



AID EFFECTIVENESS INITIATIVE

MICROFINANCE DONOR PEER REVIEWS

FEBRUARY 2004

Update on Donor Actions Taken

Seventeen development agencies participated in the Microfinance Donor Peer Reviews as part of an aid effectiveness initiative to improve donor practices.

Early in 2002, the Consultative Group to Assist the Poor (CGAP), together with former U.K. Secretary of State for Development Clare Short, launched a unique aid effectiveness initiative using microfinance as a test case: Microfinance Donor Peer Reviews. Seventeen development assistance agencies participated in the review exercise and three field visits were completed.¹

The Peer Reviews have joined on-going international efforts to improve aid effectiveness. They aspire to be an example of concrete progress in one specific area of development. Agency heads have described the reviews as constructive and frank. Many have also indicated that the review process, analysis and recommendations are relevant beyond microfinance. This note provides a snapshot of the progress achieved to date by the 17 agencies, both as a community of donors and individually.

Global Results

The Peer Reviews were a massive collaborative effort. Nearly 900 donor staff from 21 agencies participated as reviewers, interviewees, and/or hosts. Several global trends and actions have resulted from this exercise:

- The reviews helped broaden donor staff and management's views on microfinance and how it relates to financial and private sector development. Management better appreciates the link between access to financial services and poverty reduction, the Millennium Development Goals and pro-poor growth. Agencies demonstrated an interest in codifying the lessons from the reviews in updated standards of good practice for donor support to building financial systems that work for the poor.
- The Peer Review findings and ensuing discussions are helping agencies identify their comparative advantage in microfinance so they can align their operations accordingly and better position themselves vis-à-vis others. The leadership of the 17 participating agencies will have the opportunity to take up this challenge and make specific commitments at the February 2004 meeting in Paris, *Leveraging our Comparative Advantage to Improve Aid Effectiveness*.
- Relationships among staff, both within and among development agencies, have deepened. In a notable but uncommon occurrence for many agencies, top management and staff engaged in detailed discussions on the everyday constraints to effectiveness. Donor staff said that participating in reviews helped them better understand their own agencies, provided new ideas to improve the quality of their work, and underscored the need for technical staff and non-microfinance specialist staff to interact more closely.
- CGAP is incorporating knowledge gained from in-depth exposure to the daily realities of its member donors to improve its services to them. Upon request, CGAP staff have continued working closely with agencies to further discuss recommendations, help draft work plans, and brainstorm about future strategic directions.

¹ A list of all reviews is attached to the end of this note. The letters to management with findings and recommendations submitted to agencies are 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.

Post-Review Success Factors

Implementation of the Peer Review recommendations are underway in all agencies. In many cases, the reviews have successfully fed into dynamic change processes. Agencies not only made specific changes that follow the review recommendations, but also took related actions to improve effectiveness that were not necessarily directly attributable to the Peer Reviews. Some of the most inspirational changes are intangible, connected to modifications in donor staff's vision about their work, relationships with colleagues, and organizational culture. Success factors include:

- *Top management support.* The Peer Reviews demonstrated that many of the challenges faced by agencies are not only technical, but often structural and organizational. Solutions require the firm commitment of top leadership. 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.
- *Internal ownership of review recommendations.* The process of assimilating, clarifying, and prioritizing the Peer Review recommendations across each agency is vital for real ownership. Agencies that responded to the reviews with a detailed Peer Review action plan or incorporated the recommendations into their existing work plans are better able to keep up the Peer Review momentum and implement changes.
- *External impetus for change.* Interestingly, agencies facing relatively tougher challenges have tended to take up the recommendations more earnestly and make more radical changes. Such agencies have successfully used the external and independent reviews to push through changes that, in many cases, reflected the ideas and proposed solutions of agency staff.
- *Transparency.* In a noteworthy commitment to transparency, all agencies opted to publicly disclose their letters to management, which contain candid analysis and practical recommendations. This openness about challenges sets the tone for mutual accountability among agencies for improving effectiveness.

