

# AID EFFECTIVENESS INITIATIVE: MICROFINANCE AS A TEST CASE

## Note to Management, IFAD Peer Review Check-up, October 2005

### Background

Early in 2002, the Consultative Group to Assist the Poor (CGAP) and a group of leading development assistance agencies launched a unique aid effectiveness initiative, using microfinance as a test case. The genesis for this work stemmed from a common concern among the international development community that aid is often *ineffective*. Development agencies commit US\$800 million–\$1 billion annually to microfinance. Yet, operations on the ground do not systematically incorporate good practice, and this substantial investment has failed to achieve the desired impact.

During the first stage of this initiative, April 2002 through November 2003, CGAP sponsored Microfinance Donor Peer Reviews of 17 bilateral and multilateral development agencies. The peer reviews helped donors look themselves in the mirror and focus on what they could most directly influence: their own internal systems, policies, processes, and incentives. IFAD’s peer review took place in June 2002 and recommendations were subsequently made to management (see full text of the letter published in 2002 at [www.cgap.org/docs/PeerReview\\_IFAD.pdf](http://www.cgap.org/docs/PeerReview_IFAD.pdf)). IFAD served as a peer reviewer on three of the reviews, those of the European Commission, the Asian Development Bank, and USAID.



The peer review exercise culminated in a High-Level meeting in February 2004, “Leveraging Our Comparative Advantage to Improve Aid Effectiveness,” that synthesized lessons learned from the reviews and resulted in a joint memorandum issued by the 17 agencies. The memorandum endorsed five core elements of donor effectiveness in microfinance. The elements are depicted on the left as the “Aid Effectiveness Star.”

The second stage of the aid effectiveness initiative comprises a four-step program of work adopted by agencies following the High-Level meeting (see Annex 1). The program includes bringing the aid effectiveness initiative to the field and involving other stakeholders, such as government officials and private-sector stakeholders. Country-Level Effectiveness and Accountability Reviews (CLEARs)<sup>1</sup> are an intensive consultative process that concretely supports the effectiveness of microfinance funders at the country level. CLEARs identify gaps in the financial system in individual countries and help funders design more effective interventions, based on their comparative advantage.

To date, four CLEARs have been completed for Cambodia (October 2004), Nicaragua (February 2005), Madagascar (May 2005), and Sri Lanka (October 2005). IFAD project staff participated in two of these country reviews.

<sup>1</sup> For more information on CLEARs, visit [www.cgap.org/clear](http://www.cgap.org/clear).

At the request of IFAD management, Alexia Latortue and Nataša Goronja of CGAP spent one week in Rome on 10–14 October 2005 for a peer review check-up. They met with more than 60 IFAD staff (see Annex 3). The purpose of the check-up was to gauge progress achieved since the peer review, make additional recommendations for improving IFAD’s effectiveness in microfinance/rural finance, and inject renewed momentum into IFAD’s ongoing efforts to work more effectively. IFAD is the first agency to request an official check-up—a testament to IFAD’s interest in improvement.

Though most international development agencies now include microfinance in their portfolios, IFAD is unique in its exclusive focus on rural finance. Moreover, IFAD is one of the largest microfinance funders. In 2004, IFAD committed US\$ 116.9 million to rural finance. With 75 percent of the world’s 1.2 billion poor people living in rural areas, the stakes are high. It is heartening that, since 2002, IFAD has been taking a hard look at the effectiveness of its microfinance/rural finance work.

The timing of the check-up coincided with an extremely important period in IFAD’s history. Despite only recently emerging from a critical Independent External Evaluation (IEE), CGAP reviewers found IFAD staff genuinely receptive and eager to discuss pragmatic ways in which IFAD could be more effective in helping increase the access of rural poor people to quality financial services. The reviewers thank all management and staff interviewed for their frank inputs. This check-up note briefly summarizes the situation during the peer review in 2002, provides an analysis of the current situation as revealed during the 2005 check-up, and proposes recommendations for moving forward.

