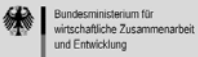




AID EFFECTIVENESS INITIATIVE MICROFINANCE DONOR PEER REVIEWS

FEBRUARY 2004

Summary Matrix: Findings and Recommendations



eventeen development
encies participated in
e Microfinance Donor
eer Reviews as part of
aid effectiveness
tiative to improve
nor practices.

LIST OF AGENCIES PARTICIPATING IN THE PEER REVIEW EXERCISE

Donor Agency	Date	Donor Reviewers	CGAP Reviewers
Bilateral Agencies			
Agence Française de Développement (AFD)	10-14 March 2003	Camilla Bengtsson, Sida Roland Siller, KfW	Brigit Helms Eric Duflos
Canadian International Development Agency (CIDA)	9-13 June 2003	Ross Croulet, AfDB Kate McKee, USAID	Jennifer Isern Eric Duflos
DANIDA	28 April-1 May 2003	Doris Wong, CIDA Kathy van Daeniken, SDC	Xavier Reille Eric Duflos
Department for International Development (DFID)	13-17 May 2002	Kate McKee, USAID Leila Webster, World Bank Group	Brigit Helms Alexia Latortue
Gesellschaft für Technische Zusammenarbeit (GTZ)	14-18 July 2003	Nimal Fernando, AsDB Craig Churchill, ILO	Alexia Latortue Eric Duflos
Kreditanstalt für Wiederaufbau (KfW)	14-18 Oct 2002	Anne Clerc, AFD David Ferrand, DFID	Syed Hashemi Alexia Latortue
Netherlands	19-23 May 2003	Bernd Balkenhol, ILO Mavis Owusu-Gyamfi, DFID Sanjay Sinha, EDA Rural Systems	Syed Hashemi Alexia Latortue
Norwegian Agency for Development Cooperation (NORAD)	4-7 June 2002	Gabriela Braun, GTZ Stav Zotalis, AusAID	Brigit Helms Alexia Latortue
Swedish International Development Agency (Sida)	20-24 May 2002	Richard Roberts, FAO David Stanton, DFID	Brigit Helms Alexia Latortue
Swiss Development Corporation (SDC)	18-22 Aug 2003	Dirk Steinwand, GTZ Johan de Waard, Netherlands	Brigit Helms Eric Duflos
US Agency for International Development (USAID)	10-18 Nov 2003	Richard Boulter, DFID Henri Dommel, IFAD	Brigit Helms Eric Duflos
Multilateral Agencies			
African Development Bank (AfDB)	6-10 May 2002	Camilla Bengtsson, Sida Stephan Boven, EBRD	Elizabeth Littlefield Alexia Latortue
Asian Development Bank (AsDB)	8-12 July 2002	Henri Dommel, IFAD David Stanton, DFID	Syed Hashemi Alexia Latortue
European Commission (EC)	24-28 March 2003	Henri Dommel, IFAD Gisela Strand, Sida	Brigit Helms Eric Duflos
International Fund for Agricultural Development (IFAD)	17-21 June 2002	Heather Clark, UNCDF/UNDP Hege Gulli, NORAD	Douglas Pearce Alexia Latortue
International Labor Organization (ILO)	10-14 Feb 2003	Hege Gulli, NORAD Peter Kooi, UNCDF/UNDP	Brigit Helms Alexia Latortue
UN Development Programme and UN Capital Development Fund (UNDP and UNCDF)	21-25 Oct 2002	Nimal Fernando, AsDB Arlina Tarigan-Sibero, KfW	Brigit Helms Alexia Latortue

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INTRODUCTION

Tackling aid effectiveness is one of the biggest challenges facing the international development community. Early in 2002, the Consultative Group to Assist the Poor (CGAP) joined with former U.K. Secretary of State for Development Clare Short to launch a unique aid effectiveness initiative using microfinance as a test case: Microfinance Donor Peer Reviews. Championed by Ministers and Heads of Agencies, 17 development assistance agencies participated in the review exercise.

Although microfinance represents a small percentage of the budgets of most agencies, it is an appropriate focus for the reviews. All participating donors have agreed in principle to standards of microfinance good practice, but their performance on the ground does not uniformly reflect their commitment. Also, as a consortium of 28 bilateral and multilateral donors and foundations dedicated to developing financial services to the world's poor, CGAP was well-positioned to facilitate and document the reviews on behalf of donors and to provide follow-on technical support.

The Microfinance Donor Peer Reviews addressed aid effectiveness from a different perspective. Rather than concentrate on constraints at the country level (governance, corruption, macroeconomic instability, etc.), the reviews focused on what donor agencies could most directly influence: their own procedures, practices, processes and systems. Reviews were not formal evaluations or detailed portfolio reviews. Rather, they were supportive exercises that identified success factors and constraints to good microfinance practice. Participating donor agencies especially appreciated the review team composition of two senior technical staff from donor agencies and two CGAP staff (not consultants). This feature made the exercise collegial, fostering great candor and deepening mutual understanding among agencies.

The five-day reviews culminated in briefings to top management and staff on the last day. The briefings and feedback provided the basis for letters to management with findings and recommendations. Specific implementation of the recommendations are underway at most agencies. In a noteworthy commitment to transparency, all 17 participating agencies opted to publicly disclose their letters.

The reviews demonstrated that many of the challenges faced by agencies are not technical, but structural and organizational. Solutions require the firm support and commitment of donor agencies' leadership. Top management response to the Peer Reviews has been overwhelmingly positive. In a letter to UNDP Administrator Mark Malloch Brown, Poul Nielson, European Commissioner of the European Community wrote, "I can only say that every agency should be encouraged to implement the recommendations of the Peer Review." Ultimately, success will be determined by the extent to which political commitments translate into changes in organizational culture, behavior and the quality of field operations.

This booklet contains summary matrices from the letters to management. The matrices are organized around the six main areas of inquiry pursued during the reviews: strategic clarity and organizational culture; technical expertise and resources; organizational structure and flows; instruments and incentives; project cycle; and future microfinance operations. The matrices present the analysis of agencies' strengths and challenges with respect to applying good practices, and outline specific recommendations for change. The findings and analysis have proved relevant for agencies' efforts to improve effectiveness beyond microfinance.

These matrices and the full text of the letters are also available on the "Donor Effectiveness – Donor Peer Reviews" section of the CGAP website (www.cgap.org) along with several synthesis papers on the Peer Reviews and an update on actions agencies are taking to improve their effectiveness.

I. STRATEGIC CLARITY AND ORGANIZATIONAL CULTURE

Strategic clarity refers to the extent to which there exists an agency-wide vision of microfinance and how it relates to broader development goals. It also considers whether the vision and agency policies are in line with accepted standards of good practice. A good microfinance policy is not a guarantee that a shared and coherent vision exists; even the best policy has little value unless it is internalized by operational staff. Organizational culture encompasses the values, norms and assumptions that affect donor staff behavior, their interactions with each other and their relation to their work. Change is as much about organizational culture as it is about structures and procedures.

A. Bilateral Agencies

Agence Française de Développement (AFD)

Analysis

- Microfinance is considered a strategic priority in the overall AFD 2002-2006 strategy
- Liquidation of Credit Mutuel de Guinée and subsequent reports have created uncertainty about MF
- The vision on the purpose of MF differs throughout the organization
- The new financial sector strategy, CIS (Cadre d'Intervention Sectoriel) includes a microfinance section consistent with good practices
- CIS is not yet mainstreamed and lacks linkages between MF and financial sector
- AFD transition creates tension between traditional culture and new structure, and between banking/risk minimizing and development/risk taking mentalities
- Incentives trend towards large projects and fewer sectors could marginalize microfinance

Recommendations

- Identify a high level microfinance champion who can re-affirm top management commitment to microfinance
- Confirm the role of microfinance within financial sector development and build linkages with other sectors to avoid isolation
- Develop a two page note to operationalize the CIS
- Build ownership on CIS, refine and disseminate it through its implementation in two or three countries
- Open up to outside influences through participation in international for a
- Identify solutions to reduce transactions costs and adapt funding size to market demand

Canadian International Development Agency (CIDA)

Analysis

- CIDA contributed to the development of credit union models
- CIDA plays a significant role in Africa with support to some of the largest MFIs in West Africa
- Staff are open to constructive criticism, and CIDA has launched at least three self assessments on its strengths and weaknesses
- Staff put more and more emphasis on the needs to focus on sustainability of microfinance operations
- CIDA does not have a clear vision or strategy for microfinance

Recommendations

- Build a strategy for microfinance, involving a large number and array of staff
- Base strategy on existing documents and other donors' work
- Increase competitive bidding and untie contracting process as part of the strategy
- Clarify linkages between microfinance and CIDA's larger strategic priorities
- Leadership needs to support and disseminate the strategy

DANIDA

Analysis

- The 1999 guidelines for supporting financial services reflect good practices
- Staff vision of microfinance is unclear, often perceived as an input to agriculture programmes rather than a segment of the financial sector
- DANIDA incorporated its recent microfinance initiatives within financial sector development
- DANIDA puts emphasis on private sector development

Recommendations

- Articulate the vision in a one page concept note with an emphasis on building sustainable institutions tied to the overall financial sector
- Embed microfinance into DANIDA's new private sector approach
- Ensure that staff and partners understand and internalize the vision

Department for International Development (DFID)

Analysis

- Very consistent "big picture" vision of development and DFID's approach (MDGs)
- Less clarity on the role of microfinance within the larger picture
- Lack of coherence in how financial services might fit into difficult settings (rural finance, post-conflict, humanitarian situations, etc.)
- "Microfinance" as a concept not widely understood and often marginalized
- Corporate culture values quality technical input
-

Recommendations

- Develop Case Statement that links pro-poor finance to MDGs and DFID priorities
- Reaffirm commitment to pro-poor finance at highest level
- Develop operational guidance: "how to" notes, especially for difficult settings
- Commission practical action research to highlight DFID and others' experience

