



**Ministry of Foreign Affairs**

Mid-term review of the 2007-  
2011 mandate given by the  
Luxembourg Ministry of  
Foreign Affairs, through the  
Development and Cooperation  
department to the NGO Appui  
au Développement Autonome  
a.s.b.l.

**Summary of the Report**

## 1 Factsheet

<i>Context of the mid-term review</i>	The 2007 – 2011 Mandate was signed on the 26 March 2007 between the Ministry of Foreign Affairs, Departement of cooperation (MAE), and the NGO Appui au Développement Autonome (ADA)
<i>Objectives of the Mandate</i>	<ol style="list-style-type: none"> <li>1. Development of new inclusive financial products and services developed to support micro entrepreneurs</li> <li>2. Support capacity-building within MFIs</li> <li>3. Production, sharing and dissemination of knowledge towards both the North and the South</li> </ol>
<i>Planned budget for the mandate (2007-2011)</i>	EUR 18,2 million (80% MAE and 20% ADA)
<i>Estimate of actual budget for 2007 – 2011</i>	EUR 20,5 million (71% MAE and 29% ADA)
<i>Governance and control</i>	The governance principles are well defined and the control environment is appropriate for the organization.
<i>Contribution to the objectives of the mandate</i>	<p>Globally and according to its three main objectives, ADA fulfilled its set mandate:</p> <ol style="list-style-type: none"> <li>1) <u>New inclusive financial products and services</u> ADA prioritises products destined to excluded populations and relevant intervention themes. It holds an intermediation role between research and development in the North and experimentation in the South.</li> <li>2) <u>Support capacity building within MFIs</u>: ADA supports and encourages a better management of MFIs, access to financial resources and transparency (via ratings) and a better position of microfinance in terms of development. Workshops based on identifying intervention themes show a will for optimization.</li> <li>3) <u>Production, sharing and dissemination of knowledge towards both the North and the South</u>: ADA's contribution in making Luxembourg a reference point in terms of microfinance is quite significant. Capacity to bring together a wide range of partners, from both the North and the South. Capacity to illustrate the direct contribution of its trainings with concrete actions.</li> </ol>
<i>Recommendations</i>	<ul style="list-style-type: none"> <li>- Prepare a multi-annual budget plan</li> <li>- Improve the strategy's legalisation</li> <li>- Strengthen the management of programs</li> <li>- Set up a centralised management of all contracts</li> <li>- Sustain the efforts to legalise internal controls and procedures (purchasing cycles and follow up of projects)</li> </ul>
<i>Conclusions</i>	During the 2007-2011 period, ADA carried out necessary internal changes meant to strengthen its management and follow up capacities. Currently, ADA's absorption capacity seems solid; its activities are in line with those promoted by the Luxembourg cooperation in terms of microfinance. The organization has reached a good level of maturity strengthening it to face future challenges.

## **2 Introduction**

The relationship between the MAE and ADA started in 1994, when the NGO was created. Following ADA's first activities, which were co-funded by the ministry, ADA and the MAE started working together on mandate based agreements. On the 26<sup>th</sup> of March, the Ministry thus awarded ADA a mandate which covered the 2007 – 2011 period, and a mid-term review was part of this agreement.

More than ever, ADA plays a key role in the microfinance sector both on national and international levels. ADA has reached a good level of maturity, strengthening it to face future challenges. Today, despite its limited structure, ADA has significantly contributed to making Luxembourg a microfinance reference within Europe.

We have noticed that, since 2007, ADA has launched a number of activities which have strengthened its management capacity. Indeed, ADA developed a Charter of Governance and an internal financial control system. ADA also systematized the establishment and production of progress reports and the legalization of project cycles in terms of innovative products, etc...

In the draft's framework, we analyzed and presented ADA's contribution to the agreement's objectives. We also added a certain number of transversal recommendations who could help improve ADA's organization.

We would like to thank ADA's management team for their availability and participation in this mission.

### 3 Executive Summary

Since 2007, the Ministry of Foreign Affairs (hereafter “MAE”) has supported ADA’s activity plan through a mandate which runs until the end of 2011, and whose objectives are as follows:

- i. Development of new inclusive financial products and services developed to support micro entrepreneurs
- ii. Support capacity-building within MFIs
- iii. Production, sharing and dissemination of knowledge towards both the North and the South

#### **Accounting and financial audit**

The planned budget for 2007-2011 amounts to EUR 18.2 million, of which 80 % was provided by the MAE and 20 % came from the NGO. The effective budget for the period amounts to EUR 20 million as ADA managed to secure a larger amount of funding than was initially planned.

