

Independent Office  
of Evaluation



**The Kingdom of Lesotho  
Rural Financial Intermediation Programme  
Project Performance Evaluation  
Approach Paper**

March, 2017

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# **The Kingdom of Lesotho**

## **Rural Financial Intermediation Programme**

### **(Project number 1371, loan number L-I-723, and grant number G-I-DSF-8008)**

#### **Project Performance Evaluation**

#### **Approach Paper**

## **I. Background**

1. For completed investment projects financed by IFAD, its Independent Office of Evaluation undertakes: (i) validation of project completion reports (PCRs) for all projects, based on a desk review of PCRs and other documents; and (ii) project performance evaluations (PPEs) involving country visits for a number of selected projects (about ten in a given year).<sup>1</sup>
2. A PPE is conducted after a desk review of the PCR and other available documents, with the aim of providing additional evidence on project achievements and validating the conclusions of the PCR. In general terms, the main objectives of PPEs are to: (i) assess the results of the project; (ii) generate findings and recommendations for the design and implementation of ongoing and future operations in the country; and (iii) identify issues of corporate, operational or strategic interest that merit further evaluative work.
3. The Rural Financial Intermediation Programme (RUFIP) in the Kingdom of Lesotho (implemented between 2008 and 2015) has been selected for a Project Performance Evaluation to be undertaken by IOE in 2017. This approach paper presents the overall design of the PPE, including the evaluation objectives, methodology, processes and timeframe. The evaluation framework presented in annex I provides a summary of the evaluation criteria and key questions that will be used in conducting the evaluation.

## **II. Programme Overview**

4. **Programme area.** The Kingdom of Lesotho is a mountainous and landlocked country which is surrounded by the Republic of South Africa. It covers about 30,366 square kilometers and over 80 per cent of its land area lies above 1,800 meters.<sup>1</sup> Out of the total land mass, only 25 per cent has agricultural potential. The estimated total population in 2017 is 2.18 million<sup>2</sup>, which compares to the 2006 census population of 1.87 million. 43 percentage of the population living below US\$ 1.25 per day in 2010 and about 29.1 per cent<sup>3</sup> of the population were vulnerable to food insecurity.
5. The RUFIP as a whole has a national scope but interventions at field-level were weighted differently in all the ten districts. To facilitate the outreach of the Lesotho PostBank, an analysis was conducted to identify the districts where the credit facilities would be offered at the first place as "pilot exercise". Based on the experience gained, other branches of the Lesotho PostBank would be covered. Regarding the development of rural finance enabling environment, capacity building activities would start at the head offices of the partnering institutions and thereafter expanded to their district offices and branches.

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<sup>1</sup> Lesotho is the only independent state in the world that lies entirely above 1,000 meters in elevation. Its highest point is Thabana Ntlenyana, standing at 3,482 meters and the lowest point is the junction of the Senqu (Orange) and Makhaleng rivers, sitting at 1,388 meters.

<sup>2</sup> <http://www.worldometers.info/world-population/lesotho-population/>, accessed on 1 March, 2017.

<sup>3</sup> Household Budget Survey 2002-2003, Bureau of Statistics (BoS). Kingdom of Lesotho.

6. **Programme objectives.** The overall **goal** of RUFIP was to alleviate poverty, increase income and contribute to the overall economic development. Its **objective** was to enhance access of the rural poor to efficient financial services on a sustainable basis that could be measured in terms of poor rural households accessing financial services, the number of new deposit accounts and loans granted, the product range offered by the participating financial institutions, the profitability of the financial services, and the impact on reduced transaction costs. To achieve this, the programme would also support the development of an enabling policy and institutional framework to facilitate the efficient and sustainable provision of rural financial services and promote competition.
7. **Target group and targeting approach.** The Appraisal Report stated that the target groups were primarily the poor rural households with at least one household member having actual or potential capacity to generate income through on- and/or off-farm economic activities. This included poor small-scaled producers engaged in crop and /or livestock production with some marketable surplus, the rural poor who may receive remittances from household members or relatives, landless households with sporadic wage employment opportunities, female headed households, and unemployed youth. At the project design, it was estimated that about 144,000 households or about 720,000 constituted the primary target group.
8. **Programme components.** The programme were structured around four components outlined below:
  - (i) **Development of member-based financial institutions.** The component aimed at enhancing the financial intermediation of member-based financial institutions, including formal, semi-formal and informal ones, in order to satisfy the demand for grassroots financial services. It had three sub-components: (a) capacity building of financial cooperatives; (b) capacity building of Rural Savings and Credit Groups (RSCGs); and (c) capacity building of informal financial groups. At project design, it was estimated that US\$ 2.1 million would be spent on this component, accounting for about 20 per cent of the total programme cost. Without major change on the budget allocation to this component, the percentage was increased to 34.3 per cent at completion (as table 1 shows).
  - (ii) **Development of formal financial institutions for rural outreach.** The objective of this component was to enhance access of the economically active rural population to financial services, in particular credit. This component consisted of two sub-components: (a) capacity building of Lesotho PostBank; and (b) linkage programme. Sub-component "a" was designed to be achieved through three different activities: Institutional upgrading, strengthening of operations, and market studies and product development. Subcomponent "b" was designed to create linkages between commercial banks and financial groups and cooperatives. The initial programme cost for this component was US\$ 3.36 million, constituted of 33 per cent of the total programme cost baseline. This had fallen to 20.4 per cent at project completion.
  - (iii) **Development of an enabling environment (for rural and micro finance).** The objective of the component was to develop an enabling environment in which sustainable and efficient rural/micro finance services were going to be provided. It had four sub-components: (a) capacity building for the department of cooperatives; (b) capacity building of the Central Bank of Lesotho; (c) capacity building of the service providers recruited; and (d) policy dialogue on conducive framework conditions. At the programme design phase, it was estimated that US\$ 3.1 million would be allocated to this component. The actual cost attributed to this component decreased from 30 per cent to 12 per cent at completion.
  - (iv) **Programme coordination.** This component was divided into two sub-