Peer Review Follow-up and Implementation

One of the most striking and promising results is the commitment by agencies to obtain better information on the size, scope and performance of their existing portfolios. Agencies including UNDP, IFAD, EC, DANIDA, SDC, CIDA have or plan to undertake **portfolio reviews** of their field operations. They all agreed that future decisions must be based on a sound analysis of current performance. Other actions taken by Peer Review participants range from developing new **vision statements** for financial sector deepening; strengthening business plans and staffing of their **micro-finance focal units**; implementing systems of project **performance indicators**; drafting operational **“how to”** notes for non-microfinance specialists; **stopping non-performing credit lines**; facilitating **staff training**; and introducing **incentives** for technical specialists to provide advice.

As a next step in the aid effectiveness initiative, the Peer Review methodology will be adapted to more deeply probe into how donor policies, procedures, processes and systems affect operations on the ground. A study in Uganda is planned to begin in February 2004. Based on this first experience, further country reviews may be organized.

Actions Undertaken by Individual Agencies

The tables below provide specific examples of actions the 17 agencies are taking to improve their effectiveness. The actions included are a small sample of the many things agencies are doing to illustrate agency-specific results. Review dates are listed next to each agency's name to indicate how much time has passed to allow agencies to make progress on recommendations.

Sample Recommendations

- Decide whether AfDB wants to support a new vision for microfinance that seeks to build permanent financial systems for the poor and, if yes, make a strategic shift.
- Focus on task managers as sole clients and adopt a proactive approach to mainstreaming. Phase out AMINA projects.
- Publicize simple Board criteria.

Follow-up Actions

- Management and the Board of Directors approved the business plan of the new Microfinance Division. The content of the business plan confirms AfDB's commitment to the strategic shift.
- The Microfinance Division now focuses almost exclusively on mainstreaming good practice into AfDB's operational departments. Greater trust exists between non-microfinance specialist staff and focal point staff, and the focal point is heavily solicited to provide hands-on support.
- No new projects with credit components have been approved following the Peer Review and a subsequent Board microfinance resolution. Key criteria (market demand, implementation capacity, environment) are systematically applied early in the project identification stage.

Sample Recommendations

- Re-affirm top management commitment.
- Identify ways to launch microfinance projects with appropriate budgets.
- Utilize the full scope of instruments in the context of a sector approach and identify co-financing opportunities with partners that have complementary instruments.

Follow-up Actions

- Jean-Michel Severino, Director General, chose microfinance as a concentration area for the agency's recent Financial Sector Strategy. Mr. Severino's commitment is further demonstrated by his co-chairing of the 13 February High Level Meeting on microfinance aid effectiveness.
- AFD top management decided that microfinance projects no longer have to comply with the required average size of projects, but can be smaller programs.
- AFD has started to use the full scope of its instruments in Kenya, South Africa and Mali. AFD is also discussing co-funding opportunities with other donors in Kenya and Vietnam.

Asian Development Bank (AsDB)

8-12 July, 2002

Sample Recommendations

- Perform portfolio reviews to understand what approaches have worked/not worked.
- Adopt simple performance-based indicators for reporting on all microfinance projects.
- Increase and enhance microfinance technical capacity.

Follow-Up Actions

- Regional departments are conducting periodic reviews of microfinance projects. As a result, the loan amount of a microfinance project in Cambodia was reduced from USD20 million to USD5 million to improve effectiveness.
- AsDB issued a set of monitoring indicators to be used by all microfinance projects to improve the transparency of its portfolio.
- AsDB has hired new staff with a track record in microfinance for the regional departments. AsDB also hired a financial sector specialist for its technical advisory department.

Canadian International Development Agency (CIDA)

9-13 June, 2003

Sample Recommendations

- Develop and implement a microfinance strategy.
- Create a full time position for a microfinance focal person in the policy branch.

Follow-up Actions

- CIDA completed the first draft of a microfinance strategy and will consult its partners before finalizing it. Common performance indicators to be applied systematically in all microfinance programs are included in the strategy.
- CIDA has drafted the terms of reference for the creation of a microfinance focal point position.

DANIDA

28 April-1 May, 2003

Sample Recommendations

- Decide on the future level of involvement in microfinance.
- Build a common vision on the role of microfinance.

Follow-up Actions

- DANIDA cancelled a financial sector development component of a larger Business Sector Development Programme in Vietnam because it determined that the component would not add value to other donors' on-going activities in the sector.
- DANIDA has created a Financial Sector Development/Microfinance task force comprised of technical staff from different sectors. It has also formed a sector network including staff from the field. Both will help build a shared vision of microfinance and disseminate good practice.

