,000	$29,340,305

Note: The calculations and totals shown for the PVO are for Managerial , and not for contractual purposes. The Contractual amount is $ 3,693,000 only (Grant agreement signed).

Food for the Hungry International -- Faulu Africa- a Regional Microfinance Program of FHI
Non Matching Grant Income information -- 30 September 2001

							1-Sep	
	1995	1996	1997	1998	1999	2000	2001	Total
Faulu Africa- Regional Office								
FH/USA	13,695.00	140,940.00	106,208.00	49,313.00	35,472.00	13,733.00	425.00	359,786.00
USAID Grants	-	-	-	-	-	-	-	-
Microped Grant								
DFID	-	-	-		-	-	-	-
MESP Grant								-
Compassion Canada	-	68,876.00	56,850.00		-	-	-	125,726.00
Kenya Children Fund	5,663.00	100.00	1,737.00		-	-	-	7,500.00
MESP Local Support-	-	-	-		-	-	-	-
Miscellaneous Income	-	-	-	68.00	947.00	-	-	1,015.00
Guest Visits & Consultations	-	-	-		-	-	-	-
Sundry Income	-	210.00	5,582.00	1,164.00	3,746.00	31.00	-	10,733.00
Seconded Staff	74,040.00	55,616.00	31,542.00		-	-	-	161,198.00
Total	93,398.00	265,742.00	201,919.00	50,545.00	40,165.00	13,764.00	425.00	665,958.00
Faulu Kenya								
FH/USA	$45,153.00	$7,138.00	$32,551.00	$0.00	$30,000.00	$30,750.00	$0.00	145,592.00
USAID _IGP	$0.00	$0.00	$0.00	$31,200.00	$109,296.00	$101,075.00	$72,170.00	313,741.00
Microped Grant							$53,478.00	53,478.00
DFID	$945,870.00	$680,969.00	$705,656.00	$1,505,589.00	$738,553.00	$174,794.00		4,751,431.00
MESP Grant							$46,561.00	46,561.00
Compassion Canada	$29,222.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	29,222.00
Kenya Children Fund	$4,327.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	4,327.00
Local Support-	$9,990.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	9,990.00
Miscellaneous Income	$0.00	$0.00	$0.00	$15,684.00	$0.00	$16,927.00	$6,255.00	38,866.00
Guest Visits & Consultations	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	-
Sundry Income								
Seconded Staff								
Total Expenses	$1,034,562.00	$688,107.00	$738,207.00	$1,552,473.00	$877,849.00	$323,546.00	$178,464.00	$5,393,208.00

							1-Sep	
	1995	1996	1997	1998	1999	2000	2001	Total
Faulu Uganda								
FH/USA	$0.00	$329.00	$0.00	$0.00	$15,000.00	$40,000.00	$0.00	55,329.00
USAID -PRESTO	$0.00	$0.00	$0.00	$0.00	$15,274.00	$484,726.00	$0.00	500,000.00
Microped Grant							$0.00	-
DFID	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	-
MESP Grant								
Compassion Canada	$0.00	$100,394.00	$144,239.00	$244,921.00	$0.00	$0.00	$14,724.00	504,278.00
Kenya Children Fund	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	-
Local Support-	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	-
Miscellaneous Income	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	-
Guest Visits & Consultations	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	-
Sundry Income								
Seconded Staff								
Total Expenses	$0.00	$100,723.00	$144,239.00	$244,921.00	$30,274.00	$524,726.00	$14,724.00	$1,059,607.00
Faulu Ethiopia								
FH/USA	$0.00	$0.00	$7,020.00	$26,000.00	$0.00	$0.00	$0.00	$33,020.00
USAID Grants	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Microped Grant								$0.00
DFID	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MESP Grant								$0.00
Compassion Canada	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Kenya Children Fund	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Local Support-	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Miscellaneous Income	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Guest Visits & Consultations	$0.00	$0.00	$0.00	$109.00	$0.00	$0.00	$0.00	$109.00
Sundry Income								
Seconded Staff								
Total Expenses	$0.00	$0.00	$7,020.00	$26,109.00	$0.00	$0.00	$0.00	$33,129.00
Total Expenses	$1,127,960.00	$1,054,572.00	$1,091,385.00	$1,874,048.00	$948,288.00	$862,036.00	$193,613.00	$7,151,902.00