Gesellschaft für Technische Zusammenarbeit (GTZ)

Analysis

- Clear BMZ (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung) Financial Systems Development Strategy in line with accepted good practices
- Widespread understanding of microfinance
- Over-ambitious FSD section agenda

Recommendations

- Concentrate on the three levels of microfinance (micro, meso, and macro)

Kreditanstalt für Wiederaufbau (KfW)

Analysis

- Microfinance clearly seen as part of financial sector
- Conceptual and operational commitment to following international best practices for microfinance (Pink Book)
- KfW supports competition and the use of a variety of approaches (upscaling, downscaling, and greenfielding)

Recommendations

- Refine operational strategy for working on financial sector development
- Provide inputs into BMZ's planned revision of the 1994 FSD policy and strategy paper
- Work more closely with GTZ to develop country financial sector strategy papers and to determine type and sequencing of activities

Kreditanstalt für Wiederaufbau (KfW) cont'd

Analysis

- Staff committed to a FSD approach, though strong focus on retail-level interventions should be linked more closely with wider sectoral issues
- Institutional culture places a high premium on technical skills and identifies with KfW's bank status

Recommendations

- Explore with BMZ the possibility to develop a sector strategy fund (e.g. with other donors) to address more holistically work needed on all levels of the financial sector

Netherlands Development Cooperation System (Netherlands)

Analysis

- Exceptional commitment to poverty reduction and development reflected in 0.8% of GDP going to development cooperation
- The four co-financing agencies (MFOs) demonstrate a clear commitment to poverty alleviation and sustainability
- Lack of Ministry-wide vision shared on the role of PSD and the role of financial services within it results in the marginalization of microfinance within DGIS and its disconnect from the Ministry's broader poverty agenda
- 10 visions of the Platform members, combined with lack of shared vision at the Ministry means that there is little overall clarity
- on microfinance with the development cooperation system
- Dutch microfinance offer may lack coherence to external partners such as governments, donors, and clients
- Without a common vision, the Ministry is ill-equipped to provide strategic leadership and operational guidance to the Platform
- Each Platform member's conviction of their unique contribution to microfinance leads to a proliferation of initiatives

Recommendations

- The department in which the focal point is positioned, DDE (Sustainable and Economic Development/Entrepreneurship and Business Development), working closely with all directorates and the Platform Coordinator should facilitate a process to articulate a joint vision on the role of financial services in poverty reduction in a short 1-2 page Vision Statement
- The Minister, Director-General, and DDE Director should signal their support for the Vision Statement in key speeches and ensure that it is widely disseminated
- The Ministry should provide operational guidance to its staff including embassies, and Platform members to ensure the effective delivery of the vision. Guidance could take the form of "how to" notes on topics such as when microfinance is an appropriate intervention, performance-based contracting, and microfinance's link to other sectors such as rural development and health

Norwegian Agency for Development Cooperation (NORAD)

Analysis

- Deep commitment to poverty reduction and clear strategy on how private sector development fits in
- High staff coherence on operational-level policies
- Commitment to recipient ownership and emphasis on partnership consistent with emerging trends in microfinance
- Lack of clarity about what microfinance is and how it fits into NORAD's goals -- no explicit microfinance strategy, policy or standards

Recommendations

- Build on technical department's draft discussion paper to elaborate clear Position Paper that defines what microfinance means to NORAD, how to support it, and NORAD's comparative advantage.
- Reinforce strategy in Position Paper with a clear commitment at the Minister or DG level

Norwegian Agency for Development Cooperation (NORAD) cont'd

Analysis

- Lack of internalization of PSD policy and principles

Recommendations

- Develop “how to” tools/notes and a process of socialization to help management, staff in embassies, regional department, NGOs, MFA and Norfund, its investment fund, to internalize the vision

Swedish International Development Cooperation Agency (Sida)

Analysis

- Clear institutional focus on democratic and rights-based development is consistent with microfinance principles
- Lack of clarity on the role of microfinance within the broader development agenda
- Commitment to sustainability and long-term perspective to development
- Corporate culture of openness, flexibility, personal initiative, and learning in a very flat organizational structure poses both opportunities (innovation and commitment) and potential risks (difficulty closing down projects, insufficient quality control)
- Relatively low appetite for new policies or “rules”

Recommendations

- Communicate microfinance as a cross-cutting contribution to Sida’s goals from the highest levels
- Complement forthcoming private sector and microfinance policies with concrete, “what works ” operational guidelines
- Develop a plan for transitioning Sida’s current microfinance portfolio to be in line with the new more market/PSD approach to supporting microfinance

Swiss Agency for Development and Cooperation (SDC)

Analysis

- SDC Financial Sector Development (FSD) policy reflects good practices
- SDC balances social and economic objectives
- Lack of familiarity and ownership of the FSD policy among staff
- Policy is too abstract for day to day operations

Recommendations

- Illustrate the operational implications of the policy with brief “what works in country X”
- Organize a meeting of senior management to present the main implications of the FSD policy and its linkages with other areas of development

U.S. Agency for International Development (USAID)

Analysis

- International leadership in microfinance
- Microfinance policy that reflects good practice with an institution-building approach
- Private sector approach particularly well suited to supporting microfinance
- Significant political pressures from Congress (earmarking) that limits ability to be strategic
- Unclear relevance of microfinance to USAID priorities
- Constraining microfinance vision and strategy restricts microfinance to microenterprise credit

Recommendations

- Develop a vision that integrates microfinance into financial sector deepening
- Demonstrate how financial sector deepening contributes to USAID’s larger development goals
- Work with Congress to remove restrictive poverty targeting requirements

B. Multilateral Agencies

African Development Bank (AfDB)

Analysis

- Very consistent commitment to poverty reduction
- Less clarity on the vision of microfinance and its potential to contribute to overarching goal
- Organizational culture of resource transfer to target populations fuels complacency about repayment performance of microfinance partners
- Suspicion of role of private sector in development
- Lack of coherence on how financial services might be appropriate for rural areas and the very poor

Recommendations

- Develop Case Statement that demonstrates the impact of microfinance as a powerful tool for poverty reduction and suggests a strategic shift for AfDB in microfinance
- Run informal clinics and workshops on how a permanent financial system for the poor meets with AfDB's goals
- Research innovative solutions for rural finance and serving the poor; leverage relationships with other donors on this topic

Asian Development Bank (AsDB)

Analysis

- Clear focus on poverty reduction and commitment to International Development Goals (IDGs) is underpinned by key policy documents
- Recognition of strong and dynamic private sector as engine of pro-poor economic growth
- Exclusive regional focus and location makes AsDB a knowledgeable, trusted, long-term development partner
- Comprehensive and coherent MF strategy exists but not yet adequately-reflected in operations
- Absence of an AsDB-wide vision of microfinance
- Lack of clarity about microfinance makes it difficult to include it coherently into AsDB's Country Strategy Papers

Recommendations

- Facilitate AsDB-wide dialogue on vision of microfinance including microfinance specialists, non-specialists and senior management
- Draw on the Microfinance Development Strategy (MDS) to craft a 1-2 page Vision Statement that defines microfinance, how it is an integral part of the financial sector and how it relates to AsDB's poverty reduction goals; obtain senior management endorsement
- Develop practical, operational guidance in the form of "what works" and "how to" briefs

European Commission (EC)

Analysis

- The EC lacks the political commitment to apply microfinance good practices
- The 1998 microfinance communication and guidelines reflect good practices but are not applied
- Microfinance is invisible in the strategy and systems, even though the EC portfolio includes over 300 microfinance operations
- The EC lacks a coherent vision with different understanding of MF among staff

Recommendations

- Make a decision on whether EC should continue its involvement in microfinance
- Management and parliament should send a clear message to staff to follow MF sound practices
- Build a common vision of good practices through the MF sub-thematic group, by capitalizing lessons learnt internally and globally, continuing the MF inventory work, building on the MF communication and guidelines in consensus with delegations and partners

European Commission (EC) cont'd

Analysis

Recommendations

- Identify success stories and share them with staff involved in microfinance

International Fund for Agricultural Development (IFAD)

Analysis

Recommendations

- | | |
|--|---|
| <ul style="list-style-type: none">• Focus and commitment to rural poverty reduction• Staff demonstrate mission-driven approach to work• Confusion over what rural finance, microfinance, rural microfinance is at IFAD, and how agricultural finance fits into the picture• Strategic shift in how rural finance is supported has begun, but not yet matched by corresponding shift in institutional culture, processes and systems• Rural Finance policy is not yet reflected in operations• Deep respect for regional specificity results in lack of appetite for policy level guidance and standard performance indicators | <ul style="list-style-type: none">• Craft Vision Statement that defines how financial assets and markets work for the poor• Affirm commitment to the Vision Statement at the highest possible level• Develop operational definitions for what microfinance, rural finance, rural microfinance and agricultural finance are at IFAD• Ensure the understanding and application of the “Decision Tools” through in-house training and consultations• Determine comparative advantage for policy work and focus on the appropriate level (i.e. norms and practices) |
|--|---|

International Labor Organization (ILO)

Analysis

Recommendations

- | | |
|--|--|
| <ul style="list-style-type: none">• Unique tripartite structure offers organized access to social partners and a strong focus on employment creation• Social justice approach to poverty reduction• Decent Work Agenda represents a shared vision for all ILO staff, but implementation lags• Dialogue about links between poverty eradication and Decent Work results in greater openness to engaging with the informal economy, although unease persists among some staff• Microfinance enjoys recent mandate from Governing Body to further integrate financial services into Decent Work• No shared vision, objective and strategy for pro-poor financial services results in its unclear strategic positioning• Often conflicting and frequently narrow views of microfinance within the Office translate into uneven application of good practices• Financial services are not included in Programme & Budget | <ul style="list-style-type: none">• Launch a process with the social partners and colleagues across sectors and regions to build consensus on a vision and objectives for pro-poor financial services• Articulate an operational strategy to underpin the attainment of the objectives. The strategy should emphasize the ILO’s core values and explicitly link activities in financial services to constituents’ interest• Focus operations tightly around the shared vision, objectives, and strategy• Explore desirability/feasibility of incorporating financial services into future Programme & Budgets to give microfinance more responsibility (targets and budget) and accountability (indicators) |
|--|--|