### **The Past: Snapshot of IFAD’s Effectiveness in Rural Finance**

The June 2002 Microfinance Donor Peer Review of IFAD raised significant questions about IFAD’s ability to support microfinance well. In an overall assessment of effectiveness, using the Aid Effectiveness Star as the criteria, IFAD fell in the lowest ranking, along with almost half of the other agencies reviewed.<sup>2</sup> Though serious, IFAD’s problems are not unique—many other microfinance funders face similar challenges.

These challenges fell into two groups: (1) technical—the extent to which the agency embraces good practice guidelines for microfinance<sup>3</sup> and (2) internal systems—how well-suited the agency’s systems, staff, and funding instruments are for effective microfinance support.

With regard to the technical understanding of microfinance/rural finance, IFAD was in the midst of a transition from its former approach of supporting state-owned banks to exploring new approaches. IFAD’s Policy on Rural Finance is highly consistent with good practice and provides clear guidance for the Fund’s way forward. Unfortunately, staff did not seem to have internalized it and did not possess a shared understanding of rural finance, microfinance, agricultural finance, and their interrelationships. Moreover, the attempted shift from supply-led agricultural credit to building demand-led rural financial services, described in the Policy and Decision Tools for Rural Finance, was not matched by efforts to adapt IFAD’s instruments and staff capacity accordingly.

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<sup>2</sup> The 17 agencies that participated in the peer reviews were assessed along the five elements of the Aid Effectiveness Star by the review teams on a scale of “weak,” “medium,” or “strong.” The agencies assessed are diverse in size and mandates and included small bilaterals that had grants as their main instrument.

<sup>3</sup> For more information on the Donor Guidelines on Good Practice in Microfinance, visit [www.cgap.org/donorguidelines](http://www.cgap.org/donorguidelines).

### ***Why was IFAD rated weak in 2002?***

- *Lack of specialist skills.* IFAD's organizational set-up required that country portfolio managers (CPMs) are country-specific experts first and foremost. Over time, CPMs became generalists who had limited sectoral expertise. It is impossible for one person to master the myriad sectors in which IFAD may intervene in one country (rural development, agriculture, social infrastructure, etc.).
- *Over-reliance on small group of consultants.* As a result, staff often relied heavily on a small number of consultants for the bulk of design work. Consultant selection often was based on long-term relationships and knowledge of IFAD's procedures, rather than technical skills.
- *No discernable institutional incentives for staff performance.* Although staff seemed personally motivated to do well, systems in place appeared to neither reward good work nor sanction poor performance. This apparent lack of incentives was reinforced by a performance evaluation system that some IFAD staff described as perfunctory. Further, the value placed on respecting the specificity of country/regional contexts sometimes justified the disregard of policy guidance and good practice standards that hold true regardless of geography or methodology.
- *Limited information on performance of projects/partners.* Basic information on the performance of financial intermediaries was lacking. Timely tracking of performance indicators is vital to get early warning signals about financial intermediaries' health, and to take corrective measures.
- *Considerable approval pressure* overrode the patient and often time-intensive work of understanding demand, including considering technical inputs in program design, ensuring quality during implementation, and monitoring whether results are achieved.
- *Tension between close links with governments and appropriate incentives for good microfinance.* IFAD's close relationship with host governments is generally an advantage. But, for microfinance/rural finance programs, it tended to be a disadvantage. Political incentives of government officials often run counter to sound financial management of loan programs—careful screening of potential borrowers, charging cost-covering interest rates (often higher in microfinance), strict loan recovery, and slow building of institutions before scaling up access. Moreover, the best microfinance is usually done through private intermediaries, whereas IFAD's main instrument is loans to governments.
- *Insufficient learning.* Although some informal networks exist, there was limited systematic cross-fertilization of ideas within and among regional divisions. IFAD's successful experiences were not necessarily known. Also, internal tools like the Decision Tools did not seem widely used.

Detailed recommendations to address these challenges were suggested to IFAD's president in 2002. The following section highlights the major actions IFAD has taken in response.

### **Actions Taken: Implementing the Recommendations**

In the past three years (June 2002–October 2005), IFAD, with the leadership of the Technical Advisory Division/Rural Finance (PT/RF), made serious efforts to improve its effectiveness. IFAD produced a detailed action plan to implement the review recommendations. Other agencies that participated in the peer reviews were inspired by the Rural Finance Action Plan developed by PT and the Rural Finance Thematic Group. The major actions taken fall into three main categories highlighted below. For a more exhaustive list, see Annex 2.