The 2008 and 2009 audit reports state that the annual accounts give an accurate image of the capital and financial situation as well as for the end of year results, with the exception of the change in the flat-rate based valuation of provisions for losses related to financial investments made by the LUXMINT program. This change was reversed and adjusted in 2010. Since the 2008 audit, the annual accounts are audited in compliance with ISA norms.

#### **Review of the structure and organization:**

Currently, ADA employs approximately 20 people. Its governance principles, determined on the basis of statutes as well as a Charter of Governance are well defined and in line with the organization’s activities. The control environment is appropriate for the organization.

#### **Evaluation of the strategic and operational approach**

Globally, ADA’s activities meet the principles of operation promoted by the Luxembourgish Cooperation in terms of microfinance, both in relation to the cooperation’s policies but also in relation to the Paris Declaration, the G20 principles and the UN advisors Group in Microfinance. However, adherence to management principles which focus on results and mutual accountability should be improved.

#### **Project evaluation and contribution to the mandate’s principles**

Globally, and according to the three set objectives, ADA has greatly fulfilled the mandate it was given.

In the South, the public targeted by ADA consists of MFIs mostly of tiers 2 and 3, to which MFI associations and associative networks were added in 2004, as well as apex institutions with cooperative characteristics. Other actors, in the North, are also targeted by ADA’s activity plan, including public and private institutional investors, upstream of inclusive financial services (through awareness-raising and trainings). In addition, the persons excluded from financial services constitute the “final public”, indirectly supported by ADA.

## Contribution to the convention objectives

**Development of new inclusive financial products and services:** ADA's choice of operations shows a priority to the products specifically designed for excluded populations that go beyond microcredits and allow MFIs to have long-term and regular access to resources. Here, ADA plays a role of intermediation between research and development in the North and product experimentation in the South.

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E1 The work carried out to date (mainly with the CIF in West Africa, and more recently with organizations in Latin America) targets populations excluded from mainstream financial systems (for example: young craftsmen, women) and/or showing a potential for development (for example: migrants). Their potential contribution to poverty alleviation is significant.
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E1 The RPC insurance and village savings and loan products are considered effective and offer attractive guarantees (and therefore sustainability) for MFIs in the South. Two further products (CRED'ART and the remittance project in Senegal) are also considered to be highly relevant and have therefore had their experimental phases extended. We recommend that their profitability and effectiveness be monitored.
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E1 The notion of innovative product is not yet translated in the selection criteria for the funding of activities (research of leverage effects both for the partner and for the general community). In addition, knowing that other actors are involved in similar initiatives, it is important to communicate on the specific contribution offered by ADA in order to reinforce its value added amongst the MAE and its partners.
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E1 The actual human resources available to support the life cycle of innovative projects have prompted the evaluators to suggest a concentration of resources: bigger investments on fewer projects, over longer periods, paying attention to the prospects of sustainability and impact from the identification stage onwards. This intensive approach on a few products could go hand in hand with the expansion of the geographical scope consisting in systematically testing one product in several areas at a time, in order to draw lessons which could be applied generally. Prior to the decision to fund an experimental project, the necessary conditions and criteria needed in order to benefit from ADA's support should be defined explicitly. Management centered on these results should be set up and adapted to the different projects' monitoring tools.
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E1 The vertical approach (from experimentation to institutionalization) is encouraged rather than the horizontal approach (exit after the capitalization stage). By concentrating on a smaller number of pilot products or by involving external actors that can work in collaboration with ADA, should make it possible to mobilize the resources required for this approach.

**Reinforced management of MFIs:** ADA's support will focus on improving the management of MFIs, access to financial resources, transparency via ratings and a better positioning of the sector in terms of development. These choices are relevant for the sector in the sense that supporting an MFI's profitability efforts helps to ensure their mid-term survival as does encouraging transparency within the sector or researching social effects. The implementation of workshops to identify areas of operation shows a desire for optimization.

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E1 The approach of intervening through MFI professional associations ( 'PA' ) or umbrella structures is relevant due to the multiplier effect created
  
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E1 The concept of training in microfinance performance analysis is used with multiple actors and in very different contexts. The microinsurance training is replicated and represents an important leverage effect. ADA has also taken part in the launch and running of several structuring initiatives whose visibility goes beyond the borders of the Grand Duchy (e-MFP, Microfact, Rating Initiative, LuxMint/LMDF, AMT ...).
  
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E1 The tools co-funded by ADA and destined to obtain financial self-sufficiency do not always show a precise approach on their property rights or their marketability. The support for the production of this type of tool could be prioritized in the business plan and in the analysis of the legal aspects of commercialization, which ought to be defined at the conception stage.
  