International Labor Organization (ILO) cont'd

Analysis

- Competition for funds may create confusion among donors that receive solicitations from diverse parts of the ILO
- Staff exhibit openness to new ideas that bodes well for internalizing good practices in microfinance

Recommendations

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF)

Analysis

- UNDP's vision: poverty reduction and the MDGs; UNCDF/Special Unit for Microfinance's (SUM) vision: building sustainable financial institutions → visions are compatible with the emerging global vision of microfinance
- UNDP's transformation into a network organization focused on results-based management is positive, but organizational culture, mindset and incentives lag behind
- UNDP is a neutral, trusted, long-term development partner to developing countries and enjoys good access to governments
- "UNCDF Working Paper on Microfinance" and UNDP operational policy reflects internationally accepted good practices
- SUM's niche: young & emerging microfinance markets
- UNDP staff approach microfinance from multiple perspectives leading to the inconsistent application of good practices
- No clear articulation of how microfinance can help UNDP achieve its goal of poverty reduction and meeting the MDGs
- UNDP's limited private sector experience poses challenges to working on microfinance, an inherently private sector activity
- Microfinance does not appear anywhere in UNDP's management structure (Results Oriented Annual Review (ROAR), current Information System, internal audit system
- Institutional culture that emphasizes process and partnerships can lead to a neglect of results

Recommendations

- Develop Vision Statement that defines and links pro-poor financial services to UNDP and UNCDF's core priorities
- Administrator should endorse the Vision Statement and circulate it to all New York and Country Offices
- Integrate pro-poor financial services as a service line possibly under poverty reduction or, should a Private Sector Development (PSD) practice area be created in the future, under PSD
- Engage Resident Representatives and Deputy Resident Representatives to ensure that they fully buy-into the vision statement through specially crafted presentations and messages

II. TECHNICAL EXPERTISE AND RESOURCES

Experience demonstrates a strong correlation between donor agency investments in staff capacity (retaining microfinance specialists, emphasizing on-going training, performance-based hiring and promotion, rewards for good work) and effectiveness. An assessment of an agency's technical expertise looks at whether the number of specialists is sufficient, both within a specialized unit and throughout the agency, to ensure quality operations.. Most agencies have insufficient technical capacity, and the trend toward generalist staff among donor agencies promises to make the problem of in-house technical capacity even more acute. Scarcity of technical capacity raises serious questions on how microfinance projects can be designed, backstopped, and monitored by staff with appropriate knowledge. Outsourcing of technical work, while often a practical solution, does not fully substitute for in-house capacity.

A. Bilateral Agencies

Agence Française de Développement (AFD)

Analysis

- AFD has established a specialized technical department for financial sector and SME development, which supervises microfinance
- Expertise and experience in financial sector development is limited outside of the Department for Finance and Private Sector
- IFI's (ingenierie financière) microfinance team is not yet fully operational and field oriented
- AFD has gained some experience in cross-cutting areas such as rural finance and savings and developed a good understanding of local context, but there is no formal network yet

Recommendations

- IFI microfinance staff should spend more time in the field to prove itself by creating value added to other departments and field offices
- IFI should add one rural finance expert to capitalize and expand existing AFD experiences in rural areas
- Increase cross fertilization within IFI to further integrate microfinance into financial sector
- Secure extra-project funding to hire external know-how

Canadian International Development Agency (CIDA)

Analysis

- CIDA has developed a long experience with recognized executing agencies such as DID, MEDA, SOCODEVI, AKF, CCA, CECI, Coady Institute
- Limited in-house technical expertise and lack of a full time focal point

Recommendations

- Create a full time position for a microfinance focal person in the Policy Branch
- Place specialists strategically
- Familiarize non specialists, especially project managers, on basic good practices

DANIDA

Analysis

- Technical expertise in microfinance is thin with only one focal point spending 20% of his time on microfinance
- DANIDA has a good knowledge of the rural context

Recommendations

- Create a full time MF focal point with MF expertise, responsible for taking leadership, drafting key MF documents, developing as system to select and monitor consultants, building a professional network, creating links with strategic partners

DANIDA cont'd

Analysis

- Staff cannot retain corporate knowledge of the sector because information is held by external consultants
- Staff have difficulty in engaging effectively with external consultants
- External expertise provides uneven quality

Recommendations

- Further train and support the staff in microfinance through the competence center, the internet and in cooperation with other donors

Department for International Development (DFID)

Analysis

- Superior technical capacity in microfinance, especially in the field
- Technical capacity gives DFID credibility with upstream players
- Trend toward recruiting/maintaining generalists rather than specialists
- Trend toward increased outsourcing of technical work risks deskilling of advisors
- Expertise in focal unit is not sufficient to cover all mainstreaming and technical support needs (only 2 people without specific geographical responsibilities)

Recommendations

- Maintain technical skills in microfinance
- Retain 3 staff (with PSD skills, including pro-poor finance) at the center to play a full time support role, and 2-3 world-class specialists (as currently the case) in the field to play a regional advisory role
- Make sure outsourced contracts include explicit opportunities for technical advisors to learn and share experiences

Gesellschaft für Technische Zusammenarbeit (GTZ)

Analysis

- Excellent in-house financial sector expertise
- Active technical exchange at field level
- Leading brand name thanks to its technical expertise and Financial System Development approach, and innovation in savings and policy work
- Trend in sub-contracting creates risks of loss of technical expertise
- Lack of integration of national staff in sector networks

Recommendations

- Balance business acquisition with quality by screening proposals selectively and by having top management send key messages on technical ability
- Have FSD team involved in drafting PPR (Project Performance Review) TORs and composing mission team
- GTZ needs to use outsourced expertise prudently

Kreditanstalt für Wiederaufbau (KfW)

Analysis

- All staff working on microfinance have a finance or economics background
- Staff are highly qualified, motivated, results-oriented, and dedicated to performing quality work
- Trend toward greater specialization
- Substantial investment in training paying off

Recommendations

none

Kreditanstalt für Wiederaufbau (KfW) cont'd

Analysis

- Very competent and accessible MF focal point provides valued technical advice, quality assurance, knowledge management and networking services

Recommendations

none

Netherlands Development Cooperation System (Netherlands)

Analysis

- Broad support for microfinance in Netherlands with an unparalleled diversity of actors involved, including financial institutions, NGOs, universities, consulting firms. Private capital is raised from Dutch citizens on the capital market.
- Unclear role of the Ministry beyond that of financier results in limited technical engagement with Platform members
- Highly dedicated focal point in DDE/OB serves as a valued counterpart in the Ministry for Platform members
- Focal point function is not institutionalized in the Ministry, with crucial focal point tasks performed as a result of personal decision, not institutional mandate

Recommendations

- Define role of the Ministry beyond the distribution of funds by mapping out DDE's client groups and the services they may require. Internal clients include DSI (Social and Institutional Development), DVF (United Nations and International Financial Institutions), the embassies and top management. External clients include country governments, Platform members, other donors, the parliament and the Dutch public
- Ensure continuity of the Ministry focal point function by establishing TORs a position with at least 75% of a person's time set aside for focal point tasks
- Ensure the quality of the focal point; make sure that the position is of a sufficiently high grade to attract top Ministry cadre
- Build up basic microfinance knowledge of Ministry staff through training

Norwegian Agency for Development Cooperation (NORAD)

Analysis

- One full time staff member in technical department insufficient to provide advisory services to NGO and regional department portfolio; dependence on this one full-time person leaves NORAD vulnerable
- Access to limited but competent outsourced expertise (Nordic Consulting Group, among others)
- No plans for expansion of staff, although increasing development assistance budget
- Overstretched staff capacity at embassy-level, where staff manages a diverse portfolio, liaise with the government, does policy work, monitors projects and keeps track of the NGOs
- Leverage scarce technical resources through partnerships with other donors and international

Recommendations

- Increase technical staff capacity by some combination of increased Oslo-based staff, more local embassy-level expertise and outsourcing more time-intensive projects
- Specialist staff should visit projects more regularly to increase learning opportunities and provide more direct technical assistance

Swedish International Development Cooperation Agency (Sida)

Analysis

- Under-resourced but highly effective technical expertise – demand for technical advice exceeds supply
- Positive impact of technical expertise on the quality of project design
- Over-reliance on consultants poses risks of staff deskilling and poor knowledge management
- Building up expertise in housing finance

Recommendations

- Increase core technical team to three full-time specialists in INEC/FINANS, to be shared across other sectors
- Recruit local specialists at embassy level in select countries based on extent of microfinance portfolio
- Encourage and facilitate locally-recruited specialists to play a regional advisory role

Swiss Agency for Development and Cooperation (SDC)

Analysis

- Some staff at SDC have expertise in microfinance, especially among the National Program Officers (NPOs)
- No systematic technical involvement at any stage of the project cycle
- Thin capacity of the FSD team and unclear role for the staff
- False assumption that outsourcing expertise can replace internal expertise

Recommendations

- Build technical competencies within the rotation framework
- Maintain minimum technical expertise for project management by training staff on basic knowledge
- Re-define role of the FSD team to focus its mandate on knowledge management, international liaison, quality assurance in country programs, sectoral strategies and project concept clearance

U.S. Agency for International Development (USAID)

