

INVENTORY

of

Microfinance Activities Supported by Norway

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Erlend Sigvaldsen, Nordic Consulting Group AS

Svein Jørgensen, Nordic Consulting Group AS

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Annexes:

- 1 Terms of Reference**
- 2 The Questionnaire**
- 3 Data sheet (Electronic version only)**

List of Abbreviations

| | |
|-------|--|
| BDS | Business Development Services |
| CGAP | Consultative Group to Assist the Poorest |
| DFI | Development Finance Institution |
| MDG | Millennium Development Goals |
| MFA | Ministry of Foreign Affairs |
| MF | Microfinance |
| MFI | Microfinance Institution |
| mn | Million |
| NCA | Norwegian Church Aid (Kirkens Nødhjelp) |
| NPA | Norwegian People's Aid (Norsk Folkehjelp) |
| NGO | Non-government organization |
| NORAD | Norwegian Agency for Development Cooperation |
| TA | Technical Assistance |
| ToR | Terms of Reference |
| USD | United States Dollar |
| WWB | Women's World Banking |

1 Background and Methodology

This inventory is the third of its kind since 1999, of which an update was made in 2002. The work has been initiated by Norad based on Terms of Reference as shown in Annex 1. The purpose of the work is both to obtain an overview of microfinance projects supported by Norad, draw lessons from the ongoing support and fulfil the requirements of CGAP.

The inventory is also part of the follow-up of the recommendations from the CGAP facilitated Peer Review of NORAD from 2002.

The inventory contains only microfinance activities supported by Norad and the Ministry of Foreign Affairs, and does not include projects financed by other Norwegian based capital providers like Norfund and Kolibri Kapital.

The methodology for the inventory was to:

1. design a questionnaire (see Annex 2) which requested the respondent to specify information about a) the organisation funded by Norway, and b) microfinance portfolio information by projects supported by each organisation.
2. send out the questionnaire by email to all potential receivers of Norwegian funding for microfinance, requesting them to fill in or respond that they did not have any MF projects supported by Norway.

The questionnaire was sent out to NGOs and Norwegian embassies on September 28, requesting response by October 14, 2005.

The response from the NGOs/embassies varied considerably, from prompt and tabulated portfolio data supplied by the biggest receiver of Norwegian funding, the Strømme Foundation, to no response from 5 NGOs, which do not seem to have a system which enables them to react adequately to these types of enquires. During the processing of data, it was necessary to email or telephone follow-up questions to most NGOs based on apparent inconsistencies in the portfolio data received. For five NGOs the figures initially received changed considerably after inconsistencies and errors had been pointed out to them. One NGO even reverted with 6 new projects which comprised disbursements of USD 1.4m nearly 2 months after the Questionnaire deadline.

Most respondents gave information on the total project expenditure and all had figures on their total contribution to MF and on the individual projects supported. But in 6 cases there was little consistency between the figures given on total disbursement in a year, and the sum from the projects for that same year. One big NGO (13 projects) only gave figures on the amount disbursed.

We understand that the questionnaire may have caused trouble for those NGOs – like CARE - that mainly works as a facilitator and supporter to “self-help” groups, and not as a classical MFI themselves. Total figures for clients and outstanding are then not that easy – or even relevant - to keep good records of. However, for other NGOs that support more traditional microfinance projects, the process of communication has been much more difficult and time-consuming than expected. At the time of completing this report there are still a number of questions unanswered by the respondents, both related to the consistency of the portfolio and questions related to their operation.

Although there are still outstanding data and clarifications, we have decided to finalize the report based on the data we have received. It is our opinion that the apparent poor understanding of portfolio data demonstrated by some institutions should lead to changes in future project design, reporting and funding. It should also be of concern to NORAD, who over the past years has put too little in-house resources into administering a programme of USD 15m,

2 Inventory

The general problems with the data quality have already been mentioned above. In addition, when reading the tables, the following must be kept in mind:

- The numbers do not exclusively relate to funds from Norad and/or MFA. Many NGOs in particular add their own funds when supporting individual MFIs.
- The individual MFI being supported may have received funding from numerous other sources in addition to the Norwegian money. Indeed, in some of the larger MFIs, funds from Norway constitute only a small part of the total. Still, we have included all of that MFIs borrowers, outstanding etc as part of the inventory, as there is no easy way to demarcate Norwegian responsibility from other financiers.¹ Thus, if somebody tries to do this exercise on a global scale, for every country, the resulting figure will be highly misleading as both money and borrowers will then be counted twice – if not more.
- CARE and 2-3 other NGOs have a sizable portfolio of self-help groups, and give primarily technical and “soft” input to the groups. This means that portfolio data are not that easily available and the figures are in those cases more approximate.
- Because we still miss figures on different aspects from many of the projects, the numbers are overall likely to be understated. Both supported loan balance and clients are probably higher than shown here, as not all organisations have responded on these points.
- Some organisations have not provided all the numbers asked for, and may for instance have given numbers for loan clients, but not for the loan outstanding. Thus, the number of projects included in the statistics below may vary from table to table, depending on who actually contributed information on a particular aspect.
- Two projects supported by NORAD and MFA, namely Women’s World Banking and Microsave Africa work at the meso level, and have **no** direct clients as such. Naturally, no information is thus given on loan balance etc for these institutions.

In some cases where the information appears highly dubious we have omitted the project from the analysis. We have thus tried to cull the most obvious misinformation from the tables.

¹ Possible methods are too complex to make them feasible through a questionnaire, and would anyway rest on qualitative assessments. There are several issues, but one of the main is how in an annual splitting of funding attributability, to take proper account of each institutions capital history.

2.1 Microfinance Portfolio

The microfinance portfolio presented below is subject to the reservations given above

2.1.1 Overall Support to Microfinance

The following table shows the total figures for support to microfinance from Norwegian Institutions. All in all, total funding by the respondents was about USD 14.8 mn in 2004, which is estimated to increase to about USD 15.9 mn in 2005, and USD 16.6 mn in 2006. In comparison the total funding from all sources to the same projects was in 2005 roughly USD 130 mn. Thus, the contribution from the respondents constituted on average about 12% of the total expenditure budgets to the projects in that year.

The contribution from NORAD and the MFA to the same institutions for MF projects was about USD 10 mn in 2004, expected to increase to above USD 11.2 mn in 2005 and down to 10.7 mn in 2006. In 2004 NORAD and MFA therefore funded about 68% of all disbursements by the respondents to MF projects. According to the NGOs, the NORAD/MFA share of their funding is expected to be reasonably stable during the next two years (65% - 70%).

Table 1: Support to Microfinance ('000 USD²)

| | 2004 | 2005 (e) | 2006 (e) |
|--|---------------|---------------|---------------|
| Strømme | 7,297 | 8,820 | 10,281 |
| Norges Vel | 574 | 227 | 139 |
| Normisjon | 144 | 197 | 279 |
| Emb.Kenya | 340 | 430 | 430 |
| Emb.Sri Lanka | 536 | 289 | 121 |
| PYM | 0 | 203 | 160 |
| CARE | 990 | 1,344 | 1,593 |
| Misjonsalliansen | 1,081 | 1,226 | 875 |
| NPA | 750 | 750 | 750 |
| AtlasAlliansen | 106 | 204 | 140 |
| FORUT | 195 | 182 | 199 |
| Utviklingsfondet | 207 | 223 | 196 |
| NCA | 1,000 | 1,000 | 1,000 |
| NORAD/MFA | 1,538 | 769 | 462 |
| TOTAL | 14,759 | 15,864 | 16,625 |
| <i>Contribution from Norad and MFA</i> | 10,033 | 11,221 | 10,781 |

² The exchange rate used is 6.50 NOK/USD.