components: Programme coordination and monitoring and evaluation. The programme management was in charge of all management and coordination aspect of RUFIP<sup>4</sup>. The monitoring unit was in charge of collecting relevant data on activities, outcomes and impact of the participating institutions. It was proposed that US\$ 1.8 million would be spent on programme management and coordination. The actual cost for this component rose from 17 per cent to 30 per cent.

9. **Project financing.** The total cost of the programme was estimated at USD 10.7 million, to which IFAD contributed to US\$ 8.7 million, representing 81 per cent of total cost. 50 per cent of IFAD financing was in the form of loans on highly concessional terms<sup>5</sup> and the balance as grant. The programme budget and actual cost are shown in table 1 below consolidated for all four components. However, it was noted that (i) the cost data was only available in Lesotho Loti (LSL) in all project documents; and (ii) the programme cost estimates vary somewhat among different documents.

Table 1

Project financing by component as stated in the project completion report<sup>6</sup>

Component	IFAD Loan/Grant		Government of Lesotho		Total			
	Appraisal (USD)	Actual (LSL)	Appraisal (USD)	Actual (LSL)	Appraisal (USD)	%	Actual (LSL)	%
(i) Development of member based financial institutions	1,659,284	33,340,746	233,599	4,698,161	2,148,330.9 <sup>8</sup>	20.0	38,038,906	34.4
(ii) Development of formal financial institution for rural outreach	2,670,388	19,467,677	447,575	3,108,623	3,607,992.9 <sup>9</sup>	33.6	22,576,300	20.4
(iii) Development of an enabling environment for rural finance	2,824,030	13,893,164	314,029	361,058	3,147,571.4	29.4	13,254,222	12.0
(iv) Project management	1,534,277	22,015,535	285,606	14,674,115	1 819 883.4	17.0	36,689,469	33.2
<b>Total</b>	<b>8,687,978</b>	<b>74,276,224</b>	<b>1,227,745</b>	<b>19,004,128</b>	<b>10,723,778</b>	<b>100</b>	<b>110,558,897</b>	<b>100</b>

Note: Project cost by component was presented in USD for appraisal and in LSL for actual expenditure, respectively. Data retrieved from the project appraisal report (2007) and the PCR (2015).

10. **Timeframe.** For financing RUFIP, the IFAD Executive Board approved on 12 September 2007 a loan in the amount of SDR 2.85 million (equivalent to US\$4.35 million) and a grant in the amount of SDR 2.85 million (equivalent to US\$4.35 million). The programme financing agreements (for both the loan and the grant) were signed on 8 October 2007 and became effective on 31 March 2008. The programme was completed on 31 March 2015 and the loan and the grant closed on 30 September 2015 as per schedule. At the time of the project completion, the disbursement rate was 91 per cent both for the loan account and grant account.<sup>10</sup>

<sup>4</sup> Annual Work Plan and Budgets, mid-term reviews, and reporting and gender mainstreaming.

<sup>5</sup> In accordance with the Policies and Criteria for IFAD financing, a loan approved on highly concessional terms was free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 40 years, including a grace period of 10 years.

<sup>6</sup> Figures are provided in Maloti terms as available financial data were only provided in Maloti in the project documentation. Figures do not reflect LSL deflation against USD dominated loan. At project appraisal, 1 USD equivalent to 7 LSL; at project completion, 1 USD equivalent to 12.5 LSL.

<sup>7</sup> Percentage of actual expenditures for each component to the total actual project cost. Data in this column was re-calculated to replace the error in the PCR report.

<sup>8</sup> The estimated cost for component (i) included a contribution of US\$ 255,447 from the project beneficiaries.

<sup>9</sup> The estimated cost for component (ii) included a contribution of US\$ 490,030 from the Lesotho PostBank and US\$ 9,513 from the beneficiaries at project appraisal.

<sup>10</sup> At project completion, the disbursed amount for the loan and grant were SDR 2,604,113 and SDR 2,602,833, respectively.

11. **Implementation arrangements.** At the time of project appraisal, the overall responsibility of programme management and coordination was entrusted to the Ministry of Finance and Development Planning (MOFDP), especially its Department of Private Sector Development and Financial Affairs (PSDFA) in its capacity as Lead Programme Agency.<sup>11</sup> In particular, as stipulated in the loan agreement, the MOFDP shall be responsible for policy and strategy formulation and implementation in relation to the development of rural and microfinance sector. The responsibilities of daily coordination, financial management and monitoring and evaluation were delegated to the programme coordination unit (PCU) established by the MOFDP.
12. The principal implementing agencies included the Central Bank of Lesotho, the Department of Cooperatives, Lesotho PostBank and the Ministry of Agriculture and Food Security (MAFS) with most programme activities sub-contracted to service providers. Moreover, it was planned that the programme coordination will be guided and assisted by two committees, namely the existing Financial Sector Steering Committee (FSSC) and a Programme Coordination Committee (PCC)<sup>12</sup> to be established by MOFDP. The FSSC would provide oversight and policy guidance, ensuring effective coordination between relevant initiatives in the financial sector. The PCC would be responsible for providing implementation oversight and support to ensure the effective implementation of the programme.
13. **Supervision arrangements.** The Programme was directly supervised by IFAD from the first supervision mission that was fielded in November 2008. During the implementation period from 2008 to 2015, a total of nine supervision and implementation support missions were undertaken.
14. **Adjustments during implementation.** The Programme experienced changes in terms of project management and governance structures. For instance, initially it was planned that the MOF took over the responsibility of procurement which was approved to be less feasible due to the difficulty of aligning the procurement procedures of IFAD and the MOF. As a solution, a full-time Procurement Officer was recruited by the project to facilitate the procurement issues. Another reflection of changes is the project oversight responsibilities were removed from the PCC and assigned to the FSSC, in order to minimize a potential conflict of interest.
15. **Amendments to the financing agreement.** There were no amendments to the financial agreement of RUFIP, as stated in the project completion report.