Analysis

- Strong technical capacity and professionalism among all staff
- Commitment to learning as evidenced by opportunities for staff training and history of cutting-edge knowledge generation projects
- Specialized and appreciated focal unit (MD team)
- Fewer and larger Strategic Objectives with more generalist staff increase likelihood of potentially damaging multi-sectoral programs
- Imbalance among MD roles: centrally-managed programs, mission support, and learning
- Unclear relationship between business development services (BDS) and microfinance

Recommendations

- Create a cross-team task force to elaborate Agency-wide vision and conduct joint programs. Prioritize the roles of the MD team:
 - (1) mission and partners support
 - (2) USAID wide learning and staff training;
 - (3) relationship management within and outside USAID; and
 - (4) management of existing centrally funded programs e.g. pilots and research
- Create “How to” notes for difficult environments
- Increase training for non-microfinance specialists so that they can become “intelligent consumers” of technical information

B. Multilateral Agencies

African Development Bank (AfDB)

Analysis

- Focal unit understaffed and cannot do “hands-on” work with operations departments
- Emphasis on academic qualifications over experience; lack of microfinance degree poses question of respect
- Recruitment process for consultants is cumbersome and slow

Recommendations

- Staff up unit (5-7 specialists) to assist in project identification & design, draft Terms of Reference & contracts, develop tools, identify consultants, and facilitate capacity building
- Recruit staff with proven MF technical expertise and familiarity with MDGs
- Create pre-approved roster of MF consultants

Asian Development Bank (AsDB)

Analysis

- Formal finance expertise positions AsDB well to deepen financial services to underserved, poor populations
- Too few microfinance specialists throughout AsDB and only one in the Finance and Infrastructure Division
- Staff are overloaded
- Resources are skewed toward loan processing at the expense of loan administration

Recommendations

- Increase the number of microfinance specialists by one or two persons in the Finance and Infrastructure Division (RSFI)
- Encourage staff working in formal finance and Private Sector Operations Development to develop roadmap for financial systems development that includes microfinance
- Build on past training initiatives to offer two track training: advanced training for specialists and orientations for non-specialists and management
- Introduce minimum training requirement for project officers with a microfinance portfolio
- Create Regional technical assistance projects for de-centralized training to Project Monitoring Unit (PMU) staff and other developing member country stakeholders
- Make more technical resources available to the field; consider hiring local staff with microfinance expertise and outsourcing loan administration support for executing agencies to field-based technical assistance providers in select countries

European Commission (EC)

Analysis

- Staff has a limited level of knowledge of MF, but is committed to training
- There is no technical staff or full time focal point for microfinance

Recommendations

- Appoint at least one full time focal point with MF expertise within the EuropeAID Cooperation Office (AIDCO), and possibly a second one in the F directorate

European Commission (EC) cont'd

Analysis

- The creation of the sub-thematic group in MF could be instrumental in building the EC's technical knowledge
- Deconcentration provides opportunities to contract MF-expertise locally, and free up headquarter's time to increase technical support

Recommendations

- Recruit expertise in regional delegations to help delegations apply good practices and select appropriate partners
- Enlarge the sub-thematic group to include staff from delegations and contract/finance, and train the group in MF good practices

International Fund for Agricultural Development (IFAD)

Analysis

- Expertise of technical staff is high, but with just one person the demand exceeds supply
- Influential internal technical capacity is mostly generalist and country specific experts without sectoral expertise
- Over-reliance on a small group of consultants identified through an unclear selection process and offering uneven levels of quality

Recommendations

- Offer two tracks—basic and advanced—of orientation and training to internal technicians, division heads and Board members
- Send internal technicians who manage significant rural finance portfolios to external, in-depth, technical training
- Build roster of qualified consultants, identifying good performers already in the IFAD network as well as new sources of expertise
- Establish grant for capacity-building of field-based human resources

International Labor Organization (ILO)

Analysis

- Management and staff demonstrate creativity in designing projects that build on the Office's structure and core values
- Well-respected and highly motivated SFP is eager to function as a focal point/resource center for microfinance, but is not universally recognized as the focal point
- Perception that the focal point might not be relevant across the ILO because microfinance is isolated from Office priorities
- Budget structure does not allow for investments in internal capacity building (exception: associate expert program)
- Insufficient technical capacity in microfinance to effectively support MF projects and components
- Multi-disciplinary teams (MDTs) do not appear to include microfinance expertise
- Focal point function is very precarious
- Unstable contracts diverts staff energy to contract renewal and resource mobilization, diminishing effective capacity

Recommendations

- Build on the existing capacity of Social Finance Programme (SFP) to clarify the function of a recognized microfinance focal point/resource center
- Include person-hours and an accompanying budget for spreading good practices in framework agreements with donors
- SFP should cultivate helpful, hands-on relationships with colleagues, offering a mix of services related to the following roles: facilitator, trainer, technical support, resource center, and external representation
- SFP should identify project proposals with microfinance early on
- SFP should develop practical tools & checklists for colleagues who are not specialists in MF

International Labor Organization (ILO) cont'd

Analysis

- Resource mobilization pressure promotes entrepreneurial behavior among staff but may override concerns of quality
- Resource mobilization enables the funding of new and innovative projects in a zero growth context

Recommendations

- Develop a programmatic, pro-active approach to resource mobilization by presenting donors with a comprehensive package for financial services work into which they can “buy-into” wholesale → ILO strategy will then lead funding decisions, rather than funding requirements leading the strategy

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF)

Analysis

- UNDP and UNCDF have privileged access to an internationally-recognized, dedicated microfinance unit, SUM
- UNDP Country Offices that have worked with SUM highly value the technical competence of its staff, roving regional advisors, and vast network of consultants
- SUM offers a varied menu of services for spreading good practices throughout UNDP, including a learning agenda, capacity building program, and technical advisory services
- Not all Country Offices know about SUM and some find the unit too technocratic and somewhat unapproachable
- Potential demand for SUM’s services risks surpassing capacity; SUM lacks a clear strategy, understandable by all Country Offices, to prioritize its work
- SUM operates within an uncertain budgetary environment
- Resident Representatives (RRs) and Deputy Resident Representatives (DRRs) are often technically weak
- Sub-regional Resources Facilities (SURFs) are a means to increase technical expertise, but there is an uneven perception of the quality of advice from SURF advisors reduction and meeting the MDGs
- UNDP’s limited private sector experience poses challenges to working on microfinance, an inherently private sector activity
- Microfinance does not appear anywhere in UNDP’s management structure (Results Oriented Annual Review (ROAR), current Information System, internal audit system)
- Institutional culture that emphasizes process and partnerships can lead to a neglect of results

Recommendations

- Retain the Special Unit for Microfinance (SUM) as a cohesive, global unit with adequate resources and a critical mass of professionals in New York
- SUM’s priority should be to support UNDP in a strategic manner to help improve its portfolio; SUM should develop a more clear strategy for how it will organize its offer of services to the vast network of UNDP Country Offices; specifically, it should find out how best to work with the Sub s
- SUM staff should keep their operational edge by maintaining some strategic direct investments
- UNDP Management should create and mobilize resources for a Microfinance Trust Fund for SUM to manage, gaining the flexibility to work in non-LDCs
- Continue to build on “T” approach
- Conduct a quick cost/benefit analysis to study the feasibility of UNCDF becoming an executing agency

III. ORGANIZATIONAL STRUCTURE AND FLOWS

Analysis of the organizational structure examines whether a qualified microfinance focal point (unit of experts) exists, where it is located within the organizational structure, and how it interacts with the rest of the agency. Focal points embedded organizationally within a financial sector and/or private sector development department tend to be more effective. The existence of fluid information flows among and within technical and operational departments in headquarters and the field has a large impact on effectiveness. Knowledge management, or the creation, dissemination, and utilization of knowledge, ensures that agencies learn from their own and others' experiences to concretely improve operations. Many agencies do not even know exactly how much microfinance they have in their overall portfolio, making improvements very difficult to achieve. Increasing decentralization among donor agencies poses further challenges to ensuring optimal flows of information and experiences.

A. Bilateral Agencies

Agence Française de Développement (AFD)

Analysis

- Technical staff has insufficient resources to fulfill its multiple tasks
- There is no system or network to capture available internal and external knowledge

Recommendations

- Build and animate a network of AFD specialists who can disseminate the strategy, capitalize experience, help in project identification, and train other staff on MF
- Open up AFD to outside influences through co-funding and hiring international consultants & operators
- Set up help-desk to spread good practice in a way that can be used by field offices

Canadian International Development Agency (CIDA)

Analysis

- CIDA plays an active role in donor agency coordination
- CIDA depends highly on external consultants, including for project monitoring
- Project managers have most decision making power in project cycle
- Fast rotation of project officers, limited cross fertilization among branches, and lack of tools create barriers to learning and applying lessons

Recommendations

- Enhance knowledge management by building on existing tools to share lessons learnt, contacts and good practice information

DANIDA

Analysis

- Current decentralization process will get DANIDA staff closer to the clients
- The current structure does not enable effective promotion and supervision of MF operations
- DANIDA has no formal structure to capitalize and exchange knowledge and lessons learned

Recommendations

- Local microfinance operations supervision within a private sector or business development team

Department for International Development (DFID)

Analysis

- Focal unit exists and has strong technical capacity
- Very strong knowledge of local conditions through decentralized structure
- Role of the focal unit is unclear with respect to both internal and external functions, and its institutional home under the reorganization of Policy Division
- Efforts to mainstream good microfinance practices throughout DFID could be improved
- Focal unit is not aware of all DFID projects with finance components, especially in countries/regions without enterprise advisors
- Information flows not sufficient to ensure knowledge generation and sharing within and outside of DFID
- Strong collaboration with other donors and stakeholders