The clearly biggest and most active organisation is Strømme Foundation, with CARE and Misjonsalliansen competing for second spot. It is noteworthy that, with the exception of Strømme, Normisjon and CARE, almost all other organisations intend to either keep or decrease their level of support to microfinance in 2005 and 2006. The planned increase in the total can almost exclusively be attributed to Strømme's plans for expansion. In this context it is important to note that all figures presented in this inventory are heavily influenced by the size of the Strømme support. The NORAD/MFA contribution is support to the Women's World Banking (WWB), an international network organisation for MFIs. WWB does not onlend to micro-clients, but provide assistance and network facilities to its members.

The total number of MFI projects supported by the above listed organisations is about 125, of which Strømme has about 65. Most other organisations support from 1 to 5 projects, while FORUT supports about 220 small groups, i.e. they have included all the self-help groups.

2.1.2 Portfolio of the supported MFIs

The total outstanding loan balance of the different MFIs supported by Norwegian funds was roughly USD 167 mn at the end of 2004. This is expected to increase to over USD 248 mn at the end of 2006. Both of these figures are understated, as they do not include projects supported by for instance NCA, Atlas Alliansen and PYM, which did not provide figures for this in their reporting. One explanation can be that they like CARE supports smaller saving and credit clubs with TA, with an "arm-lengths" distance to the financial intermediation itself, and do thus not record balance or participants in detail.

Table 2: Total Loan Balance in Projects Supported ('000 USD)

| | 2004 | 2005 (e) | 2006 (e) |
|----------------|----------------|----------------|----------------|
| AtlasAlliansen | 0 | 0 | 0 |
| CARE | 16 | 15 | 0 |
| Embassies | 392 | 516 | 479 |
| FORUT | 220 | 231 | 246 |
| Misjonsall. | 14,347 | 17,165 | 0 |
| NCA | 0 | 0 | 0 |
| Norges Vel | 51 | 78 | 30 |
| Normisjon | 1,984 | 2,754 | 4,516 |
| NPA | 42,000 | 77,000 | 84,000 |
| PYM | 0 | 0 | 0 |
| Strømme | 106,851 | 124,220 | 158,044 |
| TOTAL | 166,648 | 222,984 | 248,136 |

The total loan balance in projects supported by Strømme constitutes nearly 2/3 of the total outstanding loans. When viewing the loan balances it should be borne in mind that NPA for instance only funds about 2% of the total expenditures in the huge DECSI/AEMFI project in Ethiopia, while Strømme on average funds 15% of the total expenditures of their supported projects.

An interesting feature is that the savings balance in the same MFIs are becoming quite substantial (table 3). Some of the savings may be so-called forced savings –i.e. members must save a small sum as a condition to get a loan - and free deposit schemes may still be in minority. But in total, the members of Norwegian supported MFIs had saved more USD 75 million at the end of 2004, as compared to a loan balance of the double. Again, this number is understated as two organisations did not report on savings. This is particularly a problem for the estimates for 2005 and 2006. (The same loan balance reservations regarding numbers from those NGOs that support self help groups obviously hold with regard to savings too.)

Table 3: Total Savings Balance ('000 USD)

| | 2004 | 2005 (e) | 2006 (e) |
|------------------|---------------|---------------|----------------|
| AtlasAlliansen | 0 | 0 | 0 |
| CARE | 3,437 | 46 | 0 |
| Embassies | 228 | 317 | 240 |
| FORUT | 38 | 41 | 43 |
| Misjonsalliansen | 0 | 0 | 0 |
| NCA | 0 | 0 | 0 |
| Norges Vel | 8 | 8 | 9 |
| Normisjon | 206 | 338 | 485 |
| NPA | 17,000 | 19,000 | 33,000 |
| PYM | 0 | 10 | 21 |
| Strømme | 54,042 | 64,541 | 83,260 |
| TOTAL | 75,548 | 84,956 | 117,541 |

We got better data for the number of loan clients from the organisations. Knowing how many clients your supported MFI has, constitutes in our opinion the minimum of information an organisation should have.

Table 4: Total Loan Clients

| | 2004 | 2005 (e) | 2006 (e) |
|------------------|------------------|------------------|------------------|
| AtlasAlliansen | 0 | 0 | 0 |
| CARE | 151,908 | 129,540 | 0 |
| Embassies | 7,791 | 10,612 | 5,953 |
| FORUT | 24,970 | 25,595 | 26,800 |
| Misjonsalliansen | 33,657 | 41,579 | 0 |
| NCA | 0 | 0 | 0 |
| Norges Vel | 2,983 | 2,025 | 2,100 |
| Normisjon | 16,476 | 19,250 | 24,450 |
| NPA | 415,225 | 423,775 | 455,022 |
| PYM | 0 | 0 | 0 |
| Strømme | 863,768 | 1,027,114 | 1,295,803 |
| TOTAL | 1,530,880 | 1,693,334 | 1,821,071 |

The total number of loan clients stands at an impressive 1.5 mn at the end of 2004, estimated to increase to 1.8 mn in two years time. Strømme again records the highest number of clients, with about 56% of the total in 2004. This is expected to increase to 61% in 2005. The total 2006 figure cannot be compared to the other years as three NGOs have not reported estimates for that year.

If we split the clients in the different MFIs according to country, the following picture emerges:

Table 5: Loan Clients by Country

| | 2004 |
|---------------|------------------|
| Ethiopia | 415,225 |
| Sri Lanka | 366,364 |
| Kenya | 185,582 |
| Tanzania | 159,008 |
| Uganda | 132,552 |
| Niger | 119,872 |
| Bangladesh | 51,160 |
| Bolivia | 22,097 |
| Mali | 19,833 |
| Rwanda | 18,029 |
| Others | 41,158 |
| Totalt | 1,530,880 |

Ethiopia and Sri Lanka are the major countries in terms of clients, but while the numbers in Ethiopia originates from mostly one project supported by Norwegian People Aid (NPA), the Sri Lanka clients are spread on several MFIs. Most of the main countries are

among Norway's main development cooperation partners, but there are substantial support to MFIs in countries like Niger and Bolivia that are less common as recipients of Norwegian development aid.

Not surprisingly, savings clients follow the same pattern as the loan clients in terms of which organisations they are supported by.

Table 6: Savings Clients

| | 2004 | 2005 | 2006 |
|------------------|------------------|------------------|------------------|
| AtlasAlliansen | 0 | 0 | 0 |
| CARE | 156,766 | 138,454 | 0 |
| Embassy | 7,377 | 7,993 | 12,015 |
| FORUT | 15,646 | 16,000 | 16,800 |
| Misjonsalliansen | 10,000 | 10,000 | 10,000 |
| NCA | 0 | 0 | 0 |
| Norges Vel | 8,758 | 12,000 | 17,100 |
| Normisjon | 14,341 | 15,650 | 18,350 |
| NPA | 328,914 | 227,254 | 288,483 |
| PYM | 0 | 3,360 | 5,000 |
| SF | 875,721 | 1,029,828 | 1,222,347 |
| TOTAL | 1,435,689 | 1,479,599 | 1,604,437 |

When the number of savings clients is compared to the number of loan clients, it appears that more than 90% both save and have a loan at the same time. In many cases this is probably due to MFI conditions that require a client to save before he/she can get access to a loan.