### III. PPE Objectives and Scope

16. **PPE objectives.** The main objectives of the evaluation are to: (i) provide an independent assessment of the overall results and impact of the programme; and (ii) generate findings and recommendations to guide the Government and IFAD with regard to the ongoing and future development programmes in Lesotho.
17. **Scope.** In view of the time and resources available, the PPE is generally not expected to undertake quantitative surveys or to examine the full spectrum of project activities, achievements and drawbacks. Rather, it will focus on selected key issues deserving further investigation (see section IV). The PPE will take account of the preliminary findings from a desk review of PCR and other key project documents and interviews at the IFAD headquarters. During the PPE mission, additional evidence and data will be collected to verify available information and reach the independent assessment of performance and results.
18. **Theory of change (TOC).** The TOC of a project depicts the causal pathways from project outputs to project outcomes, i.e., through changes resulting from the use

<sup>11</sup> During the project implementation, the MOFDP was restructured into two ministries. The programme was under the administration of the Ministry of Finance since then.

<sup>12</sup> The PCC was designed to be consisted of executive members from implementing and collaborating institutions. It would be chaired by the Chief Executive of the PSDFA with the Programme Coordinator severing as the Secretary.

of those outputs made by target groups and other key stakeholders towards impact. The TOC further defines external factors which influence change along the major impact pathways. These external factors are assumptions when the project has no control over them, or Drivers of Impact when the Project has certain level of control. Analysis in this evaluation will be assisted by the construction of the TOC as presented in Annex I to assess the extent to which the RUFIP's goal and objectives were effectively achieved. The TOC would be revised in the course of the evaluation, as needed.

#### IV. Key issues for this PPE

19. A PPE is a project evaluation with a limited scope and resources. As such, PPEs are not expected to investigate all activities financed under the project or to undertake in-depth impact assessment. Based on initial desk review, key issues to be reviewed are presented below. These may be subject to change based on emerging findings from the main evaluation mission.

- (i) **Relevance of the programme design.** Realistic and relevant project design is essential for the successful implementation of a given programme. When the programme was designed, access to financial services in Lesotho was recognized as an integral part of the national development priorities, as stated in the Poverty Reduction Strategy 2004/2005 – 2006/2007 launched by the Government of Lesotho. RUFIP was built on two foundations. The first was the IFAD Rural Finance Policy (2000)<sup>13</sup>, which places a crucial focus on domestic resource mobilization<sup>14</sup> and sustainable institution building<sup>15</sup>. The second foundation was the Rural Finance & Enterprise Support Project (RF&ESP), financed by IFAD and implemented in Lesotho between 1993 and 2001. However, available project documentation indicated that various issues emerged during the programme implementation phase which resulted in the extremely slow disbursement rates and limited outcomes. In this regard, the PPE will seek to answer three related questions:
- Were the foundations of RUFIP actual or putative?
  - Were RUFIP objectives realistic considering the national capacity at the time of project design?
  - Did the RUFIP design sufficiently take into consideration of the potential risks that might be emerged during the implementation?
- (ii) **Effectiveness.** The PCR recognized the contribution of RUFIP on the capacity development of Lesotho PostBank on rural inclusive finance services. Nevertheless, it concluded that "the Lesotho PostBank never effectively served the rural poor". In terms of development of member-based financial institutions (MBFIs), only the development of VSLAs and SILCs, facilitated by CARE and Catholic Relief Services turned to be "crucial". In assessing the effectiveness of RUFIP, the evaluation team will conduct a differentiated analysis to compare the performance of RUFIP supported and unsupported MBFIs, as well as compare by types of MBFIs and supporting agency. Moreover, it would explore, inter alia, the following questions:
- Has the programme indeed contributed to improving the access to financial services by the rural poor?
  - To what extent the programme has actually contributed to building and strengthening sustainable institutions such as MBFIs, non-bank financial institutions, and banks (e.g. Lesotho PostBank)?

<sup>13</sup> IFAD Rural Finance Policy was approved by the Executive Board on its Sixty-Ninth Session in May 2000. It was later replaced with an updated IFAD Rural Finance Policy in 2009.

<sup>14</sup> Domestic resource mobilization is of crucial importance" (para.12, Rural Finance Policy 2000).

<sup>15</sup> Building a differentiated rural financial infrastructure with diverse strategies; enhancing institutional sustainability, with outreach to the rural poor; promoting a conducive policy and regulatory environment (Para.13, Rural Finance Policy 2000).