Recommendations

- Clarify role of the London-based advisors, both internal functions and external
- Mainstream good practices to non-specialists: more orientation and training, knowledge management, internal engagement with non-specialist staff, knowledge of portfolio
- Act as service center to specialist advisors
- Continue to outsource grant contracts like the challenge funds to free up advisory time
- Build knowledge management and feedback loops into technical advisors' workplans (20% of their time)
- Place enterprise advisors under market-oriented teams in the reorganization
- Engage selectively with multilateral organizations in microfinance, possibly through brigaded staff to DFID

Gesellschaft für Technische Zusammenarbeit (GTZ)

Analysis

- Active technical exchange at field level through regional technical networks
- Strong demand orientation with high level of decentralization and investments in understanding local contexts
- FSD section is perceived as isolated
- FSD Section's role outside of program design and evaluation is insufficient
- Uneasy cooperation with KfW

Recommendations

- Build on knowledge management foundations internally and externally
- FSD to establish closer links with the rest of GTZ by building bridges with WIRAM and providing technical advice to priority areas
- Capitalize on the synergy with KfW
- Include backstopping function in the mandate of the FSD Section

Kreditanstalt für Wiederaufbau (KfW)

Analysis

- Centralized structure raises questions of how KfW can best work at the macro level
- Field offices are not uniformly seen to have a strong operational and policy mandate
- Placement of financial sector competency center in the Europe and Caucasus department poses potential risks
- Strong internal networks and information sharing

Recommendations

- Maximize use of local offices for strategy setting, project management, donor coordination and policy work; consider opening new offices, if appropriate
- Build-in time in the Terms of Reference of competency center coaches to reflect their global role; allow sector team leaders from other regions to comment on the annual performance evaluations of the coaches

Norwegian Agency for Development Cooperation (NORAD)

Analysis

- Technical Department very effective in updating the mindset of staff
- Culture of openness to dialogue and technical advice
- Focus and responsibility with embassies (decentralization) yet more than 75% of staff in Oslo
- Explicit trust in NGOs leads to arms-length management and little quality control

Recommendations

- Clarify staff roles on country teams with respect to the quality control process
- Strengthen technical departments' service center role
- Increase technical department's proactive mainstreaming functions, especially regarding training and sensitization of NORAD management and staff
- Keep track of the overall microfinance portfolio and its quality; complete and maintain inventory
- Outsource management of more time-consuming projects

Netherlands Development Cooperation System (Netherlands)

Analysis

- Establishment of the Dutch Microfinance Platform reflects the Ministry's and institutions' commitment to improve the effectiveness, efficiency and transparency of the microfinance offer
- Uneven technical expertise within the Platform results in variances in the quality of the institutions' work in microfinance
- Innovative institutional arrangements between MFOs, Dutch commercial banks and other actors offer creative possibilities to support microfinance and leverage institutions' strengths
- Information flows remain inadequate among Platform members. Coordination regarding interventions at the country or institution level are mostly ad-hoc
- Arms-length management of the MFOs raise questions about the Ministry's accountability for results
- Mechanisms for extracting lessons and translating them into action are absent, resulting in lost opportunities to generate greater innovation and impact

Recommendations

- The Platform should assume key focal point roles as a complement, but not a replacement, to the Ministry microfinance focal point
- The Platform should define and prioritize its roles and draft an annual work plan including specific outcomes for each activity. Possible roles include coordinating training; setting up a central repository on Dutch microfinance; facilitating technical information sharing; developing tools for microfinance; promoting innovations; finding opportunities for joint operations; and advocacy.
- The Ministry should establish a small, flexible fund to support the Platform's mandate on a cost-sharing basis. Part of the fund should be used to pay for the services of a dedicated (perhaps part-time) person.
- Improve knowledge management to feed back information about internal and external experiences
- Provide more tailored and condensed materials

Swedish International Development Cooperation Agency (Sida)

Analysis

- Microfinance specialists are placed in the financial sector department
- Lack of clarity regarding the role of the Stockholm-based microfinance team
- Field vision (decentralization) will intensify the challenges to the central unit to maintain quality control
- Limited knowledge exchange between microfinance specialists and generalists and between Stockholm and field operations
- Explicit coordination with other donors and partners

Recommendations

- Continue to embed microfinance in financial systems and market-oriented disciplines
- Clarify the role of the central microfinance unit
- Involve central unit in recruitment decisions for specialized local staff
- Intensify training of non-specialist staff to raise awareness and stimulate increased demand for technical advice
- Introduce a formal “helpdesk” function (which core activities should be located in-house though certain tasks and areas of expertise could be outsourced) for advice throughout the project cycle
- Enhance knowledge management function, both internally and externally
- Increase leverage through working with other donors and partners

Swiss Agency for Development and Cooperation (SDC)

Analysis

- Recent efforts to conduct portfolio reviews but the knowledge of the portfolio is still limited
- Experience in technical networks and dissemination of good practices
- Increased though still insufficient cooperation with its partner SECO and other agencies
- Unclear roles, incentives and instruments for knowledge management
- Knowledge management is head office based and does not integrate cooperation offices experience

Recommendations

- Encourage the development of selected professional networks and incorporate National Program Officers (NPOs) in these networks with appropriate resources
- Design instruments to disseminate know how within the agency and externally in a way that builds on the knowledge developed in the field
- SDC should promote itself as a flexible partner for other donors

U.S. Agency for International Development (USAID)

Analysis

- Accountability for results through the MRR system
- Global outreach with over 40 missions active in microfinance
- MD stuck in the “poverty box”, limiting USAID’s ability to lead on financial sector deepening
- Need for greater engagement between MD and the rest of EGAT
- Unbalanced knowledge sharing among head office and missions

Recommendations

- Create a network on financial sector deepening
- Include learning and information sharing in everyone’s terms of reference (not just Washington)
- Consider whether the current USAID/EGAT structure matters in the process of developing a financial sector deepening vision
- Explore linking MRR to the Microfinance Information eXchange

B. Multilateral Agencies

African Development Bank (AfDB)

Analysis

- Lack of consensus on appropriate institutional home for focal unit
- Lack of consensus on whether specialized staff should be concentrated or dispersed among operations departments
- Uncertainty on whether and how the unspent Technical Assistance Funds (TAFs) funds remain earmarked for MF and who will control them
- Weak links and low trust between focal unit and operations department
- Focal unit does not view internal functions as priority
- Focal unit has little knowledge of projects with credit components (disbursement, repayment rates)
- Little to no microfinance—or finance—capacity in operations departments
- Heavy travel schedules and work loads inhibit ability to acquire knowledge of new areas and skills

Recommendations

- Place focal unit in PSD, subject to PSD’s interest, and harmonize the title of head of unit with the rest of AfDB nomenclature
- Retain TAF allocated to AMINA (pilot microfinance technical unit)
- Assign staff from focal unit as dedicated resource to support operations departments
- Include input from operations departments on annual focal unit staff performance appraisal
- Establish a profile for central unit staff; stress qualities such as energetic, good communications and interpersonal skills, results-oriented
- Phase out projects managed by focal unit; keep portfolio with operations
- Offer regular in-house trainings on basic principles of microfinance
- Develop operational “what works” notes
- Disseminate internal and external models and sound practice case studies to emulate

Asian Development Bank (AsDB)

Analysis

- Microfinance focal point in the Finance and Infrastructure Division provides high-quality technical advice to regional departments
- Unclear whether the important Regional and Sustainable Development Department (RSDD) has sufficient authority and resources to fulfill its broad mandate
- Structural relocation of microfinance is not yet matched by appreciation of how microfinance really fits into the financial sector; some staff are concerned that microfinance will become marginalized over time
- Rural and Microfinance Committee provides an as-of-yet unexploited crucial link between RSDD and regional departments
- Progress on cross-regional communication has been made, but far less cross-sectoral exchange occurs
- Vast amounts of information is collected, but requires tailoring and prioritization to meet project officers’ needs

Recommendations

- The Finance and Infrastructure Division (RSFI) should build strong partnerships with both microfinance specialists and non-specialists in regional departments
- Use the Rural and Microfinance Committee more actively to develop systematic mechanisms for learning and mainstreaming
- Move from raw material dissemination to the production of tailored, brief, and more operational information, including 2-page technical briefs
- Capture lessons learned from rural finance and leverage ground-level experiences with other donors for innovation

European Commission (EC)

Analysis

- MF is omnipresent in AIDCO (Europe Aid Cooperation Office) with at least 270 microfinance projects within 17 departments
- The EC has limited knowledge of its MF portfolio, despite the recent efforts of the sub-thematic group to track existing operations
- Deconcentration could improve understanding of MF needs at the local level and increase exchanges with other donors

Recommendations

- With external support, the sub-thematic group could identify simple rules of the game that draw from the communication and guidelines
- Identify which partners and instruments can be used and how financial regulations have to be interpreted
- Integrate checklists for standards into existing systems and draft a practical handbook on how to design and implement specific types of MF projects

International Fund for Agricultural Development (IFAD)

Analysis

- The technical advisory division is a purely advisory division to support regions
- Ad-hoc technical input in design phase
- No field presence
- Flat organizational structure with few career advancement opportunities
- Limited cross-fertilization within and among regional divisions inhibits learning
- Weak feedback loops from field to Rome result in insufficient learning and loss of knowledge of ground-level innovations

Recommendations

- Strengthen proactive mainstreaming role of the Technical Advisory Division and the Rural Finance Advisor
- Write internal case studies on successful models and projects, and disseminate widely
- Use the Rural Finance thematic group actively for knowledge acquisition and dissemination
- Develop an interactive website, following the model of Technical Advisory Division/Human Health and Nutrition
- Establish small, grant-based flexible fund to support innovations

International Labor Organization (ILO)

Analysis

- Internal walls between and among sectors makes it difficult to address cross-cutting issues and to promote teamwork
- Mismatch between the sectoral location of most staff with microfinance expertise and the concentration of the greatest number of projects; consultation that takes place tends to be ad-hoc and based on informal contacts
- Culture that permits professional differences and conflicts to persist, stifling open communication among colleagues