Revised 24 October 2001

	Faulu Africa	FHI Head Quarters	Total
FH/USA	593,727.00	-	593,727.00
USAID Grants	813,741.00	-	813,741.00
Microped Grant	53,478.00	-	53,478.00
DFID	4,751,431.00	-	4,751,431.00
MESP Grant	46,561.00	-	46,561.00
Compassion Canada	659,226.00	-	659,226.00
Kenya Children Fund	11,827.00	-	11,827.00
Local Support-	9,990.00	-	9,990.00
Miscellaneous Income	39,881.00	-	39,881.00
Guest Visits & Consultations	109.00	-	109.00
Sundry Income	10,733.00	-	10,733.00
Seconded Staff	161,198.00	-	161,198.00
Total Expenses	7,151,902.00	-	7,151,902.00

Financial Services
Simplified Activity and Financial Statement
Faulu Kenya
In US Dollars

		1996	1997	1998	1999	2000
	Activities					
1	Amount of Loans Outstanding, SOY	646,747	710,766	886,071	2,323,161	2,822,363
2	Amount of Loans Outstanding, EOP	710,766	886,071	2,323,161	2,822,363	3,286,524
3	Ave. Amount of Loans Outstanding	653,302	717,081	1,529,552	2,572,762	3,054,443
4	# of Loans, End of Year	2,482	3,342	6,132	6,805	9,528
5	Ave. Loan Size (face value)	27,029	26,442	35,347	414	345
6	Delinquency Rate	6.07%	5.23%	0.34%	0.08%	0.63%
7	Long Run Loss Rate	0%	1.37%	0%	N/A	1.33%
	Interest Rates					
8	Nominal Rate Charged by Program	49%	49%	49%	22%	22%
9	Local Inter-bank Rate	10%	10%	10%	9.60%	6.40%
10	Inflation Rate	8%	10%	8%	7.90%	7.50%
	Revenues					
11	Interest Income from Clients	256,810	226,056	464,164	717,818	888,126
12	Fee Income from Clients (and sundry)	27,039	54,648	227,748	129,389	153,485
13	Total Client Revenues	283,849	280,704	691,912	847,207	1,041,611
	OPERATING EXPENSES					
14	General Operating Expenses (salaries, rents, utilities, etc.)	615,949	906,533	1,098,782	1,314,258	1,093,069
15	Depreciation of Fixed Assets	21,656	35,369	35,444	37,801	34,401
16	Loan Loss Provision	2,617	1,978	4,081	-820	40,478
17	Total Non-Financial Expenses	640,222	943,880	1,138,307	1,351,239	1,167,948
	ADJUSTED FINANCIAL EXPENSES					
18	line 3 x higher of line 9 or 10	65,330	71,708	152,955	246,985	229,083
	TOTALS					
19	Total Expenses (line 17+18)	705,552	1,015,588	1,291,262	1,599,044	1,397,031
20	Return on Operations (line 13/19)	40.23%	27.64%	53.58%	52.98%	74.56%
	OTHER					
21	Total Savings Outstanding	---	---	1,440,522	6805	9,528
22	Total voluntary savings outstanding	---	---		1,656,850	1,866,552
23	Percent women borrowers	---	---	52%	51.60%	52%
24	Percent rural clients (of line 4)	---	---		22.20%	36.42%
25	Total Number of staff	---	---		105	104
26	Number of clients per Loan Officer	---	---	277	48	56
27	Number of loans outstanding with initial under poverty loan level for your region.	---	---	1,941	673	2,723

Annex I: List of Key Documents

Matching Grant Proposal, Food for the Hungry, January 14, 1994

USAID Cooperative Agreement, Food for the Hungry Faulu Award # FAO-0158-A-00-5011-00, April 25, 1995

Matching Grant: Detailed Implementation Plan, Food for the Hungry, July 7, 1995

Faulu Africa Matching Grant Annual Reports, 1996,1997, 1998, 1999, and 2000, Food for the Hungry