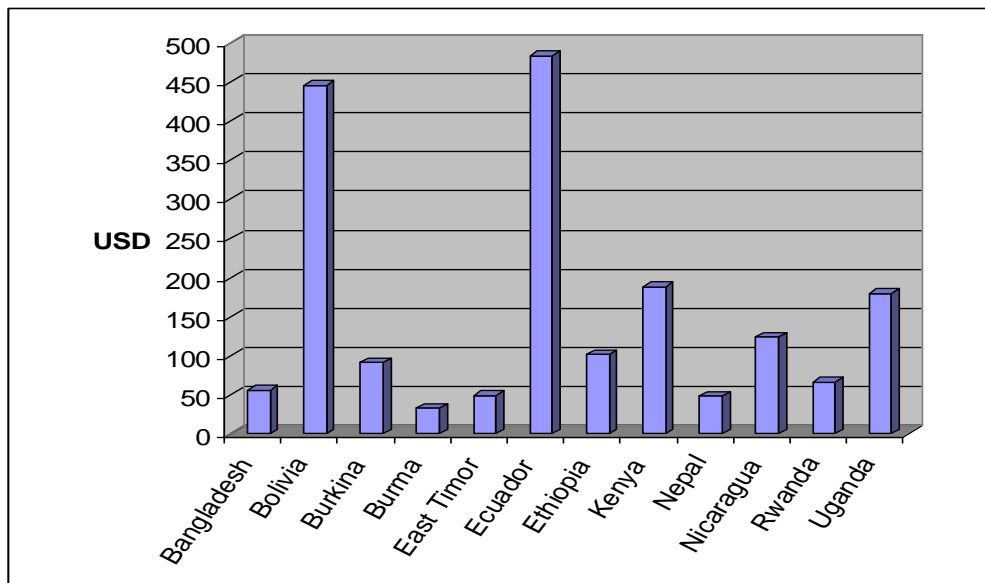
Average loan size is an often cited statistic in microfinance, as it gives indications about the target group. Small loan sizes indicate poorer groups, but interpretations must be tempered by differences in geography, as some regions have more advanced microfinance markets. The average loans sizes of the five countries with the highest number of loan clients are as follows:

| | Av. loan size 2004 USD |
|-----------|------------------------------|
| Ethiopia | 101 |
| Sri Lanka | 53 |
| Kenya | 188 |
| Tanzania | 99 |
| Uganda | 179 |

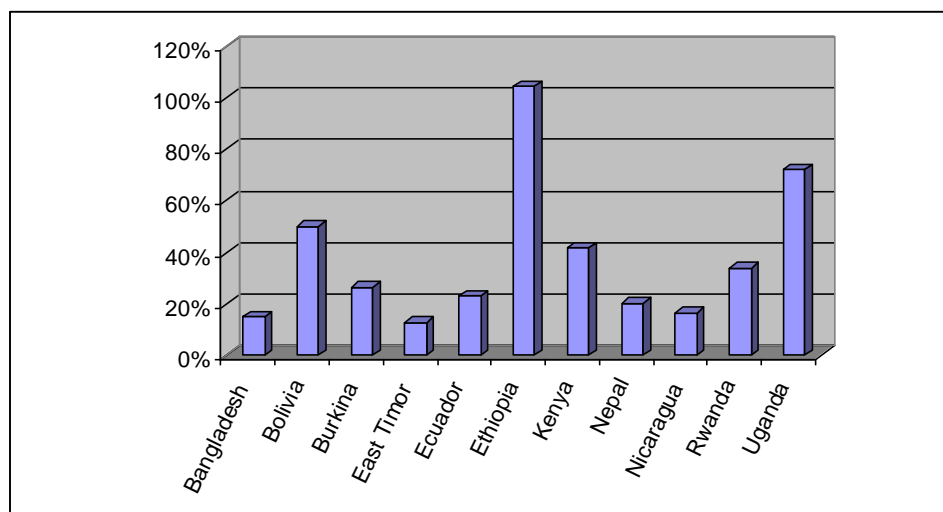
To illustrate differences, we have done a brief comparison of the average loan size in some of the countries as shown in figure 1.

The South American markets are more developed and less poor than their counterparts in Africa and Asia, but the large difference between them and the others is still somewhat surprising. Ecuador and Bolivia have an average loan size that is well above USD 400, while the lead countries in Africa are about USD 180.

Figure 1: Average Loan Size per Country



If we, however, compare the average loan size with the GDP per capita we get a slightly different picture, but one that better indicates the target group in the country in question. The source for the GDP per capita numbers is UNDP's Human Development Report, and Ethiopia scores an absolute low with only USD 97 per capita. That propels Ethiopia to the top of the list, as an average loan size of USD 101 leaves Ethiopia as the only country with an average loan size higher than the GDP per capita. The Norwegian supported MFIs in all other countries – except Uganda - record an average loan size of less than 50%, which indicates that most do work with poorer groups in that country.

Figure 2: Average Loan Size in percent of GDP per capita

One country not in the figure is Sri Lanka, but it has the lowest average loan size as a ratio of GD per capita of all. USD 53 is only 6% of the 2003 GDP/capita of 948

How does the current portfolio compare to earlier years? If we go back to the 1998 survey of MFIs³ we find a highly interesting trend: Namely the almost complete shift from NORAD/MFA funded projects to Norwegian NGO operated. Not all of the figures in that survey are comparable to the current due to different data sources and definitions, but number of clients should be a fairly timeless indicator. Norad has in other words succeeded in its strategy to move out of direct support to MFIs.

In the table below, we see that the total number of loan clients is only about 11% higher in 2004 than in 1998, but now almost all clients are served by the Norwegian NGOs, and almost none by NORAD/MFA. As stated above, the total number in 2004 is understated as only 86 of the in total 123 projects actually reported on loan clients in our survey. (The number for average clients in table 7 is of course calculated on the basis of the 86.)

Table 7: Comparison: Projects and clients in 1998 and 2004.

| | 1998 | | | 2004 | | |
|--------------------------------|------------|------------------|--------------|------------|------------------|---------------|
| | Projects | Clients | Avr. Clients | Projects | Clients | Avr. Clients |
| <i>NGO projects</i> | 150 | 308,935 | 2,060 | 116 | 1,523,089 | 18,574 |
| <i>NORAD / Embassies</i> | 12 | 102,992 | 9,363 | 6 | 7,791 | 1,948 |
| <i>MFA</i> | 3 | 958,506 | 319,502 | 1 | 0 | 0 |
| Total number of clients | 165 | 1,370,433 | 8,306 | 123 | 1,530,880 | 17,801 |

³ "Review of Norwegian Microfinance Activities", NCG, August 1999,

The main reason for the shift is that the MFA and NORAD no longer directly supports any of the bigger MFIs like PRIDE, and that the old integrated districts development programmes with a large number of “paper” clients no longer exist. NGOs have, however, increased their number of clients nearly fivefold since 1998, and the total number supported by Norwegian funds now surpasses the 1998 total.

Another interesting feature is that the number of projects has gone down, and the expected rationalisation of microfinance activities among NGOs discussed in 1999 thus seems to have taken place. There are distinctly fewer projects, and the average number of clients per project has more than doubled. While each NGO in 1998 often ran between 10-15 projects, that average is now down to about 5 projects, if Strømme is excluded.

Better understanding of the difficulties involved in microfinance has probably led a number of former MF players to withdraw. The same maturity seems also to have led other NGOs that do not want to leave the microfinance sector, towards more inventive support arrangements as exemplified by the CARE methodology. Being a facilitator more than a funder comes partly from the realisation that money may not be the most acute constraint at the very low levels of microfinance organisation. Simple “how-to” advice and a little outside “governance” may be in higher demand. Working with very poor self-help groups in marginal resource areas is a high risk activity, but it is very much in line with current Norwegian microfinance policy.

We get an impression of an NGO sector that is starting to split into different segments. One follows the more traditional role of being a provider of capital to already established MFIs, but emphasises professionalism and “best practice” - and thus for instance complements the capital with systems for technical assistance. Strømme is the prime example. Others like CARE appear to have chosen a different methodology, focussing on what can be called semi-official MFIs like small savings and self-help groups. The support they give is rather different from what Strømme does. Done correctly, both have clear merits.