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E1 When professional associations fail to show strong long-term prospects of financial self-sufficiency, ADA's 3 to 5 year-long financial commitment to national and regional networks could be systematized. This plan could be accompanied by an incentive to reach these results and a certain level of autonomy, through the provision of grants that could be given at the end of the agreement.
  
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E1 ADA could position itself more like a structuring partner, particularly by training the trainers within PAs, and through the creation of teams within MFIs (institutional approach).

**Production, sharing and dissemination of knowledge towards the North and the South:** Despite having limited means, ADA's contribution in making Luxembourg a reference point in terms of microfinance is quite significant. Its major strength rests in its capacity to bring together a wide range of North and South stakeholders, from the development sector, the research and private sector, but also from both the offer or demand sides of inclusive financial services. ADA uses a wide variety of communication channels to then make its own distribution channel available for other actors. Its value-added in terms of providing information to professionals is underpinned by its ability to integrate practical experience into its trainings.

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E1 This value-added has allowed ADA to develop strong credibility within the Luxembourgish banking and insurance sector, as well as amongst the universities of the Greater Luxembourg Region. ADA's capacity to organize international events is also widely recognized, thus indirectly enhancing Luxembourg's global visibility in terms of inclusive financial services.
  
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E1 In terms of general awareness-raising in the Greater Region, it is important to define and to communicate the services offered through the helpdesk. This idea could be implemented by the Luxembourg Roundtable of Microfinance.

- ☐ There might be a risk of roles overlapping between ADA and LuxDev, in the sense that microfinance will be playing an important role within the Indicative Cooperation Plan (ICP) of the Luxembourgish Development Agency (LuxDev). An MAE-ADA-Luxdev workshop could help specify the roles that the MAE wishes to give to ADA and LuxDev for the implementation of their thematic strategy in terms of inclusive financial services.
- ☐ The positioning strategy of the structures launched by ADA and which subsequently became autonomous could be better defined. This strategy could be driven by two principles: to maintain a monitoring capacity through ADA's position on the Board of Directors and/or in the working groups of these structures, as well as maintaining a certain visibility within those structures, which offers a guarantee of credibility for other donors interested in participating.

### Transversal recommendations:

At the beginning of the mandate (2007), ADA's absorption capacity was limited and its internal organization needed to be changed and improved. During the period 2007-2001, ADA carried out several internal projects aimed at reinforcing its management capacities (governance charter, internal financial control system ), and of monitoring ( drawing up of quarterly progress reports, formalization of the project cycle stages in terms of innovative products, mid-term evaluation of the major ADA projects...). The following three aspects could be looked at in more detail:

- ☐ The annual budgetary planning is not always in line with the projects' multiannual characteristics, which affects the capacity to show an overview of the activities and aggregate the performance indicators for the whole period.
- ☐ Logical frameworks still play a limited role in the planning and the monitoring of the results. In addition, they don't translate the supporting role brought by ADA within initiatives, which generally involve multiple actors. More generally, we estimate that a formalization of the strategy could increase the capacity to identify, assist, measure and learn systematically.
- ☐ Management is achievement oriented rather than results based and the external collaboration contracts also reflect this framework. "Management Based on the Results" does not constitute an obligation set by the MAE; its implementation could increase the learning capacities (achievement levels of objectives set, ADA's own contribution, and the lessons to be learnt).

Today, ADA's absorption capacity seems solid. On the basis of our recommendations, it seems important to reinforce the operational coordination of programs by recruiting a specialist. ADA has been able to identify valuable themes, due to its monitoring capacity. ADA has also been able to gather skills which generated synergies: research and experimentation, training, awareness-raising and information, technical advice, administration of organizations. Its major strength lies in its intermediation capacity on several levels (between areas, themes, and skills). But the scope of skills and activities mobilized by ADA put a burden on the limited human resources available.

On this basis, the evaluators recommend that the NGO increasingly concentrate on the intermediation role which undeniably constitutes its value-added.

- Firstly, this implies, that the business intelligence capacity for key issues of the sector should be maintained (enrolment policy in the major North and South forums for exchange, maintaining the role of organizer of forums for exchange, systematic participation at the Management Board level of the reflection structure, especially those which are initiated or co-funded by ADA).
- This further implies that the financial and human resources should be focused on a more limited number of activities. ADA's direct implication with MFIs (micro level) could focus on activities which could provide the NGO with concrete lessons which it could then share at a local (professional associations) and international (forums) level.

Finally, this implies drawing up a more explicit development strategy for the programs. A pilot project could provide training on information and information dissemination modules.