Faulu Uganda Business Plans

Faulu Kenya Business Plans

Food for the Hungry Matchinging Grant, Mid-term Evaluation, July 1998

Faulu Uganda Institutional Review, DFID Uganda Report by Hugh Allen, July 17, 1999

Faulu Uganda MicroRate Review, December 31, 2000

Faulu Kenya MicroRate Review, June 30, 2001

Annex J: USAID Table 1 Reporting for Faulu Kenya and Uganda

Table 1 Faulu Uganda Ltd -- Simplified Activity & Financial Statement

US$	1996	1997	1998	1999	2000	2001	2002	2003	2004
ACTIVITIES									
1. Amount of loans outstanding, start of year	0	139,647	281,455	348,163	451,831	725,254	959,589	1,790,918	2,267,811
2. Amount of loans outstanding, end of year	139,647	281,455	348,163	451,831	725,254	959,589	1,790,918	2,267,811	2,659,771
3. Avg. amount of loans outstanding	69,823	210,551	314,809	399,997	588,543	842,422	1,375,254	2,029,365	2,463,791
4. Number of loans outstanding	897	1,456	1,958	3,000	4,931	6,583	10,076	13,912	16,839
5. Average loan size (line 2 divided by line 4)	156	193	178	151	147	146	178	163	158
6. Portfolio at Risk > than 30 days	2.0%	0.0%	0.0%	0.0%	0.0%	0.9%	1.2%	1.3%	1.3%
7. Long run loss rate (16 divided by 3)	19.1%	6.6%	0.2%	0.0%	0.8%	4.4%	3.7%	1.7%	1.1%
INTEREST RATES									
8. Nominal interest rate charged by program	27%	29%	36%	36%	36%	36%	36%	36%	36%
9. 90 day CD rate	12.25%	10.62%	8.16%	10.80%	10.96%	10.80%	11%	11%	11%
10. Inflation rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%
CLIENT REVENUES									
11. Interest income from clients	18,893	82,222	128,368	197,992	262,991	476,786	824,872	1,221,457	1,498,589
12. Fee income from clients	20,566	53,746	71,807	45,435	83,890	91750	142,143	185,973	243,955
13. Total client revenues (lines 11 + 12)	39,459	135,968	200,175	243,427	346,881	568,536	967,015	1,407,430	1,742,544
OPERATING EXPENSES									
14. General Operating Expenses	179,797	251,374	421,621	443,241	690,170	659,850	836,005	967,522	977,389
15. Depreciation of fixed assets	6,811	5,182	11,367	12,983	15,002	6,883	24,811	23,813	30,411
16. Loan loss provision expense	13,324	13,978	588	57	4,988	37,334	50,968	34,695	26,609
17. Total Operating Expenses	199,932	270,534	433,576	456,281	710,160	704,067	911,784	1,026,030	1,034,409
ADJUSTED FINANCIAL EXPENSES									
18. Adjusted financial expenses. (line 3/9)	8,553	22,360	25,688	43,200	64,504	90,982	151,278	223,230	271,017
TOTALS									
19. Total Expenses (line 17 plus line 18)	208,485	292,894	459,264	499,481	774,664	795,049	1,063,062	1,249,260	1,305,426
20. Financial Sustainability (line 13 / by 19)	18.93%	46.42%	43.59%	48.74%	44.78%	71.51%	90.97%	112.66%	133.48%

OTHER									
21. Total number of voluntary savers	0	0	0	0	0	0	12,296	16,465	19,453
22. Total voluntary savings outstanding	0	0	0	0	0	0	205,900	256,025	311,266
23. Percent women borrowers (of line 4)	71%	71%	73%	72%	71%	73%	73%	73%	73%
24. Percent rural clients (of line 4)	0%	0%	0%	0%	0%	0%	0%	0%	0%
25. Total Number of staff	13	15	19	33	62	77	118	126	129
26. Number of field officers (credit staff)	8	9	11	18	34	50	66	68	72
Exchange rate:	1000	1040	1300	1502	1794	2000	2000	2000	2000