And then we have a middle group of NGOs that may not quite have found out where to move and what to do. Without naming anyone directly, some of these are the main culprits regarding inconsistent and incomplete reporting. We would encourage these NGOs to seriously assess and consider anew their intentions with microfinance, and how they want to do it.

2.2 Type of Microfinance Institutions

The increased variety in microfinance support also means that the typology of the microfinance sector is not always as clear cut as one would wish. Many projects can be described as any one of a number of interventions. Our respondents have consequently characterised their projects in several inventive ways, summarised in figure 7. We have

had neither time nor mandate to actually check what for instance is meant by a Cooperative Credit Society, and have left the category as is.

We do not have numbers for loan balance and clients for all projects, so the loan balance in the figure comes from only 97 out of the in total 123 projects. For loan clients the number of respondents is 86. Thus, direct cross referencing of the numbers below cannot be done, as for instance dividing loan balance on the number of clients.

Table 8: Type of Institution Supported

| | 2004 | | |
|-----------------------|------------|-----------------------|------------------|
| | No | Loan Balance '000 USD | No. of Clients |
| Apex | 2 | 1,266 | 11,629 |
| Cooperative | 4 | 5,489 | 8,777 |
| Coop/credit society | 10 | 10,645 | 26,397 |
| Coop/NGO | 3 | 42,000 | 415,225 |
| Credit society | 1 | 9,851 | 22,097 |
| Priv financial inst. | 1 | 26,204 | 62,000 |
| Govt. financial inst. | 3 | 377 | 4,563 |
| Limited company | 2 | 3,929 | 36,601 |
| Multilateral org | 1 | 0 | 0 |
| Network Org | 1 | 0 | 0 |
| NGO | 95 | 66,888 | 943,591 |
| Totalt | 123 | 166,648 | 1,530,880 |

The dominance of NGOs among the supported MFIs is no surprise. Only three government financial institutions are supported, and likewise, only one private limited company. There is from this table no sign of graduation, or of transition from one organisational form to another. As we know little about the projects per se, we cannot decidedly conclude on whether this is good or bad, but normally one would have liked to see a move towards more long term sustainable organisations.

2.3 Type of Microfinance Project

What services do the microfinance institutions supported by the Norwegian NGOs provide? For most, it is at least credit, but for nearly 60% of the projects it is also savings. For many, like CARE, the MFIs they support are in reality small savings and credit groups, and CARE for their part only give them TA – and nothing else. In the table below these smaller initiatives are grouped together with the retail credit and savings institutions.

We also have a few institutions that mainly provide TA or BDS, to either other MFIs or to clients directly. In our understanding of the terms, Technical Assistance refers to assistance given from the NGO to another operative organisation (like self help groups), while Business Development Services is a provision of a range of different services (often market determined) to enterprises. This distinction may not have been altogether clear from our questionnaire, and there may thus be a certain overlap between the two categories.

Those providing BDS do that mostly as part of a bigger project. Unfortunately, the data we got on whether the project was part of a bigger project or not, were highly susceptible, and we can thus not make a special table on that. If the information we got are to be believed, only 10 out of 123 projects are part of a bigger programme. Even though we believe there has been a shift away from the multi-functional project, this seems a bit on low side. It is an accepted “best practice” that the financial operations should be organisationally split from the provision of other services like advice.

Several projects - on the other hand - list multiple services, but we have in the table below categorised them according to what appears as the most important service provided. Please also note that several did not fill in this question in the questionnaire, and these projects are thus excluded in table 9. In general, we believe this table is one of the more uncertain in this report.

Table 9: Type of Microfinance Project

| | No. | 2004 Loan Balance '000 USD | Loan Clients |
|-------------------------|------------|---|---------------------|
| BDS | 8 | 277 | 2,765 |
| Retail Credit | 28 | 39,427 | 403,940 |
| Retail Credit & Savings | 68 | 126,276 | 1,111,266 |
| Enabling Environment | 2 | 78 | 3,851 |
| TA | 5 | 268 | 4,678 |
| Grand Total | 111 | 166,325 | 1,526,500 |

The projects that provide services regarding enabling environment, are typically networking and policy institutions that work on the microfinance framework.

2.4 Support Instruments Used

Norwegian microfinance actors use a number of instruments to support microfinance project and programmes, mostly in the form of loans or grants. The table below shows the loan balance and the loan clients for MFIs, split on the different types of support given from the “mother” organisation.

In this table, only the numbers from the 115 that answered the questionnaire on this item are included. This also goes for loan balance and number of clients.

Table 10: Type of Support Instruments, 2004

| | No. | Loan Balance '000 USD | No. of Clients |
|---------------|------------|-----------------------------|------------------|
| Equity | 1 | 132 | 2,597 |
| Grant | 53 | 61,267 | 649,318 |
| Grant/loan | 12 | 5,257 | 135,252 |
| Loan | 49 | 97,929 | 729,992 |
| Totalt | 115 | 164,585 | 1,517,159 |

Of the 115 projects, as many as 61 is financed by a loan component (loan and grant/loan). There is thus a distinct move towards greater use of loans as the funding mechanism. However, when we look at which instruments the different NGOs use, we see that loans are mostly a Strømme instrument. Also Norges Vel and the Atlas Alliance use loans, while the others stay with grants.

Table 11: Type of Support Instruments per Institution, 2004

| | Equity | Grant | Grant / loan | Loan | Totalt |
|----------------|----------|-----------|--------------|-----------|------------|
| AtlasAlliansen | 0 | 0 | 0 | 1 | 1 |
| CARE | 0 | 8 | 0 | 0 | 8 |
| Embassy | 0 | 6 | 0 | 0 | 6 |
| FORUT | 0 | 0 | 1 | 0 | 1 |
| Misjonsall. | 0 | 3 | 0 | 0 | 3 |
| NCA | 0 | 12 | 0 | 0 | 12 |
| NORAD | 0 | 1 | 0 | 0 | 1 |
| Norges Vel | 0 | 2 | 0 | 3 | 5 |
| Normisjon | 0 | 1 | 0 | 0 | 1 |
| NPA | 0 | 1 | 0 | 0 | 1 |
| PYM | 0 | 1 | 0 | 0 | 1 |
| SF | 1 | 13 | 11 | 45 | 70 |
| Totalt | 1 | 53 | 12 | 49 | 115 |

The introduction of an APEX level of funding in Strømme is one reason why loans are now the norm in SF. It is an instrument that in many cases provides better performance incentives than pure grants to an MFI. This is also more in line with best practice and the recent CGAP guidelines. Grants should be targeted at particular components that do not subsidise normal operation too heavily.

3 Other Questionnaire Responses

Below we have summarized and commented upon the answers to “non-portfolio” questions in the survey.

3.1 Technical Capacity and Need for TA

The “Donor Guidelines on Good Practice in Microfinance”⁴ stresses the need for strong staff capacity to be an effective microfinance supporter, be it an NGO, a bilateral or a multilateral donor. However, the responses from the organisations indicate that Norwegian actors still have some way to go.

Most institutions say they have some qualified staff in their headquarters, and in the field organisations. Not surprisingly, the number and qualifications seem to reflect the emphasis on MF by the organisation. Three of the smaller NGOs, and the two embassies responding, do not have staff who exclusively works with MF. A couple of NGOs use outside expertise. Two of the bigger agencies located in the respective countries state a high number of field staff (up to 800), but these organisations implement microfinance directly themselves.

Weak Questionnaire Response

The response to the questionnaire reveals as mentioned above, that some of the NGOs are not well organised in terms of providing relevant and ready answers regarding the projects they execute. Despite repeated reminders it proved difficult to get the requested information, some of which is still outstanding.