Recommendations

- The Social Finance Programme (SFP) should build a microfinance network composed of key persons both in Geneva and the field for the two-way exchange of information; SFP would learn about the different activities and realities from colleagues in other departments and sectors

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF)

Analysis

- Highly de-centralized UNDP values local knowledge which is useful for developing client-responsive financial services
- UNDP's decentralized structure presents challenges for quality assurance across 166 UNDPs
- Uncertain how the small, largely centralized Special Unit for Microfinance can best serve the highly decentralized UNDP
- Culture of distrust and Country Office reluctance to engage with headquarters
- Information infrastructure exists (networks), but UNDP faces challenges in ensuring that appropriate knowledge is created, shared and used for decision-making

Recommendations

- SUM should increase the number of regional advisors in strategic regions to provide decentralized services to Country Offices
- SUM should segment the market of potential clients within UNDP and craft messages to reach all levels, focusing on senior management, Resident Representatives, and Deputy Resident Representatives
- Establish clear criteria for how Country Offices can access each type of service offered
- SUM should publicize its menu of services via existing mainstream UNDP media
- Build in time for knowledge management in UNDP staff's Terms of Reference

IV. INSTRUMENTS AND INCENTIVES

A wide range of instruments is required to support microfinance well. These instruments include grants, loans, loan guarantees and equity participation and are used for a wide range of purposes. An agency's instruments are appropriate if they can be used to work directly with the private sector. The extent to which the agency can accommodate small projects focused primarily on the institutional strengthening of private sector entities is also critical. Effective instruments are used flexibly and over a long time frame, with disbursements linked to the attainment of clear performance goals. Credit components of larger multi-sector programs have not generally performed well, and should be phased out unless they conform to good practices. Aligning staff incentives with the appropriate use of instruments translates into minimizing approval and disbursement pressure.

A. Bilateral Agencies

Agence Française de Développement (AFD)

Analysis

- Full range of funding instruments relevant to funding microfinance operations (grants, concessional loans, guarantees and equity participation)
- Grant instruments, such as preparation grants, lack flexibility and can not easily finance capacity building, sectoral studies and regional work
- Staff might also be tempted to launch more multi-sector projects for which credit component might not receive appropriate attention

Recommendations

- Match funding instruments with types of financial institutions and their level of maturity
- Utilize the full scope of instruments in the context of a sector approach in 2-3 pilot countries
- Seek to co-finance projects with partners that have complementary instruments (MAE and others)
- Set aside funding outside of country framework for small technical assistance interventions

Canadian International Development Agency (CIDA)

Analysis

- Widespread embedded credit components especially through counterpart funds create quality problems
- Over-reliance on “responsive mechanism” limits competition, internal accumulation of competence and innovation
- Disbursement pressure leads staff to push funding out quickly at the expense of quality

Recommendations

- Take action on problem areas such credit components and low performing projects
- Launch agency-wide review of current operations in microfinance
- Use grant instruments to focus on building retail institutions
- Entrust policy work to international financial institutions

DANIDA

Analysis

- DANIDA has proven record of cooperation with other donors (co-funding)
- Funding instruments show flexibility with unallocated funds
- DANIDA is willing to invest in the long term

Recommendations

- Work through new strategic partnerships who have complementary funding instruments and high technical capacity

Department for International Development (DFID)

Analysis

- Very appropriate and flexible grant instruments used to promote sustainable microfinance institutions with a performance-based approach
- Willingness to take a certain amount of risk and promote innovation
- New Development Act offers possibility of using non-grant financial instruments for microfinance
- Trend toward budget support and sector-wide approaches via the PRSP process may not be conducive to good microfinance programming
- Incentives trend toward large-scale programs and upstream policy work

Recommendations

- Adopt a two-pronged “PRSP Plus” approach to development assistance
- Within PRS process, ensure private sector input, sound technical content, and pro-poor finance contribution
- Retain flexibility to make complementary investments, even if they might be small
- Explore potential of using non-grant financial instruments for microfinance
- Build in mechanisms to ensure grounded, field-based experiences to underpin credibility for upstream work

Gesellschaft für Technische Zusammenarbeit (GTZ)

Analysis

- Budget constraints compromise quality
- Limited accountability from the field
- Incentive system is still un-developed

Recommendations

- GTZ should develop incentives to retain and motivate technical staff

Kreditanstalt für Wiederaufbau (KfW)

Analysis

- Purchase of Deutsche Entwicklungsgesellschaft (DEG) provides greater flexibility to make equity investments
- KfW successfully enters into strategic partnerships with GTZ and other donors to augment its limited grants
- Mandates from donors to manage international funds for financial sector work capitalizes on KfW’s strong technical capacity and increases declining aid budget
- Willingness to use its own capital to make loans enables KfW to respond quickly to opportunities without requirements such as state guarantees
- Risk that main instrument drives strategy in financial sector work, rather than the strategy driving the use of instruments
- State guarantee requirement compromises KfW’s ability to work in a “business-like,” private sector way and reduces responsiveness
- Exit strategy for greenfield banks remains to be defined; greenfield projects are not very deeply rooted in local context--most microbanks are still young and neither locally owned, governed and managed

Recommendations

- Consider with BMZ possibility of obtaining blanket approvals for FSD strategies at the country-level with an accompanying budget commitment
- Engage BMZ in discussions on the possibility of abandoning the state guarantee requirement when the flow of development cooperation monies is directly to a private sector entity
- Think strategically about exit strategies from the beginning, including various scenarios such as trust funds, employee stock ownership plans, and management buy-outs
- Address pro-actively the issues of capacity building and governance

Netherlands Development Cooperation System (Netherlands)

Analysis

Recommendations

- Wide range of instruments for microfinance available in Netherlands (grants for capitalization technical assistance, short and long-term loans in both hard and local currency, guarantees and equity) allows the choice of instrument to be properly matched and sequenced to institutions' needs
- No incentives for technical experts, and the one career path is to become ambassador (generalist position)

None

Norwegian Agency for Development Cooperation (NORAD)

Analysis

Recommendations

- | | |
|--|--|
| <ul style="list-style-type: none">• Questions about the quality of NORAD's portfolio, especially credit components of larger projects• Unclear if incentives exist to apply sound practices• Grant instrument not always appropriately used, unsystematic inclusion of exit strategy in design and use of performance-based contracts• Norfund offers possibility of equity investments in institutions and international funds• Budget structure too rigid, lack of global budget lines does not allow for funding of international capacity building structures, funds, etc. | <ul style="list-style-type: none">• Prioritize improvements in current portfolio, both working with NGOs and internally• Introduce incentives for sound practices into the program cycle, specifically by posing a few questions at the Director level• Reinforce incentives by ensuring that embassy and regional department staff performance is evaluated by those who know their work• Incorporate performance-based contracts with clear exit strategies as a standard• Explore more close cooperation with Norfund |
|--|--|

Swedish International Development Cooperation Agency (Sida)

Analysis

Recommendations

- | | |
|--|--|
| <ul style="list-style-type: none">• Difficult to ensure quality of credit components in multi-activity projects (rural and urban), mainly due to confusion over project goals• Trend toward increasing programme budget while holding staffing levels constant may increase disbursement pressure | <ul style="list-style-type: none">• Reinforce trend towards selecting specialist implementing partners for financial services components• Increase use of performance-based contracts which hold partners accountable for results, and make extra funding conditional upon meeting targets• Ensure an exit strategy in all financial support contracts |
|--|--|

Swiss Agency for Development and Cooperation (SDC)

Analysis

- Commitment from SDC to building knowledge among staff
- Insufficient focus on results and impact and uneven monitoring systems
- Limited incentives to build expertise within a generalist structure

Recommendations

- Create incentives and promote mutual benefits for knowledge management by rewarding staff who excel in this area

U.S. Agency for International Development (USAID)

Analysis

- Consistently largest bilateral program funding levels among the agencies reviewed
- Congressional earmarks and poverty targeting measurement isolate and restrict USAID's microfinance initiatives
- Political pressure to commit large amounts quickly
- Perceived trend of reliance on a few US contractors
- Concerns over flexibility and costs of AMAP IQC mechanism
- Complex and inefficient MD budget process and regional resource allocation

Recommendations

- Showcase integration of microfinance into multi-sector Strategic Objectives
- Study current umbrella program effectiveness
- Integrate IGPs more fully in mission work
- Widen choice of implementing partners
- Promote flexible use of AMAP
- Incorporate knowledge sharing by contractors in RFPs from missions
- Reconsider onerous MD budget process

B. Multilateral Agencies

African Development Bank (AfDB)

Analysis

- Credit lines to governments and implementation managed by Project Implementation Units not effective
- Disbursement pressure since task managers are informally assessed on the number of projects presented to Board
- AfDB staff risk adverse due to Board-level pressure to improve overall portfolio of Bank
- AMINA staff (except director) are consultants without full benefits leading to lack of motivation

Recommendations

- Structure instruments to ensure selection of existing, specialized implementing partners for credit components
- Introduce performance criteria that hold partners accountable for results and disburse against attainment of performance targets
- Allow reallocation of unused credit components
- Provide 1 to 2 year contracts with full benefits during transition, then offer regular Bank positions

Asian Development Bank (AsDB)

Analysis

- Quality of microfinance projects appears to be patchy
- Question of how main instrument—credit lines to government—can effectively support the development of sound microfinance
- Considerable approval pressure and emphasis on volume can lead to compromises in quality, artificially inflated loan sizes and insufficient front-end technical inputs in design
- Performance appraisal systems reward staff—at least in part—based on the volume of loans processed

Recommendations

- Develop a tracking system to ensure that the Finance and Infrastructure Division is aware of all credit components in multi-sector projects; restrict such components when possible
- Perform portfolio reviews by region to obtain better knowledge of the microfinance portfolio
- Prioritize technical resources to improve operations in the three countries that account for 60% of the microfinance portfolio
- Build incentives for staff to actively participate and contribute to the committees