- Whether and how these institutions have reached the rural poor, alleviated poverty, increased income and led to overall economic development?
- (iii) **Project management cost ratio.** At project appraisal, it was estimated that the cost for project management and monitoring would be about US\$ 1.8 million<sup>16</sup>, accounting for 17 per cent of the total baseline cost. This figure was increased to 33.2 per cent (see table 1 above) at project completion, which was even higher than the expenditures for two out of the other three project main components and also much higher than that of other IFAD-financed projects<sup>17</sup>. The evaluation team will pay particular attention to this issue by identifying the main reasons for the increase of the project management cost and using other IFAD-financed projects in Lesotho and/or similar types of IFAD financed projects in general as the benchmark. The key findings on this issue will inform the lessons generated from RUFIP.
- (iv) **Monitoring & Evaluation (M&E) system and project impact.** The project supervision reports have had repeatedly reported the weakness of the programme's M&E system. This was also reflected by the scarcity of data on results and impact as was recognized in the project completion report. A client impact study was conducted at project completion. The evaluation team will explore the reasons for a weak M&E system, especially considering the capacity of the programme coordinator as an M&E specialist. Furthermore, it will also validate the findings of the client impact study and conclusions in the project completion report through more qualitative methods (e.g. direct observation, interviews with households and focus groups) during the mission.
- (v) **Sustainability of programme benefits.** The programme identified MBFIs and banks as key institutional vehicles for ensuring continued access to rural financial services. Among different aspects of sustainability, the PPE will pay attention to institutional impact on financial service providers (i.e. Lesotho PostBank and participating MBFIs) and influence on their strategy and business plans, and the positioning of microfinance services in their lending portfolios. The evaluation will seek to address one core question: would the project benefits likely be sustained without further programme interventions?
- Semi-standardized instruments, including questionnaires with focus on project outcomes will be developed to facilitate the interviews with Lesotho PostBank, selected MBFIs, Department of Cooperatives, CARE and Catholic Relief Services. Moreover, additional data on time series outreach and performance data will be collected from the concerned institutions to enable the evaluation team to conduct ratio analysis. Take Lesotho PostBank as an example, its sustainability will be measured predominantly in terms of return on assets and return on equity, income to expenditure ratios, repayment rates, etc. During the assessment, particular attention will be paid to the conflict between the profitability of the Lesotho PostBank and the requested rural credit outreach and linkages.
- (vi) **RUFIP and IFAD positioning in rural and microfinance sector.** The RUFIP aimed at developing a sound enabling environment for micro/rural finance, including policy support and capacity building of the Department of Cooperatives, Central Bank of Lesotho and Ministry of Agriculture and Food Security. Developing an enabling environment by the Central Bank of

<sup>16</sup> It equivalent to LSL 11,875,140 at the project appraisal.

<sup>17</sup> For the majority of IFAD-financed projects, the cost for project management accounts for about 10 per cent to 12 per cent of the total project cost.



Lesotho was to include a policy and regulatory framework for non-bank financial institutions. When the project was completed, the new non-bank financial institution (NBFI) regulatory framework was put in place but yet to be implemented. The PPE will seek to assess the contribution of RUFIP in developing the NBFI regulatory framework and to what extent the policy, at the time of the PPE, had been operational and effective.

## V. Methodology

20. The PPE exercise will be undertaken in accordance with the IFAD Evaluation Policy (2011) and the second edition of IFAD Evaluation Manual (2015). Analysis in the PPE will be assisted by a review of the theory of change of the project.
21. **Evaluation criteria.** In line with the agreement between IOE and IFAD Management on the harmonized definitions of evaluation criteria in 2017<sup>18</sup>, the key evaluation criteria applied in PPEs in principle include the following:
  - (i) **Rural poverty impact**, which is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions. Four impact domains are employed to generate a composite indication of rural poverty impact: (a) household income and assets; (b) human and social capital; (c) food security and agricultural productivity; and (d) institutions and policies. A composite rating will be provided for the criterion of "rural poverty impact" but not for each of the impact domains.
  - (ii) **Relevance**, which assesses the extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and policies. It also entails an assessment of project design, coherence in achieving its objectives, and relevance of targeting strategies adopted.
  - (iii) **Effectiveness**, which measures the extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
  - (iv) **Efficiency**, which indicates how economically resources/inputs (e.g. funds, expertise, time, etc.) are converted into results.
  - (v) **Sustainability of benefits**, indicating the likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
  - (vi) **Gender equality and women's empowerment**, indicating the extent to which IFAD interventions have contributed to better gender equality and women's empowerment, for example, in terms of women's access to and ownership of assets, resources and services; participation in decision making; work loan balance and impact on women's incomes, nutrition and livelihoods.
  - (vii) **Innovation**, assessing the extent to which IFAD development interventions have introduced innovative approaches to rural poverty reduction.
  - (viii) **Scaling up**, assessing the extent to which IFAD development interventions have been (or are likely to be) scaled up by government authorities, donor organizations, the private sector and other agencies.
  - (ix) **Environment and natural resource management**, assessing the extent to which IFAD development interventions contribute to resilient livelihoods and ecosystems. The focus is on the use and management of the natural environment, including natural resources defined as raw materials used for

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<sup>18</sup> IFAD (2017). Agreement between IFAD Management and the Independent Office of Evaluation of IFAD on the Harmonization of IFAD's Independent Evaluation and Self-Evaluation Methods and Systems Part I: Evaluation Criteria. EC 2017/96/W.P.4.

socioeconomic and cultural purposes, and ecosystems and biodiversity – with the goods and services they provide.