Still there are inconsistencies in some figures received. Unfortunately, such deficiencies undermine the credibility of the organisations involved since one of their key tasks should be to monitor the projects in question. If they cannot see that there are elementary flaws and inconsistencies in the basic portfolio data they receive or pass on, it is difficult to see how they can properly control the funds they administer. As most organisations have understood by now, there is no exception to the fact that microfinance must be run professionally. Close monitoring and supervision of a portfolio and its performance is a key prerequisite to effective microfinance management.

⁴ CGAP/The World Bank, December 2004.

Need of TA support

Three of the respondents did not answer the question regarding their need of TA. Of those who responded, Strømme states that it needs upgrading of senior staff, while four pointed towards capacity building in local partner organisations. NPA stated that MF is not a priority of the organisation, and that new staff would not be recruited in the Headquarter. Thus, there is no need for TA either.

If an organisation is withdrawing from microfinance, such a position is clearly understandable. However, if an NGO intends to keep microfinance as one activity area, it is imperative that the organisation has a certain level of capacity in assessing, monitoring and managing microfinance. Failed microfinance schemes have unfortunate repercussion for both the individual and the society, and every precaution must be taken to avoid failure.

Based on the experience from this survey, it is our opinion that some of the NGOs need further training in basic portfolio understanding and management. Microfinance knowledge capacity seems to have grown only slowly in some of the NGOs since the last stocktaking in 2002. Norad should assess introducing performance based support that makes proper reporting obligatory. This reporting must of course be adapted to organisations that do more untraditional microfinance.

Main Sources of Information

Improving microfinance knowledge and staying updated on professional developments is much easier than it was just 5-6 years ago. Now, most information like for instance appraisal and auditing tools can be found on the web. Eight of the NGOs confirm they use the net actively, even though not all appear to use it to its full potential.

The majority states that they use CGAP⁵ (Gateway, “best practices”) as a main source of information. But also a number of other references to the web and information sources are mentioned, e.g. Yahoo discussion groups, articles in local Finance Net, Road to Wealth, AMFIE, Global MF network etc.

It could be considered whether Norad should establish a separate MF Website, into which salient data on the portfolio administered by each funded partner, are entered by them as part of the required annual reporting. Such a website could also include links to “best practice” and recommended tools. The upkeep of the site should partly be left to the partners receiving finance, and it should allow for exchange of views and experience. Most likely one of the bigger MF NGOs could have administrative responsibility.

⁵ To what extent that information source had been used by one of the respondent, could be questioned, since it referred to the use of the “Seagap webpage”.

3.2 Accountability & Monitoring

This is tied into the issue raised above, about technical capacity. All institutions say they have some sort of a monitoring programme, from professional systems like the AMFIU Performance Monitoring Tool, which is an advanced institutional performance-based system originating in Uganda, to simplified versions of the CGAP reporting system, Grameen reporting, CASHPOR, or self-designed monitoring systems. Outside auditors, audits and evaluators are also used. In fact, six of the 12 institutions responded that they have institutional performance-based monitoring. We cannot verify or check the quality of those systems however.

To what extent the different institutions have readily available monitoring data can partly be deduced from their responses to our questionnaire, however. The biggest one, Strømme Foundation, managed to give almost all portfolio data within the stipulated time limit, while others only managed in its initial response to furnish information on amount disbursed to the project they support. They apparently needed to get both that and other information that we asked for, particularly for this survey.

Information received from some NGOs was not consistent, indicating that they do not have proper control of, or understand the financial data they receive from their local partners. In general, there thus appears to be significant weaknesses in the monitoring ability of several of the NGOs. Weak monitoring capacity unfortunately implies weak accountability systems in the organisations. And if projects are not made accountable for results, performance is likely to suffer. In sum, proper monitoring systems and competent staff that facilitate real insight in the projects should be made a prerequisite for further funding by Norad.

3.3 Exit Strategy

The responses to the questions on exit strategy were disappointing. Six NGOs have no exit strategy from their projects, except for two. The aim of all respondents seems to be to make the implementing partners gradually more competent and self-reliant, but this is seldom concretised. Strømme has a policy to move from grants, through loans, guarantees to equity holding. Normisjon and Misjonsalliansen want to phase out one of their projects in 2006 since they seem to be able to manage on their own. Good project management is of course a key to such phasing out.

It is important that the NGOs take a critical view of their projects in order to see how they can graduate, from donor financed to self-sustained projects, and which path to choose in this respect. They should have a concrete goal and objective for their support, including a threshold after which no more support will be given. It is hardly acceptable that an MF project is run in the same manner year after year, without attempting to reduce the dependency on donor finance and increase self-reliance. This problem is exacerbated further if proper monitoring is missing, and the project is not held accountable for its results.

It should be a stated aim that efforts are made to train local partners to run it independently, to develop new products, to reach new target groups, to reduce dependence on donors through more commitments from clients and local financing institutions. The lack of clearly stated goals for the microfinance operations is worrying.

3.4 Norad Support

On the question on how the NGOs rate the NORAD assistance, NORAD receives very high marks for its funding and general support for MF. However, respondents want the agency to take an even bigger role, and to increase its focus on MF, including allocating more staff (“the current 1/3 is overstretched”) to work with the subject. Naturally, more funds for MF projects were also on the wish list. More TA from NORAD officers in Oslo is recommended by the NGOs, and CGAP should be requested to assist in this respect. It was a clear statement that the MF Network in Norway generally needs more technical content. In light of the above findings regarding for instance technical capacity, it is an easy recommendation to agree with.

Another recommendation coming from the organisations was that NORAD should earmark funds for necessary studies as basis for starting smaller MF projects. Such a feasibility support facility actually already exists in NORAD, for engagements by Norwegian private companies in developing countries. This facility covers 50% of the cost of a feasibility study, and it might be a good idea to extend it to also cover microfinance.

However, as a general recommendation based on the experience and findings of the current inventory it is proposed that NORAD carefully reviews its funding of the MF sector. Stronger accountability and performance criteria need to be built into the current system as a prerequisite for further funding. Important areas that need strengthening are dedication to implement self-sustained MF projects, staff competence in the NGOs, proper monitoring systems and a proven track record in selection of local partners. For each project to be funded a “progression” path with exit options should be indicated. Possibly, such an application system could lead to fewer but more professional NGOs to be funded. This would normally be less demanding for the already over-stretched capacity in NORAD, even at a higher level of funding.

3.5 Main Difficulties Encountered

The questionnaire included a general question about the main difficulties the NGOs faced in their microfinance operations. We got a highly diverse set of answers.

One group of answers is related to the fact that many of the NGOs work with multifunctional institutions that have microfinance as only one of their activities. Some of these institutions have recently split their MF operations off the main operation, but these may still struggle with the organisational legacy.

Thus, the existence of a “charity culture” and the mix of charity with MF are seen by some as a main difficulty they face. It is not easy to turn a charity based institution into a business focussed MFI. But as one remarks, it needs to be done, as “free” credits distort the market. In combination with lack of professionalism (“shortage of strong institutions and managers”) this could be a real threat to an effective, efficient and sustainable operation. Business development services and capacity building could possibly alleviate some of these problems, but only if there is agreement about the underlying premise of becoming a financially self-sustaining institution.

In the same vein, two NGOs say that it is difficult to deliver MF as an independent mechanism, while at the same time liaise and coordinate with other development efforts. This may either be within the same organisation, or with external development actors. Many thus see microfinance as only a part of a broader development effort.

The other main group of responses as to what difficulties NGOs face, is a combination of factors already well known in microfinance. Capacity and staff shortages, cost coverage challenges, market competition, technical challenges as for instance identifying good software for portfolio control and follow-up, are some of the difficulties listed. Several NGOs work in rural areas where low population density creates logistical problems and increases costs.

Challenges related to the macro-environment are also on the list. One NGO states that the absence of a national policy to integrate institutions with regulatory provisions with non-banking sector has been a problem.