#### ***Project Performance Tracking***

- Developed partnership with the Microfinance Information eXchange (MIX) to improve performance reporting by projects. Pilot project implemented in 2004 in West Africa and Latin

America was successful and scaled-up to cover all regions. Thirty-eight IFAD-supported microfinance institutions in 7 countries are now reporting to the MIX.

- Introduced 3–4 key performance indicators in the Rural Finance Decision Tools.
- Conducted a portfolio review of West and Central Africa field operations in 2003, leading to the definition of a rural finance strategy for the region.
- Developed contractual agreements with regional technical partners to improve IFAD's implementing and monitoring capacity on the ground. For example, IFAD joined DFID and CIDR to set up a Rural Finance Knowledge Management Center in East Africa; the center will provide support to IFAD projects in the region.

### ***Staff Technical Development***

- Hosted the CGAP/UNCDF multi-donor training course in Italy in 2004.
- Participated in the launch of the CABFIN rural finance Web site, Rural Finance Learning Center, to improve the availability of information on rural finance.
- Designed a training strategy in rural finance for IFAD staff. The strategy aims to provide CPMs with essential tools and basic knowledge to better grasp key rural finance issues in project formulation and supervision and to make informed decisions.

### ***Learning/Innovation Agenda***

- Finalized a series of technical papers to promote in-house learning and provide practical recommendations to operational challenges. Topics include impact assessment, remittances, governance, and agricultural microfinance.
- Launched technical assistance grants (TAGs) with top-notch partners to identify innovative models for rural finance. For example, the MENA region is working with ACCION to identify opportunities for downscaling microfinance services through commercial banks. With Freedom from Hunger, IFAD is exploring ways to link financial service delivery with basic education for clients.
- Organized, through the internal Rural Finance Thematic Group, several workshops/presentations on rural finance themes.

The above efforts lay the groundwork for improved effectiveness. Now, the regional divisions need to make full use of the available tools, learning, and technical advice to translate this progress into IFAD's improved operations on the ground.

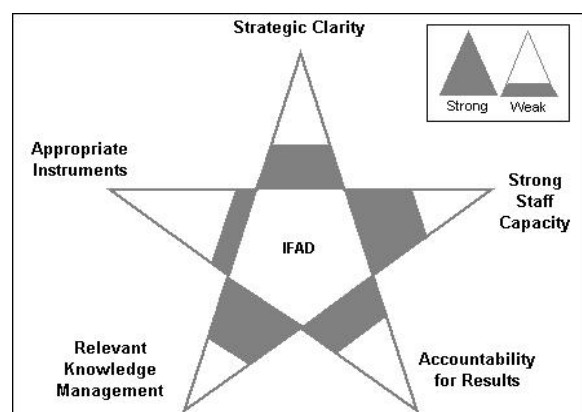
## **The Present: Snapshot of IFAD's Effectiveness in Rural Finance**

October 2005 found IFAD at a crossroad. The IEE has challenged the agency to better fulfill its unique mandate and deliver lasting results to poor people living in rural areas. IFAD's ability to transform the way it works is critical to its future. With strong support from management and the commitment to making concrete changes, rural finance could be a successful test case for IFAD's improved effectiveness.

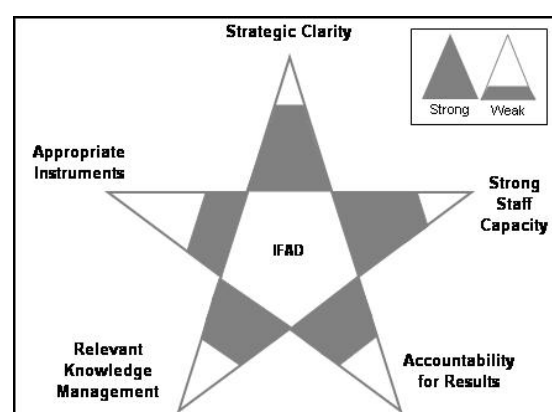
From the situation in 2002, the reviewers noticed a significant change in staff's acceptance of a new way of working on rural finance that embraces good practice principles. The shift described previously has settled much more in staff's minds and hearts. Indeed, all the regional departments asked for greater engagement with CGAP to increase technical exchanges on new models and approaches, to find innovative ways to reduce transactions costs, and to forge partnerships with good

practice national and international service providers. Across IFAD, there is both a *better understanding* of good practice and a *real awareness* of the need for operations to improve.