Department for International Development (DFID)

13-17 May, 2002

Sample Recommendations

- To fulfill its mainstreaming, service center, knowledge management, and international leadership roles, the focal point should be extended to 3 full time people.
- Develop concrete operational “how to” guidance to incorporate good practices in all programmes with finance components.

Follow-Up Actions

- DFID has established a financial sector team with the equivalent of 3 full time specialists with a mandate to disseminate lessons learned.
- DFID developed an operational “how to” note, disseminated widely throughout DFID (placed on DFID’s “InSight” Intranet), and among other donor agencies.

European Commission (EC)

24-28 March, 2003

Sample Recommendations

- Work through strategic partnerships.
- Strengthen the sub-thematic group in microfinance.

Follow-up Actions

- The EC has decided to stop providing credit support in the future. This decision will allow for a better division of work between the European Investment Bank (EIB) and the Commission, with EIB providing credit support and the EC focusing on capacity building to microfinance institutions.
- The EC has strengthened its informal network and actively used it to draft a response and action plan to implement the review recommendations.

Gesellschaft für Technische Zusammenarbeit (GTZ)

14-18 July, 2003

Sample Recommendations

- Sharpen focus on core competencies in Financial Systems Development (FSD) work.
- The FSD section needs to increase its quality assurance function.
- Capitalize on the synergy with KfW.

Follow-up Actions

- GTZ revised its FSD operations to focus its services on rural finance, microfinance, SME finance and pro-poor financial sector development, leaving other aspects of financial sector work such as capital market development to better-suited agencies.
- GTZ has made the previously ad-hoc Project Performance Reviews compulsory and is revising guidelines to ensure that technical staff are involved in the reviews. This change applies to all sectors beyond microfinance.
- The GTZ and KfW financial sector focal points meet regularly, and the agencies have conducted a joint appraisal in Mali.

Sample Recommendations

- Establish an Office-wide shared vision for pro-poor financial services.
- Focus operations tightly around shared vision and strategy.
- Develop and disseminate practical tools and checklists.

Follow-up Actions

- The ILO has set-up an office-wide task force to craft an action plan for the implementation of the Peer Review recommendations, including the development of a common vision.
- The focal point is working with colleagues to identify areas of interest to trade unions—one of the ILO's key constituencies. Microfinance issues include worker's banks, remittances, and workers' over-indebtedness.
- Jointly with colleagues working on child labor issues, the focal point is creating a checklist for field staff with key questions to ask before including financial services components in child labor programs.

Sample Recommendations

- Introduce simple performance-based monitoring system for rural finance projects.
- Strengthen technical monitoring capacity in the field.
- Operationalize the strategic shift and new vision on rural finance.

Follow-Up Actions

- IFAD has signed an agreement with the Microfinance Information Exchange (MIX) to improve project performance reporting using the MIX Market, a web-based reporting center for MFIs and funders. The pilot phase begins in February 2004.
- IFAD has approved a USD100,000 pilot grant to join with DFID and CIDR in setting up a Rural Finance Knowledge Management Center in Eastern Africa to improve the technical monitoring of its rural finance projects.
- The West Africa Division developed a rural finance strategy reflecting the new vision of supporting permanent access to financial services, using inputs from an external portfolio review and the Peer Review.

Sample Recommendations

- Consider potential expansion in Africa and Asia with caution, and leverage GTZ and other donors to explore new models and sequence activities.
- Engage BMZ in discussions on possibility of abandoning the state guarantee requirement when support is going directly to a private sector entity.
- Match incentives for financial sector competency center coaches based in Europe and Caucasus regional department to reflect global role.

Follow-Up Actions

- KfW teamed up in Asia and Africa with partners such as AsDB (Tajikistan); IFC and AKFED (Afghanistan); GTZ (Sri Lanka); UNDP/UNCDF (Sierra Leone); IFC, CGAP, HSBC, and EIB (African International Financial Holding); and IMI (Congo, Mozambique and Ghana).
- BMZ has enabled KfW to take capital shares in microbanks on its behalf without state guarantee requirements.
- The TORs and work plan of the technical specialists reflect their mandate to offer technical support to colleagues across the whole organization, and team leaders of other regions comment on their annual performance evaluations.