Not surprisingly, the delivery of sustainable MF is in particular difficult in post-conflict/disaster areas. To their credit, many NGOs focus precisely on such areas, and are thus faced with other – and more severe - problems than MFIs in more normal settings.

In general, while the problems of running efficient microfinance within larger multi-development projects still haunts several NGOs, more “normal” microfinance challenges are now listed as difficulties. This is, we believe, an indication of a slow, but sure professionalisation of the sector.

3.6 Lessons Learned

A main message from the respondents is that MF works. Poor people are capable of changing their economic and social situation, although it is difficult to target the “ultra-poor”. This is very much in line with international experiences.

Savings is as important as credit, and several contend that there should be no mix with charity, again a sign of a maturing Norwegian MF sector. In particular women, who in general are the best clients, appreciate the savings component. Other lessons listed are fully in line with what is now considered best practices:

- The use of professional, specialised and sustainable implementing partners is a key to success.
- The operation must be cost-effective, both because MF is quite expensive/time consuming and because competition is stiff. But efficient operation might be difficult to achieve, and cost recovery is the only way beyond donor financing.
- Accurate, standardized performance information is imperative, both financial and social information (e.g., number of clients reached and their poverty level). Donors, investors, banking supervisors, and customers need this information to judge their cost, risk, and return.
- Continuous training and capacity building at all levels in the MF organisation, and of the target group, are required. However, it is difficult and one NGO that works primarily with rotating savings type of MF said training of clients to understand simple accounting was not easy.
- An aim is to integrate MF in the formal banking system. Only then it will reach a maximum of poor people. The governments' role is policy, creating an enabling environment and control, but not to provide MF.
- Constant monitoring is required.

With regard to more specialised and “frontier MF issues”, a couple of NGOs say that disabled and disadvantaged people, who often have managed to get concessionary rates on certain services, must expect to pay the same for services as others if they want to access permanent financial services. MF is also found suitable to build community and household assets in dry and drought-prone areas.

It is important to have good knowledge of the laws and regulations governing MF in the respective country. The poor needs a lot of financial services and a lot of innovation and new products are required to get further outreach.

4 Donor Aid Effectiveness

Norway has been involved in supporting microfinance for at least 20 years, but the profile of that support has changed dramatically. The findings of our inventory should be interpreted in the light of the changes in policy that have taken place. These changes are therefore briefly discussed below. The ToR also asks us to briefly assess “effectiveness of the microfinance portfolio”, and we have some comments particularly regarding the instruments currently in use for microfinance support.

In 1985 NORAD was one of the pilot donors to Grameen Bank contributing funds over the bilateral country framework programme, while Norwegian NGOs at that time were a minor channel of resources to microfinance. Now, the situation is exactly the reverse, with the bulk of the money going through NGOs, while direct assistance from NORAD is restricted to a few initiatives, none – with the exception of Sri Lanka - involving retail savings and credit.

Changing microfinance setting

There are probably several reasons for this long term shift of emphasis. One is simply that NGOs during the early 90s started to embrace microfinance as a useful tool, and thus increased their relative involvement in the sector. Another may be the lack of a clear Norad/MFA strategy for microfinance development during much of the period. A central plan for how to support microfinance was missing until the Norad Position Paper came out in 2003.

The initial initiative to support big players like Grameen, BRAC and the PRIDE network was all coming from the Embassies in question, and not from NORAD centrally. Thus, when support to these organisations was stepped down in the mid to late 90s, there was no central push to find new microfinance support areas for direct Norad/MFA assistance.

At the same time, international experience started to crystallize in what is now called “best practice”, and the professionalisation of the sector that followed was never quite matched in policy - or indeed by resources - from NORAD. Donors and the MFIs had by now become more conscious of what worked and what did not, and what as a minimum was required to have a fair chance of success. As one started to realise that Norad as such had few comparative advantages in international microfinance, prudence started to take hold, and after the final transformation support to PRIDE Uganda and PRIDE Tanzania were completed (2002/2003), there was to be no new involvement at the retail level of microfinance for NORAD and MFA. This was most likely a sound decision.

Finally a Policy

The limitations in the public Norwegian capacity within microfinance were recognised in the paper “Building demand-led and pro-poor financial systems”, that has now become NORAD’s official MF policy paper. In this, the emphasis on NGOs as a major

Norwegian support channel to microfinance is clearly stated.

An important input to the process of making the Position Paper was the CGAP facilitated “Peer Review” of NORAD in 2002. This is a tool intended to encourage aid effectiveness in the microfinance sector through harmonising donors and ensure proper donor practice. The review done of NORAD recommended that:

- ***NORAD should define its comparative advantage*** in supporting microfinance both internally relative to other sectors and *vis-à-vis* other donor agencies, in other words improve our strategic clarity.
- ***NORAD should improve accountability for results.*** NORAD should employ performance-based contracts in microfinance projects and embed incentives for sound practices in the program cycle.
- ***NORAD should engage NGOs on a technical level.*** NORAD should more actively support Norwegian NGOs in improving the quality and effectiveness of their microfinance operations.
- ***NORAD should focus*** on a few areas, e.g. Norwegian NGOs, innovations in African rural finance as well as support to global public goods and industry infrastructure

The Position Paper converted all of these themes into an official NORAD policy for MFI, and this policy has deservedly been praised by both CGAP and Norwegian stakeholders.

With regard to the current portfolio dominated by NGOs, one of the four main areas of the Norad strategy is precisely to **fund local microfinance institutions (MFIs) through Norwegian NGOs**. However, it is also stated that NGOs should employ best practice and that their activities must be professional and follow international standards. In other words, the current strategy presumes that the NGOs are capable of being sound microfinance players.

The CGAP Peer Reviews

The Peer Reviews have so far examined the modus operandi of 17 bilateral and multilateral agencies. This has resulted in focusing⁶ on what is called five core elements of donor effectiveness:

- 1) strategic clarity and coherence,
- 2) strong staff capacity,
- 3) accountability for results,
- 4) relevant knowledge management, and
- 5) appropriate instruments.

⁶ “Elements of Donor Effectiveness in Microfinance: Policy Implications”, CGAP, April 2004.

CGAP points out that a minimum level of performance in each of the five elements is critical for donor effectiveness in microfinance. The Position Paper together with the Peer Review recommendations sketch a strategic framework for how NORAD should proceed it's work in these 5 areas. Several initiatives are under way, of which this Inventory is one.

One area that deserves more attention is the limited staff resources employed by NORAD on microfinance. The current microfinance advisor is possibly using not more than 1/3 of her time on microfinance, and much of this is not technical work, but rather administrative. With limited resources, she has done a highly commendable job, but there are limits as to how far it is possible to stretch 1/3 person-year.

NORAD should thus in our opinion increase its internal microfinance capacity. In addition, NORAD should consider entering a strategic alliance with another likeminded agency with more staff resources on microfinance. The Swedish Sida is one suggested candidate.

Appropriate Instruments

There is however, one other microfinance effectiveness area we believe needs consideration, namely the microfinance instruments. As of today, NORAD has no particular instrument for microfinance. The NGOs are funded over the "Civil Society" budget, and many have so-called framework contracts that run for several years. These framework contracts cover all the projects a particular NGO runs, and microfinance is often only a small part of the total. The application process is in these cases highly standardised, and appraisal responsibility to a large degree delegated to the organisations themselves. The rationale for this procedure is straightforward, namely that NORAD cannot use scare administrative resources to check every individual initiative that the NGOs want to fund.

Thus, microfinance projects are often presented in the framework applications in the same format as all other projects (that includes initiatives ranging from clean water to emergency assistance). There is no particular microfinance assessment shown, unless the NGO itself presents the microfinance project in a different way. But the current NORAD application format makes that difficult, as does reporting, that is also standardised in accordance with the application procedures. Consequently, the current contracting procedures risk not taking proper account of the fundamental differences there are between a MF project and, say, building a school.