European Commission (EC)

Analysis

- Most EC instruments are inadequate for funding microfinance as they emphasize government ownership; MF is traditionally best implemented by private organizations
- Grant resources can complement other donors instruments (such as loans and equity) especially to finance technical assistance and capacity building
- EC has built some successful strategic partnerships with other donors (e.g. EBRD, AFD, KfW and EIB)

Recommendations

- Work through strategic partnerships
- Leverage grant instruments of the EC with other donors instruments (loans equity) in the context of strategic partnerships
- Work through strategic partnerships
- Leverage grant instruments of the EC with other donors instruments (loans equity) in the context of strategic partnerships

International Fund for Agricultural Development (IFAD)

Analysis

- Main instrument—credit lines to government—presents challenges to demand-led approach to developing financial markets and services
- Grant facilities (e.g. Technical Assistance Grant (TAGs)) provides some flexibility to directly support innovative initiatives
- Flexible lending mechanism offer the flexibility to introduce performance-based criteria and conditionality clauses in loan agreements
- Considerable approval pressure
- Unclear incentives for quality—no reward for good work, no sanction for poor performance

Recommendations

- Explore increasing the percentage of grant funding in the overall IFAD budget and/or limiting grant funds for use by good practice projects
- Establish a small, grants-based fund to support innovations (e.g. IFAD-CGAP Rural Pro-Poor Innovation Challenge)
- Encourage the more widespread use of the flexible lending mechanism and conditionality clauses in loan agreements to introduce performance-based criteria

International Labor Organization (ILO)

Analysis

- Disincentives are in place for staff collaboration within and between sectors

Recommendations

- Assign a small working group the task of devising a system that allows for joint ventures between departments/sectors and pooled sharing of resources

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF)

Analysis

- UNDP's main instrument, grants, are very flexible and conducive to supporting financial services for the poor
- UNDP has the ability to support relatively small projects
- Mismatch of incentives for staff to mobilize resources and develop close relationships with governments on the one hand, and to ensure the quality of operations on the other
- Highly-valued Resident Representatives' career track that emphasizes process and partnerships serves as a disincentive for staff to specialize
- Incentives for good programming are weak or non-existent

Recommendations

- Encourage stand-alone microfinance projects whenever possible
- Offer incentives to encourage staff to seek specialist advice and to increase their microfinance knowledge such as offering scholarships and highlighting good performance in UNDP publications
- The Special Unit for Microfinance (SUM) should co-invest with Country Offices, providing incentives for adherence to good practices

V. PROJECT CYCLE

Effectiveness depends critically on ensuring that quality assurance and accountability are built into every phase of the project cycle. Appropriate technical inputs are most crucial at the early stages of the project cycle; microfinance projects are best designed by those with financial or private sector backgrounds. However, much donor funding in microfinance originates with non-microfinance specialist staff, without systematic incorporation of technical inputs. The degree to which projects are designed and implemented with performance-based management and monitoring systems is another determinant of effectiveness.

A. Bilateral Agencies

Agence Française de Développement (AFD)

Analysis

- The quality of portfolio seems uneven and needs to be taken with caution, since no specific indicators have yet been developed for MF
- The existing portfolio rating tool provides a potential basis to build microfinance performance tracking system.

Recommendations

- Track performance by developing specific MF indicators that can be linked with global reporting frameworks (such as the MIX)
- Include indicators in performance based contracts with implementing partners
- Improve standards and quality control by developing standard Terms of Reference and check list of technical issues which need to be raised for new project & project phase

Canadian International Development Agency (CIDA)

Analysis

- Lack of performance-based management prevents CIDA from measuring the success of its operations in the sector
- CIDA has limited knowledge of its portfolio, but there is evidence of uneven quality of the portfolio, with several low quality operations

Recommendations

- Require inputs from a suitably qualified CIDA technical specialist on every project with microfinance
- Develop common key performance indicators for microfinance operations
- Create user-friendly minimum standards check-lists of dos and don'ts
- Negotiate and enforce performance contracts with Canadian Executing Agencies and consultants

DANIDA

Analysis

- The guidelines are not utilized by the staff
- DANIDA does not have a consistent performance monitoring system for microfinance to
 - (i) be accountable for results
 - (ii) learn lessons; and
 - (iii) make appropriate funding decisions

Recommendations

- Develop a list of “dos and don'ts” that spells out basic requirements for formulating a successful microfinance operation
- Draft a two-page “what works” operational note to explain the steps to follow for each type of operation
- Include the above documents in the aid management guidelines

DANIDA cont'd

Analysis

Recommendations

- Develop a performance framework by (i) drafting a simple set of microfinance specific indicators; (ii) incorporating indicators in key documents; (iii) analyzing the indicators; (iv) comparing them with global benchmark; and (vi) using them for management decision

Department for International Development (DFID)

Analysis

Recommendations

- Where enterprise advisors exist on the ground, qualified technical staff influence the design of projects at the right time and right place
- Insufficient monitoring of project results and learning from experiences
- Ensure systematic third party evaluations of microfinance projects
- Compile, synthesize, and analyze monitoring information already collected in the field through a simple portfolio tracking mechanism

Gesellschaft für Technische Zusammenarbeit (GTZ)

Analysis

Recommendations

- Lengthy project development processes
- FSD team should develop microfinance specific performance and impact indicators
- Make full use of technical networks by engaging them further in project preparation and evaluation

Kreditanstalt für Wiederaufbau (KfW)

Analysis

Recommendations

- Lion's share, if not all, of microfinance projects emanate from the financial sector teams
- Dependence on one service provider for most all greenfield work raises issues of over dependency and may stifle learning about other approaches
- Lack of automated central system for tracking performance of microfinance portfolio reduces learning opportunities
- Implement idea to create a technically-based "quality at entry" committee
- Automate the collection of global portfolio data for cross-learning
- Plan strategies to preserve program knowledge during the transition to the new structure

Netherlands Development Cooperation System (Netherlands)

Analysis

Recommendations

- Ministry has limited information on most funding channels, and has virtually no means to ensure that good practices are incorporated in operations
- Ministry currently has no microfinance-specific selection criteria or due diligence for the institutions its funds
- Build on trend toward more result-oriented funding of MFOs by investigating simple ways to introduce sector-specific budget lines
- Select four questions to screen applications of institutions that have in the past, or plan to in the future, engage in microfinance

Netherlands Development Cooperation System (Netherlands) cont'd

Analysis

- Accountability is largely defined in financial terms, with little accountability for the quality of results in the Ministry
- Weak monitoring systems provide limited information at the Ministry level about the content and performance of the portfolio

Recommendations

- Do not approve generalist MFO applications for new microfinance programs unless the institution has a proven track record

Norwegian Agency for Development Cooperation (NORAD)

Analysis

- Civil Society department portfolio completely delegated to NGOs
- Technical inputs are not given to all projects systematically
- Embassies responsible for overseeing implementation generally overstretched and staffed by generalists
- Insufficient performance-based monitoring

Recommendations

- Provide technical assistance to NGOs, including potentially funding a dedicated specialist and/or introducing a capacity-building fund
- Develop criteria for the review of applications from NGO projects with credit components
- Complete application and reporting formats for NGO projects
- Monitor performance against performance targets

Swedish International Development Cooperation Agency (Sida)

Analysis

- Ad hoc technical inputs into design of credit components in multi-sector projects
- Important Project Committee and departmental technical approval committees not focused on microfinance
- Weak project monitoring and knowledge management

Recommendations

- Integrate questions about microfinance into Project Committee and departmental review committee guidance via the updated "Sida at Work" publication
- Improve monitoring of microfinance projects by integrating simple performance targets into the new Sida project rating system

Swiss Agency for Development and Cooperation (SDC)

Analysis

- Apparent commitment to good practice in FSD projects operations
- Hidden rotating funds integrated in non-financial development projects
- Lack of criteria for project exit strategies

Recommendations

- Mandate the FSD team to provide technical resources at the earliest stages of every project that includes financial services
- Apply performance based agreement with local partners and régisseurs
- Systematically build exit criteria at the design stage
- Strengthen performance monitoring based on existing systems by drafting and monitoring key indicators

U.S. Agency for International Development (USAID)

Analysis

Recommendations

None

None

B. Multilateral Agencies

African Development Bank (AfDB)

Analysis

Recommendations

- | | |
|---|--|
| <ul style="list-style-type: none">• Governments' involvement in project origination means that politics can influence project design• Governments can stall negotiations until projects reflect their wishes• Majority of design done by economists without finance skills• Monitoring is very weak due to an absence of information on the credit portfolio• Board is introducing quality control by posing detailed questions on credit components, but it is too late in the project cycle | <ul style="list-style-type: none">• Ensure technical input in early stages of project inception and design• Participate in policy and enabling environment work (Country Strategy Programmes, PRSPs)• Formalize and publicize criteria used by Board so quality control occurs prior to Board meetings, e.g. a criterion could be whether the intermediary charges commercial interest rates• Create internal database for microfinance and help build indicators into LAFs• Backstop task managers during project cycle |
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Asian Development Bank (AsDB)

Analysis

Recommendations

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| <ul style="list-style-type: none">• Credit components are not always visible to the Finance and Infrastructure Division and do not get sufficient technical attention• Comments on quality come much too late to make serious modifications to project designs,• Performance monitoring is not a priority for anyone and tends to be activity-based, resulting in a lack of information on financial intermediaries' performance | <ul style="list-style-type: none">• Adopt 3-5 simple performance indicators for mandatory reporting on all MF projects• The Finance and Infrastructure Division should offer active, operational, technical support at all stages of the project cycle, and especially in the early stages (Country Strategy and Programmes, Project Preparatory Technical Assistance (PPTA)) |
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European Commission (EC)