FAULU KENYA LTD

Table 1

Simplified Activity and Financial Statement In US$ (2002/4Exchange rate used @ US $1 =_Kshs86)					
	1999	**2000**	**Dec 2001**	**2002**	**2003**
ACTIVITIES					
1. Amount of loans outstanding, start of year	2,323,161	2,822,363	2,822,363	3,903,245	4,540,643
2. Amount of loans outstanding, end of year	2,822,363	3,286,524	3,903,245	4,540,643	5,297,212
3. Avg. amount of loans outstanding	2,572,762	3,054,443	4,773,986	4,221,94	4,918,927
4. Number of loans outstanding	6,805	9,528	6,132	16,000	18,924
5. Average loan size (line 2 divided by line 4)	414	345	637	284	280
6. Portfolio at Risk > than 30 days	0.08%	0.63%	1.1%	1%	1%
7. Long run loss rate (line 16 divided by line 3)	N/A	1.33%	0.1%	0.54%	0.38%
INTEREST RATES					
8. Nominal interest rate charged by program	22%	22%	22%	22%	22%
9. 90 day CD rate	9.6%	6.4%	8%	6%	8%
10. Inflation rate	7.9%	7.5%	12%	15%	10%
CLIENT REVENUES					
11. Interest income from clients	717,818	888,126	124,960	1,315,109	1,738,796
12. Fee income from clients	129,389	153,485	32,852	256,586	323,189
13. Total client revenues (lines 11 + 12)	847,207	1,041,611	157,812	1,571,695	2,061,985
OPERATING EXPENSES					
14. General Operating Expenses (salaries, rents, utilities, etc.)	1,314,258	1,093,069	58,433	1,645,741	2,044,723
15. Depreciation of fixed assets	37,801	34,401	598	43,155	44,268
16. Loan loss provision expense (writeback)	(820)	40,478	63,982	22,941	18,922
17. Total Operating Expenses	1,352,059	1,167,948	123,013	1,711,837	2,107,913
ADJUSTED FINANCIAL EXPENSES					
18. Adjusted financial expenses (line 3 multiplied by the higher of line 9 or 10)	246,985	229,083	572,878	422,194	491,892
TOTALS					
19. Total Expenses (line 17 plus line 18)	1,599,044	1,397,031	695,891	2,134,031	2,599,805
20.Financial Sustainability (line13divided by 19)	52.98%	74.56%	22.68%	73.65%	79.31%

Simplified Activity and Financial Statement					
In US$ (2002/4Exchange rate used @ US $1 =_Kshs86)					
	1999	2000	Dec 2001	2002	2003
OTHER					
21. Total number of voluntary savers	6805	9,528	12,050	16,000	18,724
22. Total voluntary savings outstanding	1,656,850	1,866,552	2,379,040	2,520,964	2,908,791
23. Percent women borrowers (of line 4)	51.6%	52%	50%	>50%	>50%
24. Percent rural clients (of line 4)	22.2%	36.42%	50%	50%	50%
25. Total Number of staff	105	104	110	120	120
26. Number of field officers (credit staff)	48	56	65	66	70
27. Number loans outstanding with initial under poverty loan level for your region.	673	2,723	5240	6,472	9,196

Notes to Table 1, by line item

1. Amount of loans outstanding, start of year. Monetary volume of portfolio in US$.
6. Portfolio at Risk **Over 30 days**. Divide unpaid balance of loans with payments overdue more than 30 days by the amount of loans outstanding, end of year (line 2). Include as an attachment an aging of portfolio table: 1-30 days; 31-60 days; 61-90 days; over 90 days. See chart below.
7. Long run loss rate. Divide amount of loans written off during the past year (line 16) by average amount of loans outstanding (line 3).
16. Loan loss provision. Loans over one year delinquent should be added to write-offs.
19. Adjusted financial expenses. Cost of financing the portfolio at a 90 day CD cost of funds. This calculation avoids the need to adjust separately for various forms of subsidy.
27. Poverty lending levels vary by region. For Africa, Asia and the Middle East it is <$300. For LAC it is <$400, and for the Europe & Eurasia region it is <$1,000.