This absence of particular treatment of microfinance in both applications and reporting makes the current framework funding of microfinance to an unwieldy and unsuitable instrument. As far as we know, it is quite possible to tailor the contracting process under the framework agreement model to be more tuned to microfinance peculiarities, but this takes time, a very scare resource in NORAD. It does not seem to have happened to a very great degree.

We recommend that microfinance projects for the future are treated as special elements in the NGO framework application process, with more stringent requirements, including performance clauses as alluded to above. This includes requirements for transparent MF reporting that allows comparison across the MF field for the Norwegian actors. This will make the current NGO grant system a more powerful and effective microfinance instrument than it is today.

The challenge in this regard is to make a system that also caters to those NGOs that do more experimental types of microfinance, and that does not respond well to classical performance criteria like repayment ratios and clients per staff. Thus, reporting needs to some degree to be flexible and adaptable.

There is in addition need for more particular microfinance instruments, outside of the normal NGO allocation – even though NGOs would be prime users. We have two ideas, both which would need more elaboration before being eventually implemented.

- **Microfinance technical assistance fund**, where microfinance actors on a cost-sharing basis can apply for funds to be used for technical assistance and training of their own organisations – both at the home office and locally. Performance and relevance criteria need to be built in, to reduce the often seen phenomena of supply driven (and inappropriate) training. Improving technical skills are a must for better microfinance operations, and such a mechanism might contribute to alleviating the problem.
- **Microfinance Frontier Fund**, which would be a mechanism that funds research, pilots, feasibility-studies, etc in connection with what can be termed frontier microfinance. In broad terms, frontier would mean microfinance innovations in areas (in both geographical and technical sense) that have yet to be covered by mainstream MF. Typical examples would be microfinance in resource poor, conflict and disaster areas, rural/agricultural microfinance, or MF for particularly vulnerable and/or poor groups. The objective would be to encourage innovation, in line with the current NORAD policy.⁷

We would suggest that the Fund disburses money through an annual tender procedure, where MF organisations bid according to specified criteria. This will avoid a large application based bureaucracy, and would allow the Fund to change focus and emphasis from year to year through flexible tender criteria.

NORAD and the MFA lack good capital instruments, with no arrangements for guarantees, loans or equity investments. They are consequently not well placed for funding of pure portfolio growth of MFIs, as grants are less suited for such purposes. Interested stakeholders are referred to NORFUND, but loans from this DFI have proved

⁷ NORAD “intends to focus on pro-poor innovations, rural and agricultural finance, and leverage its resources through partnerships with other stakeholders.”

costly and hard to get. However, getting NORAD to reintroduce loan instruments is a long road, and one with larger policy implications than for MF alone. We thus leave this issue as one “for consideration”. Funding portfolio growth of well performing MFIs is not on the current MF policy agenda.

5 Recommendations

Microfinance remains a substantial sector in Norwegian development assistance, with about 10 mn USD provided from NORAD and the MFA in 2004. The trends we saw a few years back have become even more pronounced, in that NORAD is becoming an insignificant direct funder, that the NGOs dominate the project list, and that one particular NGO – Strømme – is growing into the clearly largest Norwegian microfinance actor with 49.4% of total disbursement in 2004.

This survey does not tell us anything about the quality of the portfolio, but if the quality of the responses to our survey is anything to go by, quite a few NGOs may have struggling projects at their hands. The reassuring thing is that the biggest - Strømme – not only delivered within the time frame, but also had almost all required information included. The biggest thus also appears as the most professional.

However, this study has revealed several areas that need improvement, and MF is an area where operational performance is critical for aid effectiveness and efficiency. Most of our recommendations have been explained already, but they summarise as follows:

- NORAD should carefully review its general funding practices of the MF sector. Stronger accountability and performance criteria need to be built into the current system as a prerequisite for further funding. The current policy implies that NGOs should employ best practice and that their activities must be professional and follow international standards. This also holds for more untraditional types of microfinance. To improve the situation, we suggest as follows:
 1. A new format for applications for microfinance projects should be introduced within 1-2 years. From then on, microfinance projects will be treated as special elements in the NGO framework application process.
 2. This application format will be matched by a regular reporting format that shows performance of selected indicators at both the project and the NGO level. Portfolio information like what we asked for in this survey will be obligatory to deliver on an annual basis for those organisations where it is relevant. For others, like those that mainly provide technical assistance to small groups, different sets of criteria needs to be worked out.
 3. The contract – be it framework or not – between Norad and the concerned NGO will include performance clauses on reporting and possibly also on operational parameters. Those NGOs that do not report satisfactory may then see their funding cut next year for that particular project.

We do not propose these procedures to primarily make difficulties for the NGOs, but because all our experience within this sector has told us that close monitoring and supervision of performance is a key prerequisite to effective microfinance management

- It could be considered whether NORAD should establish a separate MF Website, into which salient data on the portfolio administered by each funded partner, are entered by them as part of the required annual reporting. Such a website could also include links to “best practice” and recommended tools.
- NORAD for its part should :
 1. Generally implement the Peer Review recommendations.
 2. This, however, presumes that NORAD employs more internal staff resources to microfinance. This is a critical issue for improving overall microfinance operations, as many of the current weaknesses will be hard to address without more NORAD staff.
 3. In addition, NORAD should consider entering a strategic alliance to pool technical resources with another likeminded agency with more staff resources on microfinance. The Swedish Sida is one suggested candidate.
- To assist the improvement process, we have two new suggestions for microfinance instruments:
 1. **Microfinance technical assistance fund**, where microfinance actors on a cost-sharing basis can apply for funds to be used for technical assistance and training of their own organisations – both at the home office and locally.
 2. **Microfinance Frontier Fund**, which could be a tender based mechanism that funds research, pilots, feasibility-studies, etc in connection with what can be termed frontier microfinance.

Annex 1

Terms of Reference

for

Inventory of Microfinance Activities Supported by Norway

1. Background

The Consultative Group to assist the poor (CGAP) is a consortium of donors working together to build sustainable financial services for the poor. It was formed in 1995 to develop and share best practises, set standards and develop tools and models. Over time, CGAP has become a recognised centre of excellence providing services and information to a wide array of industry actors engaged in building the microfinance industry.

CGAP has now grown to 29 members, including bilateral and multilateral agencies as well as private foundations. Norway has been a member of CGAP since its inception in 1995.

As a member of CGAP, Norway has agreed in principle to standards of microfinance good practises. Among the conditions of membership, Norad is committed to:

- Adopt and actively promote implementation of standards and basic principles of donor support to microfinance as outlined in CGAP consensus documents including “Building Inclusive Financial Systems. Donor Guidelines on Good Practises in Microfinance”, Dec. 2004.
- Agree to open the institution to sharing experiences with other donors, including providing aggregate information on its portfolio of microfinance activities, reporting on how it is applying the consensus documents, and providing contact information for all staff working in microfinance. This information is to be submitted to CGAP on an annual basis prior to the CGAP annual meeting.

In 2002, CGAP launched its aid effectiveness initiative, using microfinance as a test case: *Microfinance Donor Peer Reviews*. Norway participated in the reviews. The Microfinance Donor Peer review addressed aid effectiveness from the perspective of focusing on what donor agencies could most directly influence: their own procedures, practises, processes and systems. The reviews were not formal evaluations or detailed portfolio review, but supportive exercises that identified success factors and constraints to good microfinance practise.