- (x) **Adaptation to climate change**, assessing the contribution of the project to reducing the negative impacts of climate change through dedicated adaptation or risk reduction measures.
  - (xi) **Overall project achievement**, providing an overarching assessment of the intervention, drawing upon the analysis and ratings for all above-mentioned criteria.
  - (xii) **Performance of partners (IFAD and the Government)**, assessing the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. The performance of each partner will be assessed on an individual basis with a view to the partners expected role and responsibility in the project life cycle.
22. Among the standard evaluation criteria mentioned in the above paragraph, based on the preliminary review of the project documents and PCR, the criteria for "*environment and natural resource management*" and "*adaptation to climate change*" may not be rated unless the PPE mission reveals any relevant programme contribution worthwhile noting – positive or negative – in this regard. It is also noted that at the time the programme was designed, there was no specific attention of this agenda.
23. **Rating system.** In line with the practice adopted in many other international financial institutions and UN organizations, IOE uses a six-point rating system, where 6 is the highest score (highly satisfactory) and 1 being the lowest score (highly unsatisfactory).
24. **Data collection.** Initial findings from the desk review indicated that the limitation with data availability (especially at the levels of outcomes and impact) and reliability is always an issue for this programme. The Results and Impact Management System (RIMS) reports produced by the project are only available from 2011 to 2015, with limited indicators. Data are largely missing in terms of the performance of Lesotho PostBank and MBFIs, making it difficult to assess their institutional and financial sustainability. In this regard, additional data will be collected during the main evaluation mission through various data collection methods. The following methods will be employed:
- a) In-depth individual interviews with representatives of stakeholders and service providers. These include government representatives from the concerned ministries (Ministry of Finance, Department of Cooperatives, etc.), programme staff, Central Bank of Lesotho, Lesotho PostBank, Standard Lesotho Bank, and representatives of CARE and Catholic Relief Services.
  - b) Collection of time series outreach and performance data of Lesotho PostBank.
  - c) Collection of MBFI linkage data from linkage banks (Lesotho Postbank, Standard Lesotho Bank, and others if any).
  - d) Collection of outreach and performance data of MBFIs from CARE, Catholic Relief Services, Department of Cooperatives and others, to the extent available.
  - e) Focus group discussions with MBFIs ((village savings and loan associations, savings and internal lending communities, rural savings and credit groups, and financial cooperatives) in selected districts, using semi-standardized instruments. Participants will be identified in consultation by their respective promoting agencies, such as CARE and Catholic Relief Services, and Department of Cooperatives.
  - f) Household interviews with participants and/or members of MBFIs will be another source for the evaluation team to capture information on the programme's impact on rural poverty.

25. **Stakeholders' participation.** In accordance with IFAD Evaluation Policy, the main project stakeholders will be involved throughout the PPE process. This will ensure that the key concerns of the stakeholders are taken into account, that the evaluators fully understand the context in which the programme was implemented, and that opportunities and constraints faced by the implementing institutions are identified. Regular interaction and communication will be established with the East and Southern Africa Division (ESA) of IFAD and with the Government of Lesotho. Formal and informal opportunities will be explored during the process for discussing findings, lessons and recommendations.

## VI. Evaluation Process

26. Following a desk review of PCR and other key project documents, the PPE will involve the following steps:
- **Country Work.** The PPE mission is scheduled from 20 March – 1 April 2017. The mission will interact with representatives from the Government, Central Bank of Lesotho, Lesotho PostBank, NGOs, project staff, beneficiaries and key informants in Maseru and in other districts. At the end of the mission, a wrap-up meeting will be held in Maseru to summarize the preliminary findings and discuss key strategic and operational issues.
  - **Report drafting and peer review.** After the field visit, a draft PPE report will be prepared and submitted to IOE internal peer review for quality assurance.
  - **Comments by ESA and the Government.** The draft PPE report will be shared simultaneously with ESA and the Government for review and comment. IOE will finalize the report following receipt of comments by ESA and the Government and prepare the audit trail.
  - **Management response by ESA.** A written management response on the final PPE report will be prepared by the Programme Management Department of IFAD. This will be included in the PPE report, when published.
  - **Communication and dissemination.** The final report will be disseminated to the key stakeholders in the country and in IFAD. It will also be posted on the website of IOE.
27. **Tentative timeline** for the PPE process is as follows:

Date	Activities
<b>February – March 2017</b>	Desk review
<b>20 March – 1 April 2017</b>	Mission to Lesotho
<b>April to Mid - May 2017</b>	Preparation of draft report
<b>End - May 2017</b>	IOE Peer Review
<b>End - June 2017</b>	Draft PPE report sent to ESA and Government for comments
<b>July 2017</b>	Finalization of the report
<b>August 2017</b>	Publication and dissemination

## VII. Evaluation Team

28. Ms Xiaozhe Zhang, IOE Evaluation Analyst has been designated as Lead Evaluator for this PPE. She will be assisted by Mr Hans Dieter Seibel (rural finance expert & IOE senior consultant) and Mr Jorge Carballo Gutierrez, IOE Evaluation Research Analyst. The evaluation team will be responsible for the final delivery of the report, under the overall supervision of Ms Johanna Pennarz, IOE Lead Evaluation Officer. Ms Laure Vidaud, IOE Evaluation Assistant, will provide administrative support throughout the evaluation process.