### 2002 Review, Review Team Assessment



### 2005 Check-up, IFAD Self-Assessment



The star on the right represents the self-assessment of 21 IFAD staff (mostly CPMs) at the time of the check-up. In general, IFAD staff feel that IFAD’s effectiveness in microfinance/rural finance is slowly improving, as is evidenced by progress on all elements of Aid Effectiveness Star.

The greatest improvement noted in the self-assessment is in “strategic clarity.” This corresponds with the reviewers’ finding that staff are eager to learn about what works well in supporting microfinance/rural finance. Across the board, staff agreed that some of IFAD’s past approaches have failed and they are interested in more institutional approaches.

Several CPMs have received specialized training, and PT/RF has actively disseminated tools and provided learning opportunities. Indeed, several staff mentioned that rural finance was the best example of the positive role PT could play within IFAD. Though many CPMs have yet to be trained in rural finance, there is greater awareness about the need to learn basic good practice concepts. Also, several recent hires have proactively educated themselves on microfinance, contributing in part to a positive shift in “staff capacity.”

In the 2005 self-assessment, “appropriate instruments” remains the weakest element of the star. The elements “accountability for results” and “relevant knowledge management” show some improvement, though marginally less than “strategic clarity.” Again, the reviewers agree with the trend of the self-assessment though they would be somewhat less generous in assessing progress made in these areas. The reviewers believe that challenges remain with regard to accountability. Uptake of project reporting on the MIX could be improved, and equally important, CPMs need to read and follow-up on the results reported. Although more flexibility for instruments may exist, it is not well understood.

Recent commitment to good practice is positive. The challenge remains to translate these good intentions into improved practices and better performance in operations. For this to happen, some of IFAD’s *systems* will require revision

## ANNEX 1

### Joint Memorandum

**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.<sup>1</sup> 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, just 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.

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<sup>1</sup> 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

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.

## ANNEX 2 - Summary of Actions Taken

		RECOMMENDATIONS FROM PEER REVIEW, 2002	ACTIONS TAKEN
1.	<b>Strategic Clarity and Coherence:</b> Extent to which an agency-wide vision of microfinance exists and whether this vision and agency policies are in line with accepted good practice.	<ul style="list-style-type: none"> <li>• Craft <i>Vision Statement</i></li> <li>• Develop operational definitions for what microfinance, rural finance, rural microfinance and agricultural finance are at IFAD</li> <li>• Ensure the understanding and application of the DTs through in-house training and consultations</li> <li>• Determine comparative advantage for policy work and focus on the appropriate level (i.e. norms and practices)</li> </ul>	<ul style="list-style-type: none"> <li>• West and Central 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.</li> <li>• The DTs are systematically used as a reference during the project cycle.</li> <li>• Drafted a Rural Finance Action Plan.</li> </ul>
2.	<b>Strong Staff Capacity:</b> Whether the microfinance focal unit has sufficient capacity and resources to provide skilled technical support to operational colleagues. Also, whether overall level of technical capacity is adequate to ensure quality operations.	<ul style="list-style-type: none"> <li>• Offer two tracks—basic and advanced—of orientation and training to CPMs, division heads and Board members</li> <li>• Send CPMs who manage significant RF portfolios to external, in-depth, technical training</li> <li>• Build roster of qualified consultants</li> <li>• Establish grant for capacity-building of field-based human resources</li> <li>• PT/RF should offer its informal, helpdesk services outside project development cycle</li> <li>• Retain a core group of roving consultants for increased technical support to the field</li> </ul>	<ul style="list-style-type: none"> <li>• Hosted CGAP/UNCDF multi-donor training course in Italy in April 2004.</li> <li>• Developed contractual agreements with regional technical partners to improve IFAD’s implementing and monitoring capacity on the ground. E.g., IFAD joined DFID and CIDR to set up a Rural Finance Knowledge Management Center in East Africa. The center provides support to projects in the region.</li> <li>• Designed a training strategy for rural finance to provide IFAD staff with essential tools and basic knowledge.</li> <li>• Helped launch CABFIN’s Rural Finance Learning Center.</li> </ul>
3.	<b>Accountability for Results:</b> Level of knowledge of the microfinance portfolio (e.g., whether it is "visible" to the agency) and transparency on portfolio performance.	<ul style="list-style-type: none"> <li>• Set-up separate budget category for rural finance components of projects</li> <li>• Develop and publish basic questions to ask of all projects with finance components</li> <li>• Improve partner selection and monitoring</li> <li>• Undertake regular regional portfolio reviews</li> <li>• Establish 3-4 simple “less is more” reporting indicators for all RF projects</li> </ul>	<ul style="list-style-type: none"> <li>• IFAD is using the Microfinance Information Exchange (MIX) to improve performance reporting. Pilot project implemented in 2004 in West Africa and Latin America was successful and scaled-up to cover all regions. 38 IFAD-supported microfinance institutions in 7 countries now report to the MIX.</li> <li>• Introduced 3-4 key performance indicators in the <i>Rural Finance Decision Tools</i>.</li> <li>• RIMS indicators (first and second levels) for rural finance correspond to international standards.</li> </ul>