As part of the follow-up of the findings and recommendations of the Peer Review of Norad, and Norway's responsibility to comply with CGAP's reporting requirement on microfinance portfolios, Norad has commissioned this inventory to be carried out in September/October this year. The inventory will be done in close cooperation with relevant stakeholders working within microfinance and will mainly be carried out as a desk study combined with questionnaires and telephone interviews. Key reference material for the study comprise: i) previous reviews of microfinance activities supported by Norway, carried out in 1999 and 2000 by Nordic Consulting Group, ii) CGAP's Peer Review Report of 2004, iii) Norad's Position Paper on Microfinance of 2003, iv) CGAP's Donor Guidelines on Good Practice in Microfinance, Dec. 2004.

2. Purpose and objectives of the inventory

The main purpose of the inventory is to establish an updated aggregate overview of the microfinance activities supported by Norway. It is envisaged that an inventory will provide a basis for better understanding of the overall microfinance portfolio as well as a means to enhance the effectiveness of the Norwegian microfinance activities. An inventory will also provide a basis for the improvement of Norad's application and reporting formats in order to enhance Norad's ability to ensure quality control. The work will also comprise i) inputs to the CGAP reporting, and ii) inputs and participation in the Conference on Microfinance in October 2005 ("Bistandstorget").

3. Scope of work

The Consultants shall collect updated information on individual projects/institutions supported by Norway and aggregates for Norwegian support, such as:

- Microfinance portfolio information in USD by each organisation supported by Norway in 2004 (actual), in 2005 (estimate) and planned for 2006:
 - total disbursed,
 - total committed,
 - total loan balance,
 - type of funding (loans, grants),
 - active number of loan clients,
 - active number of savings clients,
 - total loan balance,
 - total savings balance,
 - distribution of portfolio by country/regions

- Type of institutions related to portfolio information above:

- microfinance retail institutions such as NGOs, banks, credit unions, self-helping savings and credit groups, financial companies.
 - apex institutions like national/regional networks, wholesale funds, service providers.
- Type of project such as pure microfinance loan/savings project, component of integrated rural development or poverty alleviation programme, component of a business services development program, technical assistance/capacity building project, enabling environment (legal and regulatory framework) project, commercial capitalisation project (social fund/venture capital), others.
- Instruments used to support microfinance projects
 - grants for capital
 - grants for TA
 - loans for TA
 - loans for capital
 - equity
 - guarantees.

The review shall also provide factual (quantitative and qualitative) information on:

- Accountability for results (by institution)
 - information systems, monitoring and reporting systems (project-oriented vs. institutional, performance-based reporting)
 - exit strategies, if any
- Technical capacity in microfinance (Norad/MFA/institutions)
 - Roles/MF competence of staff and number of staff working on microfinance
 - expressed needs for more technical assistance opportunities
 - Norad's role in disseminating information on sound microfinance practises (CGAP)
- Effectiveness of the microfinance portfolio (Norad)
 - strategic clarity and coherence
 - adherence to international standards (CGAP)
 - type of funding mechanisms
 - information sharing (Norad/institutions) and donor coordination
 - policy and operational weaknesses (Norad, NGOs)
- Any other matter considered relevant to the tasks listed under item 2 above.

- Lessons learned and desired changes,
- Plans for improvements.

4. Time schedule

The inventory shall be implemented during September/October 2005 by a team with relevant institutional, economic, development and professional expertise. The team shall comprise two consultants of which one shall be an international microfinance specialist.

The applied methodology shall be a combination of desk studies of relevant documents, questionnaires (e-mail) and telephone interviews.

5. Reporting

The inventory is to conclude with a concise report (approximately 20 pages, including an executive summary of maximum 2 pages, plus annexes showing portfolio characteristics) with a few prioritised recommendations. In addition inputs to the CGAP reporting and the Microfinance Conference shall be prepared.

A draft report written in English shall be submitted to Norad by the end of October 2005. Following two weeks for comments, the final report shall be submitted by 15th November 2005.

Preliminary findings of the inventory shall be presented to Bistandstorget's Microfinance Seminar on 25th October 2005.

Norad/MN/BNAE/14.09.2005

Annex 2:

Questionnaire

1 Organisation

| | | | |
|--|-------------|-----------------------------|-----------------------|
| Name: Address: Phone: e-mail: Contact person Microfinance: | | | |
| | 2004 | 2005 (year estimate) | 2006 (planned) |
| Your total contribution to MF | | | |
| Total funds received/planned by Norad/MFA for MF projects in your organisation | | | |
| Number of MF projects supported by your organisation | | | |

2 Other information about your organisation

2.1 Accountability for results

Describe briefly the type of information, monitoring and reporting systems used by your organisation to plan, monitor and control your microfinance portfolio, and how effective you find them. Do these systems support project-oriented or institutional performance-based reporting?

Do you have any exit strategy for your microfinance projects?

2.2 Technical capacity in microfinance

- Number of staff in your organisation working with microfinance (full time/part time), and how many years each of them have worked with microfinance:
- Have any of your staff worked in a MF implementing organisation or with MF research, specify:
- Main tasks of staff in your organisation working with microfinance:
- Need for additional microfinance TA to your organisation No, Yes , specify:
- What are the main sources of information regarding international developments within microfinance that you use? Can you point out particular articles, case studies, references, etc that have been of major practical use to you?

2.3 Lessons learned and plans

- Specify main lessons learned from your microfinance projects/activities:
- Indicate main difficulties encountered in your work with microfinance:
- Indicate main desired changes in your microfinance activities/projects, including new products and interventions envisaged:
- Indicate concrete plans for improvements of your microfinance activities in 2006:

- Give your opinion on funding and other assistance (e.g. information sharing) given by Norad:

2.4 Other comments:

3 Microfinance Portfolio Information by Project. Amounts inUSD.

Fill in one questionnaire for each project wholly or partly funded by your organisation/Norway.

| | | | | |
|---|---|--|---|----------|
| Name of Project: | | | | Country: |
| Name of implementing agency/organisation: | | | | |
| Other sources of funding for the project. Give name and approximate USD in 2004: | | | | |
| Type of implementing agency/organisation: <input type="checkbox"/> Government agency/financial institution <input type="checkbox"/> Private Commercial bank <input type="checkbox"/> Co-operative/credit society/union <input type="checkbox"/> Other NGO <input type="checkbox"/> Donor Agency <input type="checkbox"/> Other: | | Type of microfinance project: <input type="checkbox"/> Retail credit <input type="checkbox"/> Retail credit and savings <input type="checkbox"/> Retail equity/quasi equity <input type="checkbox"/> Retail guarantee/loan insurance <input type="checkbox"/> Wholesale credit <input type="checkbox"/> Wholesale guarantee/insurance <input type="checkbox"/> Wholesale equity/quasi equity <input type="checkbox"/> Business Service Development Project <input type="checkbox"/> TA project <input type="checkbox"/> Enabling environment project <input type="checkbox"/> Commercial capitalisation project <input type="checkbox"/> Other: Is the MF project: <input type="checkbox"/> a small component of a wider project/programme <input type="checkbox"/> the main component of a project/programme | | |
| Portfolio information | 2004 | 2005 (year estimate) | 2006 (planned) | |
| Total USD project expenditure/budget | | | | |
| Total USD disbursed by your organisation | | | | |
| Total project loan balance in USD | | | | |
| Total project savings balance in USD | | | | |
| Number of active loan clients in the project | | | | |
| Number of active savings clients in the project | | | | |
| Type of funding to the project by your organisation | % loan funding: % grant funding: | % loan funding: % grant funding: | % loan funding: % grant funding: | |
| Other instruments used by your organisation to support the project | <input type="checkbox"/> grants for TA <input type="checkbox"/> loans for TA <input type="checkbox"/> equity <input type="checkbox"/> guarantees | <input type="checkbox"/> grants for TA <input type="checkbox"/> loans for TA <input type="checkbox"/> equity <input type="checkbox"/> guarantees | <input type="checkbox"/> grants for TA <input type="checkbox"/> loans for TA <input type="checkbox"/> equity <input type="checkbox"/> guarantees | |