## **VIII. Background Documents**

29. The key background document for the exercise will include the following:

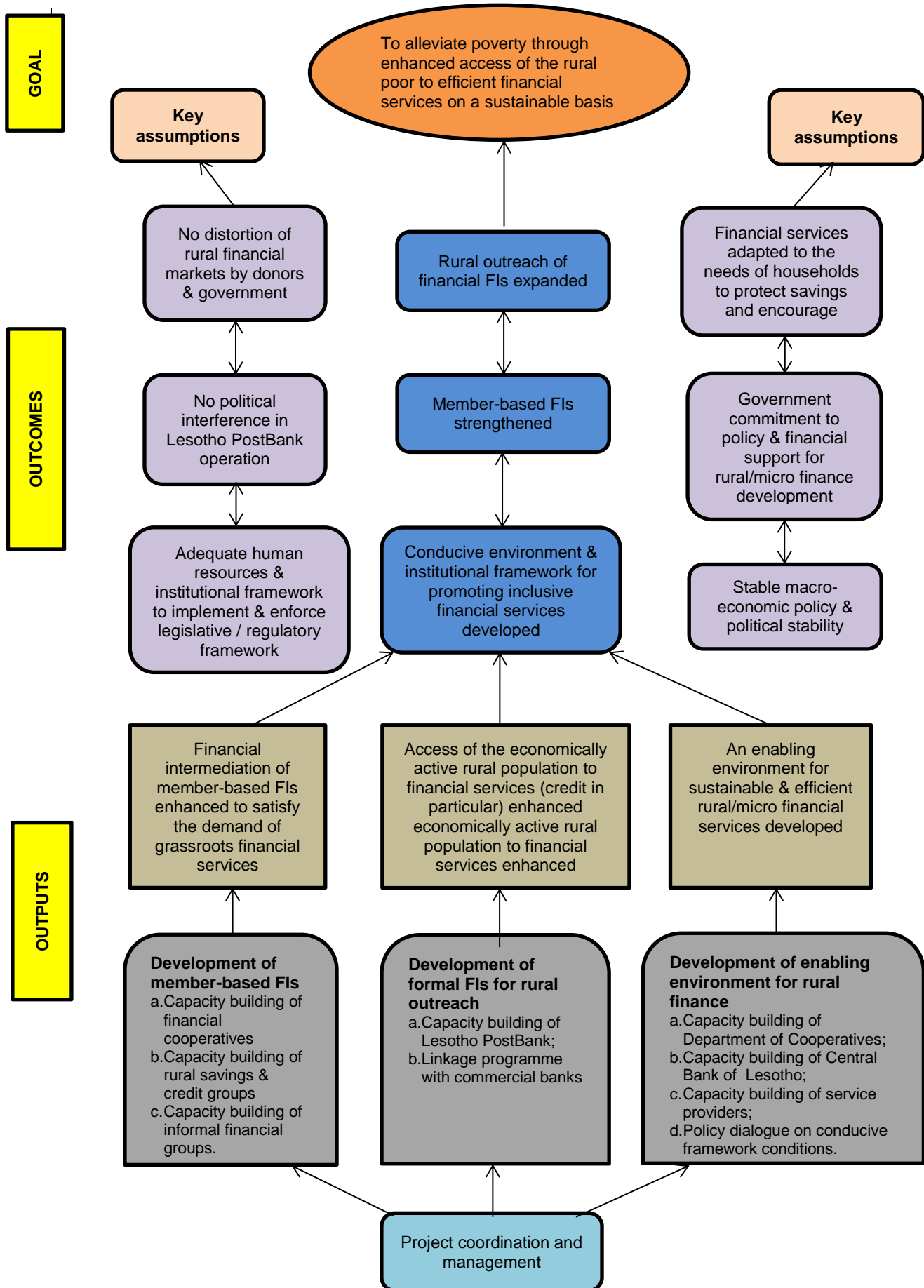
### **RUFIP project specific documents**

- Rural Financial Intermediation Programme – Appraisal Report (2007)
- IFAD President’s Report: Proposed loan and grant to the Kingdom of Lesotho for the Rural Financial Intermediation Programme (2007)
- Supervision mission Aide Memoire and reports (2008 – 2015)
- Project status report (2008 – 2015)
- Mid-term review report (2011)
- Impact and outcome level survey (2014)
- Project completion report (2015)

### **General documentation**

- IFAD (2011). IFAD Evaluation Policy.
- IFAD (2015). IFAD Evaluation Manual. Second Edition.
- IFAD (2010). Rural Finance Policy.
- IMF (2014). Country Report No. 14/201, July 2014
- Kingdom of Lesotho (2004). Poverty Reduction Strategy 2004/05 – 2006/07.
- IFAD (2017). Lesotho Country Profile.