4.	<p><b>Relevant Knowledge Management:</b> How well the agency learns from its own and others' experience through the creation, dissemination and use of practical, user-friendly knowledge.</p>	<ul style="list-style-type: none"> <li>• Strengthen proactive mainstreaming role of PT/RF</li> <li>• Write internal case studies on successful models and projects, and disseminate widely</li> <li>• Use the Rural Finance thematic group actively for knowledge acquisition and dissemination</li> <li>• Develop an interactive website, following the model of PT/Human Health and Nutrition</li> </ul>	<ul style="list-style-type: none"> <li>• Finalized a series of technical papers to promote in-house learning and provide practical recommendations to operational challenges, including impact assessment, remittances, governance and agricultural microfinance.</li> <li>• Organized presentations on financial cooperative governance and product innovation; impact assessment; financing agriculture through term finance, etc.</li> <li>• Launched IFAD website on rural finance.</li> </ul>
5.	<p><b>Appropriate Instruments:</b> Whether an agency has instruments that allow it to work directly with the private sector — a critical pre-condition for effectiveness in microfinance. The quality, range and flexibility of instruments are also crucial.</p>	<ul style="list-style-type: none"> <li>• Support rural finance as a discrete project whenever possible</li> <li>• Explore increasing the percentage of grant funding in the overall IFAD budget and/or limiting grant funds for use by good practice projects</li> <li>• Encourage the more widespread use of the flexible lending mechanism and conditionality clauses in loan agreements to introduce performance-based criteria</li> <li>• Establish small, grant-based flexible fund to support innovations</li> </ul>	<ul style="list-style-type: none"> <li>• Launched TAGs to identify innovative models for rural finance. MENA region is working with ACCION to identify opportunities for downscaling microfinance through commercial banks. With Freedom from Hunger, IFAD is exploring ways to link financial service delivery with basic education for clients.</li> </ul>

