CGAP

Aid Effectiveness Initiative

MICROFINANCE DONOR PEER REVIEWS

High Level Meeting

Leveraging Our Comparative Advantage to Improve Aid Effectiveness

February 2004, Paris

JOINT MEMORANDUM

We, the 17 development assistance agencies participating in the Microfinance Donor Peer Reviews, affirm our continued commitment to improving aid effectiveness overall, and specifically in microfinance.[1] We would like to thank Mark Malloch Brown of the United Nations Development Programme (UNDP) and Jean-Michel Severino of the Agence Française de Développement for co-hosting the High Level Meeting in Paris, and the Consultative Group to Assist the Poor (CGAP) for organizing the meeting. By taking a hard look at one side of the development equation – our own effectiveness in delivering development assistance – we can take another step toward achieving the Millennium Development Goals (MDGs).

The High Level Meeting gave the top management of our agencies a unique opportunity to tackle the issue of aid effectiveness in a concrete way. Although just one of many areas in which our agencies work, microfinance – or building financial systems that work for the poor – is an appropriate area for reflecting on aid effectiveness because we have already agreed to standards of good practice, but currently do not uniformly apply those standards to our programs on the ground. In fact, the Microfinance Donor Peer Reviews confirmed that we could have a far greater impact with current levels of spending by aligning our microfinance programs with good practice and building on the diversity of our strengths.

We recognize that microfinance contributes to achieving the MDGs, in particular, the overarching aim of halving extreme poverty and hunger by 2015. But addressing market failures that prevent poor people from accessing the financial services they need is a massive and daunting task. Microfinance is a very dynamic field that has moved from "microcredit" to "microfinance" to "building financial systems that work for the poor". This changing landscape makes microfinance a particularly challenging area for the development community. It means that we must engage with a diversity of players, from Central Banks to self-help groups, from commercial banks to community savings and loans cooperatives to auditors and credit rating firms, recognizing that there is great scope for a diversity of approaches. When possible, we should support the national plans of governments to develop the overall financial sector. Each of us should contribute in a way that leverages our respective strengths and promotes mutual learning. At the very least, we should avoid actions that distort local financial markets.

The Peer Reviews conducted between May 2002 and November 2003 and the High Level Meeting exposed our agencies to frank and transparent assessments and recommendations on how we can improve the way we work. We held up a mirror to our own internal systems, processes and procedures. These are the factors over which we have the most control and can make more immediate changes. Many of us feel that the methodology, analysis and recommendations of the Peer Reviews are applicable to other areas of development assistance beyond microfinance.

[1] Agence Française de Développement, African Development Bank, Asian Development Bank, Canadian International Development Agency, DANIDA, Department for International Development, European Commission, Gesellschaft für Technische Zusammenarbeit, International Fund for Agricultural Development, International Labour Organization, Kreditanstalt für Wiederaufbau, The Netherlands, Norwegian Agency for Development Cooperation, Swedish International Development Cooperation, Swiss Agency for Development and Cooperation, United Nations Development Programme/United Nations Capital Development Fund, U.S. Agency for International Development.

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

We endorse the five key elements of effectiveness that have emerged from the Peer Reviews, as they provide a useful framework for assessing and benchmarking our performance. They are: 1) strategic clarity and coherence; 2) strong staff capacity; 3) accountability for results; 4) relevant knowledge management; and 5) appropriate instruments. For those among us who wish to remain engaged in building pro-poor financial systems, we commit to do all that we can to achieve basic competency in each of the five elements to ensure adherence to basic standards of good practice. We also need to expand the work of the Peer Reviews to include our country-level partners and look for ways to work together more effectively. We have seen that collaboration is not always easy, but we endeavor to search for ways to reduce transactions costs for all involved – ourselves and our partners in the field.

Moving forward, we commit to four action steps to transform the Peer Review recommendations into tangible results for poor people. We request that our technical colleagues translate these steps into a program of work for the next two years. The objective of this continued work is to be more effective in every country by identifying our strengths and appropriate niches, leveraging each others' strengths, and aligning and harmonizing our operations with country priorities.

1. **Codify good practices.** Current joint guidelines of good practice are nearly 10 years old, and require updating, both to incorporate the lessons from the Peer Reviews and to make them easier to apply to operations. New guidelines should include, among other things, a code of conduct for using subsidies to work with the private sector and guidance on the best use of different instruments available to bilateral and multilateral donor agencies. We commit to sending clear, strong messages to all operational staff in at least two areas: (i) a requirement to consult with government, all other donors, and stakeholders before approving any new support in a specific country or with specific institutions to ensure complementarity and avoid undermining others in the market; and (ii) accountability and transparency on performance of the portfolio are more important than "looking good"; and transparency is critical to reaching our shared vision of creating sustainable access to financial services for poor and low-income people.

2. **Share and leverage staff capacity and knowledge.** We concur that a strong internal technical capacity is essential to manage or outsource microfinance operations. However, we all cannot and should not make equally intensive investments in building staff capacity and knowledge management systems. Therefore, we should seek to leverage and build on our technical capacity and knowledge by encouraging cross-agency secondments, drawing on expertise in the private sector, investing in our national staff, delegating programs to those agencies with strong technical staff capacity (especially when that technical capacity is decentralized) where appropriate, strengthening and scaling-up networks, engaging in joint training, and building and contributing to common knowledge management systems like an internet portal.

3. **Take the Peer Review process and recommendations to the field.** Building on the decentralized structure of many of our agencies, the Peer Reviews should increase the ownership, voice and participation of our colleagues, partners and stakeholders (government and private organizations) at the country level. Activities in selected partner countries should be undertaken to a) obtain the feedback of field-level stakeholders beyond the donor community; and b) test and document cases of collaboration among donors with complementary strengths.

4. **Conduct two-year follow-up.** In two years' time, we plan to reconvene to discuss which steps we are taking, individually and collectively, to implement the Peer Review recommendations. Each of our agencies should assess and track progress towards the recommendations of its Peer Review. As part of the follow up, agencies could choose to undergo a voluntary "checkup" review. These lighter reviews should explicitly incorporate benchmarking of our performance.

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