### RUFIP Theory of Change



## Evaluation Framework

Criteria	Evaluation Questions	Data sources
<b>I. Project Performance</b>		
A. Relevance	<ul style="list-style-type: none"> <li>• Were RUFIP objectives realistic and consistent with national agriculture and rural development strategies and policies, the COSOP and relevant IFAD policies, as well as the needs of the rural poor?</li> <li>• Was the RUFIP relevant with respect to the policies, programmes and projects undertaken by the Government and other development partners?</li> <li>• Was the RUFIP internally coherent in terms of synergies and complementarity between objectives, components, activities and inputs?</li> <li>• Was the RUFIP design participatory in the sense that it took into consideration the inputs and needs of key stakeholders, including the Government, executing agencies, and the expected beneficiaries and their grass-roots organizations?</li> <li>• Did the programme benefit from available knowledge (for example, the experience of other similar projects in the area or in the country) during its design and implementation?</li> <li>• Did RUFIP objectives remain relevant over the period of time required for implementation? In the event of significant changes in the programme context or in IFAD policies, has the design been retrofitted?</li> <li>• Was the programme design and implementation approach (including financial allocations, programme management and execution, supervision and implementation support, and M&amp;E arrangements) appropriate for achieving the programme's objectives?</li> <li>• What are the main factors that contributed to a positive or less positive assessment of relevance?</li> </ul>	<ul style="list-style-type: none"> <li>• President's Report</li> <li>• Loan Agreement</li> <li>• Formulation Report</li> <li>• Appraisal Report</li> <li>• Mid-term Review report</li> <li>• Supervision Reports (2008 – 2015)</li> <li>• Interviews with country authorities</li> <li>• Group discussion with beneficiaries</li> </ul>
B. Effectiveness	<ul style="list-style-type: none"> <li>• To what extent have RUFIP objectives been attained?</li> <li>• Did the programme succeeded in providing sustainable access to rural financial services to the target population?</li> <li>• Did access to these financial services generate an improvement in living conditions of poor households?</li> <li>• Did smallholders benefit from improvement in household assets and</li> </ul>	<ul style="list-style-type: none"> <li>• President's report</li> <li>• Appraisal report</li> <li>• Financing agreements</li> <li>• Supervision Reports (2008 – 2015)</li> <li>• Mid-term Review Report</li> <li>• Individual interviews in the field and with country authorities</li> </ul>

	<p>food security through improved agricultural techniques?</p> <ul style="list-style-type: none"> <li>• What factors in programme design and implementation account for these results?</li> <li>• Did changes in the overall context (e.g. policy framework, political situation, institutional set-up, economic shocks, civil unrest, etc.) affect programme results?</li> </ul>	<ul style="list-style-type: none"> <li>• Group discussion with beneficiaries</li> <li>• Survey</li> <li>• Direct observation</li> </ul>
C. Efficiency	<ul style="list-style-type: none"> <li>• What are the costs of investments to develop specific programme outputs compared with national standards? Is the cost ratio of inputs to outputs (including cost per beneficiary) comparable to local, national or regional benchmarks?</li> <li>• What were the administrative costs per beneficiary and how do they compare to other IFAD- or other donors-funded operations in Lesotho?</li> <li>• How much time did it take for the loan to be effective, and how does it compare with other loans in the same country and region?</li> <li>• Did the RUFIP deliver expected results in a timely manner?</li> </ul>	<ul style="list-style-type: none"> <li>• President's report</li> <li>• Appraisal report</li> <li>• Supervision reports (2008 – 2015)</li> <li>• Mid-term review report</li> <li>• Individual interviews in the field with beneficiaries and with country authorities (at central and local level)</li> <li>• Survey</li> <li>• Analysis of comparators</li> <li>• Government data (for bench marking)</li> </ul>
D. Sustainability of benefits	<ul style="list-style-type: none"> <li>• Are RUFIP benefits expected to continue following programme completion, and what factors are in favour of or against maintaining benefits? What is the likely resilience of economic activities to shocks?</li> <li>• Was a specific exit strategy or approach prepared and agreed upon by key partners to ensure post-programme sustainability? Was this effective?</li> <li>• Is there a clear indication of government commitment after the loan closing date, for example, in terms of provision of funds for selected activities, human resources availability, continuity of pro-poor policies and participatory development approaches, and institutional support? Did RUFIP design anticipate that such support would be needed after loan closure?</li> <li>• Did programme activities benefit from the engagement, participation and ownership of local communities, grass-roots organizations, and the rural poor?</li> </ul>	<ul style="list-style-type: none"> <li>• President's report</li> <li>• Appraisal report</li> <li>• Supervision reports (2008 – 2015)</li> <li>• Mid-term review report</li> <li>• Group discussion with beneficiaries</li> <li>• Individual interviews in the field with beneficiaries and with authorities (at central and local level)</li> </ul>
<b>II. Rural poverty impact</b>		

<p>- Household income and net assets</p>	<ul style="list-style-type: none"> <li>• Did the composition and level of household incomes change (more income sources, more diversification and higher income)? What changes were apparent in intra-household distribution of incomes and assets?</li> <li>• Did households' endowment of productive assets change? Did other household assets change (houses, bicycles, radios, television sets, telephones, etc.)?</li> <li>• Did the rural poor benefited from improved access to rural financial services?</li> <li>• Did poor households' financial assets change (savings, debt or borrowing)?</li> <li>• To what extent the rural poor benefited from higher income through better access to financial markets more easily? Did the rural poor benefit from better access to input and output markets (for example through extension services)?</li> </ul>	<ul style="list-style-type: none"> <li>• Supervision reports</li> <li>• Mid-term review</li> <li>• Impact survey</li> <li>• RIMS</li> <li>• Group discussion with beneficiaries</li> <li>• Individual interviews in the field with beneficiaries and with country authorities (at central and local level)</li> <li>• Client impact study</li> <li>• Direct observation</li> </ul>
<p>- Human and social capital and empowerment</p>	<ul style="list-style-type: none"> <li>• Did rural people's groups and grass-root institutions change? Are changes in the social cohesion, collective capacity and local self-help capacities of rural communities visible?</li> <li>• To what extent did the programme empower the rural poor vis-à-vis development actors and local and national public authorities? Do they play more effective roles in decision-making?</li> </ul>	
<p>- Food security and agricultural productivity</p>	<ul style="list-style-type: none"> <li>• Did cropping intensity change? Was there an improvement in land productivity (for example through adoption of improved technologies)? Did the returns to labour change?</li> <li>• Did children's nutritional status change (e.g. stunting, wasting, underweight)?</li> <li>• Did household food security change?</li> <li>• To what extent did the rural poor improve their access to input and output markets (for example through credit) that could help them enhance their productivity and access to food?</li> </ul>	
<p>- Institutions and policies</p>	<ul style="list-style-type: none"> <li>• Were there any changes by RUFIP activities to facilitate access for the rural poor and rural enterprise to financial services?</li> <li>• Did Lesotho PostBank and member-based financial institutions become more responsive to the financial needs of beneficiaries (e.g. developing new financial products, expanding outreach)?</li> </ul>	