## ANNEX 3

### List of Persons Consulted

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Benhammouche	Abla	PF	<a href="mailto:a.benhammouch@ifad.org">a.benhammouch@ifad.org</a>
Bettink	Willem	SC	<a href="mailto:w.bettink@ifad.org">w.bettink@ifad.org</a>
Bishay	Mona	PN - Director	<a href="mailto:m.bishay@ifad.org">m.bishay@ifad.org</a>
Bradley	Marian	PF	<a href="mailto:m.bradley@ifad.org">m.bradley@ifad.org</a>
Brett	Nigel	PI	<a href="mailto:n.brett@ifad.org">n.brett@ifad.org</a>
Carruthers	James	PD - Asst. Pres.	<a href="mailto:j.carruthers@ifad.org">j.carruthers@ifad.org</a>
Caviezel	L.	EB - Director (Swz)	
Codrai	Christian	OL	<a href="mailto:c.codrai@ifad.org">c.codrai@ifad.org</a>
Cooke	Rodney	PT	<a href="mailto:r.cooke@ifad.org">r.cooke@ifad.org</a>
Da Vid E Silva	Francisco	PF	<a href="mailto:f.davidesilva@ifad.org">f.davidesilva@ifad.org</a>
De Vito	Monica	PI A&P Division	<a href="mailto:m.devito@ifad.org">m.devito@ifad.org</a>
De Willebois	Ides van der Does	PF E. Africa	<a href="mailto:l.dewillebois@ifad.org">l.dewillebois@ifad.org</a>
Dommel	Henri	PT	<a href="mailto:h.dommel@ifad.org">h.dommel@ifad.org</a>
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Gicharu	John	PF	<a href="mailto:j.gicharu@ifad.org">j.gicharu@ifad.org</a>
Glikman	Pablo	PL	<a href="mailto:p.glikman@ifad.org">p.glikman@ifad.org</a>
Haidara	Hamed	PA	<a href="mailto:h.haidara@ifad.org">h.haidara@ifad.org</a>
Hartl	Maria	PT	<a href="mailto:m.hartl@ifad.org">m.hartl@ifad.org</a>
Hassani	Mohammed	PN	<a href="mailto:m.hassani@ifad.org">m.hassani@ifad.org</a>
Heider	C.	OE Dep. Dir	
Heinemann	Edward	PF	<a href="mailto:e.heinemann@ifad.org">e.heinemann@ifad.org</a>
Hopkins	Raul	PL	<a href="mailto:r.hopkins@ifad.org">r.hopkins@ifad.org</a>
Howe	Gary	PF	<a href="mailto:g.howe@ifad.org">g.howe@ifad.org</a>
Kelles-Viitanen	Anita	EO	<a href="mailto:a.kellesviitanen@ifad.org">a.kellesviitanen@ifad.org</a>
Khadka	Shyam	PI	<a href="mailto:s.khadka@ifad.org">s.khadka@ifad.org</a>
Kherallah	Mylene	PN	<a href="mailto:m.kherallah@ifad.org">m.kherallah@ifad.org</a>
Kingsbury	David S.	PA	<a href="mailto:d.kingsbury@ifad.org">d.kingsbury@ifad.org</a>
Knopf	Ana	FD	<a href="mailto:a.knopf@ifad.org">a.knopf@ifad.org</a>
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## ANNEX 4