Analysis

Recommendations

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| <ul style="list-style-type: none">• The financial regulations are unclear to the staff with regard to ownership of accrued interest and credit lines at project end• EC is developing quality controls (QSG) and monitoring systems (CRIS) which could ensure higher quality in the future• MF operations lack specific quality standards and performance indicators | <ul style="list-style-type: none">• When credit is attached to priorities in the CSP, include a checklist for QSG, standard reporting requirements, and clear performance indicators• Encourage transparent reporting by institutions supported by the EC, through existing international systems (such as the MIX: www.mixmarket.org)• Develop special calls for proposals for NGO supported microfinance projects, with simple guidelines and do's and don'ts checklists• Set up MF quality control and evaluation standards within existing systems |
|--|--|

International Fund for Agricultural Development (IFAD)

Analysis

- Project development cycle, though complex and not always exploited, offers potential for technical inputs and quality assurance
- Rural finance may be “lost” amongst other project objectives if a component of larger, multi-sector projects
- Mandatory Technical Review Committee (TRC) technical review often creates an adversarial relationship between the Technical Advisory Division and the Rural Finance Advisor and Programme Management Department (PMD)
- Unclear mandate and time for implementation support; little capacity building for implementing partners and influence over cooperating agencies
- Limited information on performance of financial intermediaries
- Cooperating agencies provide activity-based rather than performance-based monitoring information

Recommendations

- The Technical Advisory Division and the Rural Finance Advisor should offer its informal, helpdesk services outside project development cycle
- Support rural finance as a discrete project whenever possible
- Set-up separate budget category for rural finance components of projects
- Develop and publish basic questions to ask of all projects with finance components
- Improve partner selection and monitoring
- Undertake regular regional portfolio reviews
- Retain a core group of roving consultants for increased technical support to the field
- Establish 3-4 simple “less is more” reporting indicators for all rural finance projects

International Labor Organization (ILO)

Analysis

- Risk that donors’ priorities drive technical cooperation projects, resulting in a lack of strategic programming, little control over quality, and lost opportunities for learning
- No discernable project cycle and dispersed project origination makes it difficult to identify the most appropriate timing for technical inputs
- Absence of guidance from senior management about need to consult with technical experts/focal point when designing projects
- Quality assurance mechanisms are very weak during project origination, design, approval, and implementation, especially for credit components within multi-sector projects
- Insufficient knowledge of the content and performance of the microfinance portfolio
- Expanded partnerships with key donors (DFID, Netherlands)

Recommendations

- Design financial sector umbrella projects at the field or regional level that cover the breadth of the ILO’s possible interventions; this approach would increase the coherence of operations on the ground and reduce the transaction costs linked to piece-meal resource mobilization
- Partner with professional, specialized financial institutions for financial service delivery
- Avoid revolving funds
- Establish a system to identify the portfolio of both microfinance stand-alone projects and credit components
- Track performance of key indicators for all projects with credit components and perform trend analysis

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF)

Analysis

- Uneven application of standards across UNDP microfinance projects

Recommendations

- Conduct a UNDP-wide microfinance portfolio review; prepare for the review by defining criteria to identify the portfolio

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF) cont'd

<i>Analysis</i>	<i>Recommendations</i>
<ul style="list-style-type: none"> • Inadequate knowledge of the portfolio makes it difficult for UNDP to meet the challenge of results-based management • systematic mechanisms to ensure that microfinance projects or components receive technical inputs do not exist • Their Special Unit on Microfinance (SUM) has helped closed down poorly performing projects in the UNCDF and UNDP portfolios 	<ul style="list-style-type: none"> • Define and implement a post portfolio review action plan to clean up and consolidate the portfolio • Define and introduce a few, carefully selected microfinance performance standards in the management results framework (ROAR, ERP) • Incorporate microfinance expertise early on & often

VI. FUTURE MICROFINANCE OPERATIONS

A. Bilateral Agencies

Agence Française de Développement (AFD)

<i>Analysis</i>	<i>Recommendations</i>
<ul style="list-style-type: none"> • AFD could lose experience built in rural microfinance and savings-led MFIs • AFD could become a benchmark donor in microfinance 	<ul style="list-style-type: none"> • Operationalize the vision of integrating MF into financial sector development • Build new models for rural finance based on experience in rural development and financial sector approach • Allow experimentation while focusing on financial sector approach • Open up more actively to international debates and influences

Canadian International Development Agency (CIDA)

<i>Analysis</i>	<i>Recommendations</i>
<ul style="list-style-type: none"> • Limited comparative advantage in microfinance 	<ul style="list-style-type: none"> • Focus involvement with fewer countries, fewer types of higher quality operations employing equal or fewer resources

DANIDA

<i>Analysis</i>	<i>Recommendations</i>
<ul style="list-style-type: none"> • Further budget cuts could affect the quality of the supervision for microfinance operations 	<ul style="list-style-type: none"> • Management should decide the level of future involvement in microfinance (expansion, consolidation, or reduction). • Develop partnerships with market leaders in a few pilot countries

Department for International Development (DFID)

Analysis

- Organizational trends (PRSP/budget support, large programs, upstreaming, outsourcing, etc.) present trade-offs with microfinance programming
- Unclear vision of microfinance (as well as other areas of private sector development) going forward

Recommendations

- Retain microfinance as an important part of the overall strategy to achieve MDGs
- Avoid pressure to de-emphasize microfinance when DFID has a strong leadership role

Gesellschaft für Technische Zusammenarbeit (GTZ)

Analysis

- Commitment to cooperate with other development assistance agencies

Recommendations

- Continue to ground policy work in retail experience
- Expand work on savings, regulatory frameworks and rural finance
- Seek partnerships with other cooperation agencies pro-actively based on its comparative advantage in the sector
- Explore cooperation with German private companies

Kreditanstalt für Wiederaufbau (KfW)

Analysis

- Little engagement with some market segments, including very poor clients and those living in rural areas
- Unclear what KfW's comparative advantage is in African markets and to a lesser extent in Asia
- KfW's income structure does not appear to match with the transactions costs of its microfinance practice; continued support of microfinance could be vulnerable should the political tide change

Recommendations

- Consider potential expansion in Africa and Asia with caution; base any new activities on a clear vision of what KfW can contribute; leverage gtz and other donors to explore new models and sequence activities
- Obtain greater transparency on the costs of supporting microfinance projects; decisions to finance projects should not be made solely to maximize profitability but also on potential development impact
- Pursue creative financing mechanisms to reduce aggregate KfW transaction costs, including regional trust funds, supporting apexes, etc.

Netherlands Development Cooperation System (Netherlands)

Analysis

- No clear rationale underlying the engagement of four generalist, multi-sector MFOs in microfinance

Recommendations

- The Platform should launch an exercise to help its members determine their comparative advantage in microfinance and align activities with their comparative advantage. Members should then jointly determine the competitive advantage of their institution *vis-à-vis* other institutions

Norwegian Agency for Development Cooperation (NORAD)

Analysis

- Questions about NORAD's comparative advantage in microfinance exist. Is it though working with NGOs? In supporting global public goods? In supporting small retail institutions? Innovations?

Recommendations

- Consider using flexible grant instrument to promote innovation in rural finance in Africa.
- Increase leverage working with other donors, national and international networks, and expertise

Swedish International Development Cooperation Agency (Sida)

Analysis

- Trend toward better practices in urban projects, and avoiding credit components in rural projects

Recommendations

- Consider specializing in housing finance, rural finance, co-financing stand-alone microfinance projects with other donors, and selected industry infrastructure programs to leverage limited resources, flexible instruments, and agile operational style

Swiss Agency for Development and Cooperation (SDC)

Analysis

None

Recommendations

- Further increase its cooperation with SECO
- Remain involved in policy dialogue through enhanced in-country donor cooperation
- Build up linkages between cooperation offices and the Swiss banking sector

U.S. Agency for International Development (USAID)

Analysis

None

Recommendations

- Identify and act on comparative advantage in microfinance
- Launch a financial sector deepening initiative via a cross-team task force

B. Multilateral Agencies

African Development Bank (AfDB)

Analysis

- Trust of member country governments
- Staff has strong knowledge of local realities
- Africa's investment bank

Recommendations

- Explore comparative advantage in enabling policy environment work
- Explore comparative advantage in innovation building on indigenous informal finance
- Explore comparative advantage in loans/equity investments in commercially viable MF institutions

Asian Development Bank (AsDB)

Analysis

- Sizeable financial and human resources, and influence provides comparative advantage in policy work
- Private Sector Operations Development offers new possibilities for collaboration

Recommendations

- Consider using non-grant financial instruments such as equity investments to provide long-term support in financial services for the poor

European Commission (EC)

Analysis

- MF requires small projects, high level of labor-intensive technical inputs, a private sector approach, flexible instruments and long term commitments
- It is questionable whether EC has presently any comparative advantage in working in the microfinance sector

Recommendations

- Make a decision on level of involvement of EC
- Work through strategic partners with similar resources and significant technical expertise such as EBRD, IDB, EIB, KfW, IFC to increase effectiveness, improve results, and reduce burden on staff
- For NGO budget lines, work through specialized MF-NGO identified during special calls for proposals.

International Fund for Agricultural Development (IFAD)

Analysis

None

Recommendations

- Document and replicate innovations more systematically within IFAD & contribute to global learning agenda on rural finance good practices
- Increase co-financing and cooperation with other donors

International Labor Organization (ILO)

Analysis

- Role and comparative advantage of the ILO's support to pro-poor financial sector work is unclear

Recommendations

- Consider specific market niches such as constituency-based work; reduction of vulnerability; and small enterprise finance

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF)

Analysis

- Uneven quality of operations threaten brand name of UNDP
- UNDP has no clear comparative advantage in working at the policy level in the financial sector

Recommendations

- Seek technical as well as financial leverage from partnerships with other donors

AID EFFECTIVENESS

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