Kingdom of Lesotho – Rural Financial Intermediation Programme

Project Performance Evaluation

One hundredth session of the Evaluation Committee

23 March 2018

Independent Office of Evaluation

IFAD
Investing in rural people

Project Context

IFAD *Map compiled by IFAD* | 13-06-2017

- Small, mountainous, and landlocked country, entirely surrounded by South Africa
- Population of 2 million
- 57.1% live below the national poverty line
- 1/3 of the population are food insecure
- Majority of the rural population do not have regular access to financial services

Project context cont.

Financial sector of Lesotho demonstrated three main characteristics:

a) a dominance of three foreign banks;

b) a strong informal financial sector; and

c) an absence of a sizable microfinance sector

Basic project information

- **Project area:**
  - National in scope (10 districts)
  - Focus on districts where CRS and CARE have larger portfolios
- **Target group:**
  - Poor rural households with actual/potential capacity to generate income through on- and/or off-farm activities
  - Estimated 144,000 households
- **Timeframe**: 2008 – 2015
- **Project finance:**
  - Appraisal US$ 10.7 million
  - IFAD: loan – US$ 4.35 million; grant – US$ 4.35 million
  - Government: US$ 1.2 million; Lesotho Post Bank: US $ 0.5 million; Beneficiaries: US$ 0.3 million

Project objectives and outcomes

- Project objectives
  - Enhancing access of the rural poor to efficient financial services on a sustainable basis

- Programme expected to achieve:
  (i) MBFIs strengthened to provide efficient services to their members in rural and peri-urban areas
  (ii) Rural outreach of formal financial institutions expanded; and
  (iii) Conducive environment and institutional framework for promoting inclusive financial services developed.

Relevance

- Relevance of objectives
  - Alignment with the overall objectives and priorities of the Government-Poverty Reduction Strategy (2004/2005 – 2006/2007)
- Relevance of design
  - Original design covered all key areas in supporting rural finance and microfinance from micro-, meso- and macro-levels
  - Implementing partners for promoting MBFIs were not adequately assessed at design
  - Some assumptions were invalid
- Relevance of targeting approach
  - Primary target group to be relevant and realistic
  - The relevance of targeting the enterprising rural poor through RSCGs and financial cooperatives at design was very low

Effectiveness

- MBFIs strengthened:
  - Financial cooperatives were small and weak; targets on Rural Savings and Credit Groups not met
  - Other saving groups facilitated by NGOs led to 639 MBFIs with 10,039 members
- Outreach of formal financial institutions expanded:
  - Lesotho Post Bank transformed into a professional savings and credit bank
  - Financial linkages did not materialized
- Development of enabling environment:
  - Financial institutions Act (2014)
  - Cooperatives Policy (2013), not fully implemented
  - No substantial impact on sector development

Efficiency

- Implementation delays
  - Unbalanced disbursements among components (poorest in component three)
  - Slow procurement and re-contracting of NGOs
  - high turnover of CPMs
  - Capacity of PCU inadequate

- High management cost
  - LSL 36.69 million, 32.9 per cent of the total project expenditure

Other selected criteria

- Gender equality and women's empowerment:
  - Participation of women beneficiaries remained high throughout the programme
  - High female decision-making powers at the household level
  - Workload distribution not adequately considered
- Further benefits to scaling up and sustainability of MBFIs expected from:
  - a future network of NGOs
  - networks of agents/PSPs
  - strengthening the sector's ability to mobilize resources
  - assuring self-organized coordination and oversight

Conclusion

- The programme performed well in transforming Lesotho Post Bank into a self-reliant and sustainable retail bank, with a full banking licence and in expanding rural credit and savings outreach.

- The programme's involvement of two INGOs as implementation partners proved to be an effective approach and demonstrated the flexibility of IFAD.

- The programme was overambitious and did not sufficiently consider the capacity of the implementing agencies and the absence of the financial sector foundations in the country.

- The programme's impact on rural poverty was moderate.

Recommendation

1. Build MBFIs only with private and/or non-governmental implementing partners.
2. Allocate grant funds at design for sustainability/scaling-up:
   - (i) organizing private service providers into networks; and
   - (ii) organizing groups into local or district associations
3. Strengthen the capacity of the existing national secretariat of NGOs, enabling it to serve as a key facilitator of MBFIs for coordination, representation, and resource mobilization.
4. Improve the capacity and integrity of programme management staff in future projects.