	<ul style="list-style-type: none"> <li>• What improvements were discernible in local level organizations?</li> </ul>	
<b>III. Other performance criteria</b>		
Gender equality and women's empowerment	<ul style="list-style-type: none"> <li>• What were the programme's achievements in terms of promoting gender equality and women's empowerment?</li> <li>• What percentage of total project resources was invested in activities to prompt gender equality and women's empowerment?</li> <li>• How does this percentage compare with other project-funded by IFAD in Lesotho and in the region, respectively?</li> <li>• To what extent did the project define and monitor ex-disaggregated results to ensure gender equality and women's empowerment objectives were being met?</li> <li>• Was the project implementation structure adequate to support effective implementation of goals on gender equality and women's empowerment?</li> </ul>	<ul style="list-style-type: none"> <li>• President's report</li> <li>• Appraisal report</li> <li>• Supervision reports</li> <li>• Mid-term review</li> <li>• Group discussion with beneficiaries</li> <li>• Individual interviews in the field with beneficiaries and with country authorities (at central and local level)</li> <li>• Direct observation</li> </ul>
Innovation	<ul style="list-style-type: none"> <li>• What are the innovation(s) promoted by the RUFIP? Are the innovations consistent with the IFAD definition of this concept?</li> <li>• How did the innovation originate (e.g. through the beneficiaries, Government, IFAD, NGOs, etc.) and was it adapted in any particular way during programme design?</li> <li>• Are the actions in question truly innovative or are they well-established elsewhere but new to the country or programme area?</li> <li>• Were successfully promoted innovations documented and shared? Were other specific activities (e.g. workshops, exchange visits, etc.) undertaken to disseminate the innovative experiences?</li> </ul>	
Scaling up	<ul style="list-style-type: none"> <li>• Have these innovations been replicated and scaled up and, if so, by whom? If not, what are the realistic prospects that they can and will be replicated and scaled up by the Government, other donors and/or other institutions?</li> </ul>	
<b>IV. Performance of partners</b>		
IFAD	<ul style="list-style-type: none"> <li>• Was RUFIP design conducive to good implementation and performance? Did IFAD mobilize adequate technical</li> </ul>	<ul style="list-style-type: none"> <li>• Supervision reports (2008 – 2015)</li> <li>• Mid-term review</li> </ul>

	<p>expertise during appraisal and formulation?</p> <ul style="list-style-type: none"> <li>• Was the design participatory (with national and local agencies, grass-roots organizations)? Did it promote ownership by the borrower?</li> <li>• Were specific efforts made to incorporate the lessons and recommendations from previous independent evaluations in programme design and implementation?</li> <li>• Did IFAD take the initiative to suitably modify programme design (if required) during implementation in response to any major changes in the context, especially through the MTR?</li> <li>• Did IFAD undertake the necessary follow-up and remedies to resolve implementation bottlenecks?</li> <li>• Has IFAD made efforts to be engaged in policy dialogue activities at different levels in order to ensure, inter alia, availability of counterpart funds and the scaling-up of successful innovations (if any)?</li> <li>• Has IFAD been active in creating and maintaining an effective coordination among key partners to ensure the achievement of programme objectives, including the replication and scaling up of pro-poor innovations?</li> <li>• Has IFAD, together with the Government, contributed to planning an exit strategy (or any other actions) to ensure sustainability of programme benefits?</li> </ul>	<ul style="list-style-type: none"> <li>• Interview with IFAD country programme management team for Lesotho</li> <li>• Individual interviews with government authorities (at central and local level)</li> <li>• Client impact study</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Has the Government assumed ownership and responsibility for the programme during both design and implementation?</li> <li>• Judging by its actions and policies, was the Government fully supportive of programme goals? Has adequate staffing and programme management been assured? Have appropriate levels of counterpart funding been provided on time? Have the flow of funds and procurement procedures been suitable for ensuring timely implementation?</li> <li>• Did MOF discharge its functions adequately, and did it provide adequate support and staffing for the RUFIP?</li> <li>• Did PCU discharge its functions adequately, and has the Government provided policy guidance to programme management staff when required?</li> </ul>	<ul style="list-style-type: none"> <li>• Appraisal report</li> <li>• Supervision reports (2008 – 2015)</li> <li>• Mid-term Review report</li> <li>• Interview with IFAD country programme management team for Lesotho</li> <li>• Individual interviews with government authorities (at central and local level)</li> <li>• Client impact study</li> </ul>

	<ul style="list-style-type: none"> <li>• Have loan covenants and the spirit of the loan agreement been observed? Has auditing been undertaken in a timely manner and have reports been submitted as required?</li> <li>• Did the Government take the initiative to suitably modify programme design (if required) during implementation in response to any major changes in the context?</li> <li>• Were prompt actions taken to comply with recommendations from supervision and implementation support missions, including the MTR, so to enhance programme impact and sustainability?</li> <li>• Was an effective M&amp;E system put in place? Did it generate information useful for programme managers when they are called upon to take critical decisions?</li> <li>• Did the Government contribute to planning an exit strategy and/or ensured continuation of funding of programme activities?</li> </ul>	
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