Sample Recommendations

- The Ministry and the Dutch Microfinance Platform should articulate a joint vision on the role of financial services in poverty reduction.
- Improve Ministry's accountability and transparency in its financing arrangements for microfinance.
- The Ministry and Platform should launch an exercise to help its members determine their comparative advantage in microfinance.

Follow-up Actions

- The Ministry, with input from all members of the Platform, has developed a vision statement. Plans for its dissemination are underway.
- The Ministry and the Platform have decided to use the MIX Market as a common reporting format for financial and social indicators.
- The Ministry and Platform have agreed to conduct a comparative advantage exercise to help members align their activities with their comparative advantage.

Norwegian Agency for Development Cooperation (NORAD)

4-7 June, 2002

Sample Recommendations

- Develop a Position Paper on microfinance.
- Monitor performance targets in performance-based contracts.
- Provide more technical assistance to Norwegian NGOs.

Follow-up Actions

- NORAD developed a short paper that provides vision and guidance for all staff working on microfinance and suggests appropriate niches for the agency as a small bilateral donor.
- NORAD improved the technical quality of its performance monitoring and has planned for exit from projects in Uganda, Tanzania, and Nicaragua.
- NORAD has stepped up technical interchange with Norwegian NGOs active in microfinance, including an evaluation of one of them. Building on the Peer Review methodology, the evaluation led to specific recommendations to improve the NGO's microfinance activities.

Swedish International Development Agency (Sida)

20-24 May, 2002

Sample Recommendations

- Obtain sharper strategic clarity on the key cross-cutting contribution of microfinance to the agency's overall development goals.
- Increase technical staff capacity in Stockholm.
- Train non-microfinance specialists.

Follow-up Actions

- Sida has developed microfinance policy guidelines that prioritizes a sector development approach, and developing sustainable institutions, rather than direct targeting.
- Sida has enhanced technical capacity at headquarters to an equivalent of four full time persons working on the financial sector (includes but not limited to microfinance).
- Sida has increased its investments in headquarter and field staff by sending them to training events such as Microfinance Training in Boulder and the CGAP/UNCDF course.

Swiss Development Corporation (SDC)

18-22 August, 2003

Sample Recommendations

- Sharpen strategic clarity on Financial Sector Development (FSD).
- Improve quality and accountability of operations.

Follow-up Actions

- To ensure greater buy-in by staff of its FSD policy, SDC is producing a short version of the policy. SDC is also making the rural finance component of the FSD policy more operational by publishing rural finance case studies.
- SDC is designing a shorter version of the tool, "Monitoring of Financial Institutions". It will promote both versions in staff training, communication, and informal exchanges.

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

21-25 October, 2002

Sample Recommendations

- Conduct UNDP-wide microfinance portfolio review.
- SUM should develop a clear strategy for how it will organize its offer of services to the vast network of UNDP country offices.
- Develop short, operational notes on subjects related to financial services for the poor, paying particular attention to areas which UNDP prioritizes.

Follow-up Actions

- UNDP has launched a microfinance Portfolio Review. 110 country offices responded to a portfolio questionnaire with 70 offices reporting microfinance programs. Preliminary analysis has been completed and 10 countries are slated for in-depth field reviews.
- SUM has developed an information package of services for UNDP. Services include: (i) joint investments; (ii) training (distance learning, CGAP/UNCDF donor course, JPO/NPO induction training, Deputy Resident Representative training, Boulder); (iii) expert advice via the UNDP Knowledge Networks; and (iv) technical advisory services.
- UNDP developed 6 short briefs for non-microfinance specialist staff on subjects such as HIV/AIDS, impact, and targeting.

U.S. Agency for International Development (USAID)

10-18 November, 2003

Sample Recommendations

- Staff across Economic Growth, Agriculture, and Trade (EGAT) should develop a vision that integrates microfinance into financial sector deepening.
- Optimize USAID's microfinance program quality.

Follow-up Actions

- To ensure that microfinance is well represented in USAID's economic growth strategy, the new draft Financial Sector Strategy Paper incorporates an explicit focus on financial sector deepening and the means to achieve it.
- The Microenterprise Development team has formed a rural finance working group with a Agriculture Office and Financial Sector staff. The working group will coordinate research and data collection, and offer training on agricultural and rural finance to USAID staff.

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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