### Peer Review Check-up Recommendations

	RECOMMENDATION	DETAILED SUGGESTIONS FOR IMPLEMENTATION
A.	<b>IMPLEMENT MANDATORY REGIONAL PORTFOLIO REVIEWS AND MEANINGFUL REPORTING OF CORE PERFORMANCE INDICATORS.</b>	<ul style="list-style-type: none"> <li>• Conduct portfolio reviews to increase transparency on IFAD’s performance, and identify patterns of common elements in successful and unsuccessful projects</li> <li>• Feed learning from portfolio reviews into design of regional strategies</li> <li>• Use examples from successful projects for resource mobilization</li> <li>• Decide how to reorient problem projects, and if some projects should be shut down</li> <li>• Issue policy directive requiring that all new rural finance programs report to the MIX Market</li> <li>• Approve adequate funding for extension of the IFAD/MIX partnership</li> <li>• Train CPMs and cooperating institutions to use the MIX effectively</li> </ul>
B.	<b>INSTITUTE A FEW SIMPLE INCENTIVES TO IMPROVE STAFF’S ACCOUNTABILITY FOR PERFORMANCE</b>	<ul style="list-style-type: none"> <li>• Include contribution to transparency and RIMS reporting as a key element of IFAD’s personnel performance evaluation (when relevant)</li> <li>• Reward transparent reporting; do not penalize poor performance, especially at beginning</li> <li>• Use divisional meetings to discuss how to turn around poorly performing projects; also invite PT</li> <li>• Institute feedback processes for staff in support divisions</li> </ul>
C.	<b>PROVIDE SUBSTANTIVE TRAINING OPPORTUNITIES TO CPMs, INCREASE ACCESS TO TECHNICAL SUPPORT AT THE FIELD-LEVEL, AND REVIEW CPMs’ WORK (VOLUME AND CONTENT)</b>	<ul style="list-style-type: none"> <li>• Consider allocating a minimum of 10 days mandatory training per year for all CPMs (topics of choice)</li> <li>• All CPMs managing rural finance programs should receive a basic minimum of training to become “literate” in the topic</li> <li>• Incorporate learning objectives of all CPMs in their performance evaluation</li> <li>• Ensure consistent access to specialist expertise in the field for implementation support and monitoring (through regional partnerships)</li> <li>• Actively manage the maximum country/program load of individual CPMs to ensure better quality; consider developing “specialization” in various IFAD thematic priorities among CPMs for each region</li> </ul>
D.	<b>INCREASE THE CAPACITY OF PT AND REFINE ITS PRIORITY ROLES</b>	<ul style="list-style-type: none"> <li>• Create two stable staff positions in PT/RF for a total effective of three positions, to provide more hands-on and troubleshooting services</li> <li>• Suggested internal priorities for PT: <ul style="list-style-type: none"> <li>▪ Contribute to change process – “rural finance as a test case for IFAD’s improved effectiveness”</li> <li>▪ With regions, design plans to internalize lessons learned from innovative TAGs</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>▪ Possibly with CGAP, organize short briefings for management/board of directors on key principles in good practice rural finance/microfinance</li> <li>▪ With regions, establish minimum number of operational trips PT/RF staff will make with CPMs</li> </ul>
<b>E.</b>	<p><b>CONSIDER INCREASING THE SHARE OF GRANT FUNDING ALLOCATED TO RURAL FINANCE AND CLARIFY THE FLEXIBILITY AVAILABLE IN USING IFAD'S INSTRUMENTS</b></p>	<ul style="list-style-type: none"> <li>• Decide whether rural finance, as a fundamentally financial sector and therefore private sector activity, merits a larger portion of grant funding than other sectors → strategic use of grant funding</li> <li>• Develop list of all instruments and catalogue the menu of options for their use</li> <li>• Gather examples from CPMs of creative ways in which loans to governments can be structured to 1) support rural finance providers directly; and 2) provide capacity building</li> </ul>



**IFAD**  
INTERNATIONAL  
FUND FOR  
AGRICULTURAL  
DEVELOPMENT

*The President*

10 May 2006

Dear Ms. Latortue,

I would like to thank you for CGAP's letter of 14 April 2006 which includes the Note to Management. Your letter reflects the outcome of a long and thorough donor peer review process, which provides us with useful advice and guidance on ways to improve our effectiveness in rural finance. We are glad to have been the first donor requesting a check-up exercise in October 2005 which followed the original review in June 2002. This exercise was timely, as IFAD had undergone a major external evaluation process and begun in 2005 an important corporate change process.

I very much appreciate the recommendations in your Note to Management. I can assure you that IFAD is committed to address them. As you know, IFAD organized a meeting during the peer review check-up which led to the endorsement of IFAD's updated Rural Finance (RF) Action Plan and management's commitment to its implementation. The Technical Advisory Division (PT) was mandated to carry the momentum of the RF Action Plan forward, while emphasis was put on the need to build a strong ownership of its agenda across IFAD.

You will be glad to know that substantial progress has already taken place with respect to the RF Action Plan since your last visit in February 2006 (i.e. the subject of your first recommendation). For example, IFAD approved at a recent Grant Screening Committee a proposal to build a technical partnership in rural finance with UNCDF's Regional Office for West and Central Africa, based in Dakar. With a similar arrangement developed for Eastern/Southern Africa last year, this shows how IFAD is progressively building a network of regional technical partners in rural finance that will play a critical role in improving the impact of its RF interventions in the field. Similar arrangements are being developed in other regions, thereby addressing one of the pillars of the RF Action Plan.

IFAD also approved at the same Grant Screening Committee two concept notes related to rural finance initiatives that are part of the RF Action Plan. The first one relates to an initiative called "Participatory Microfinance Group for Africa" that will provide institutional support and quasi-equity to RF institutions committed to reach remote rural areas and vulnerable populations (this initiative is also supported by CGAP). The second one will fund innovative approaches in micro-insurance, linking formal insurance companies to microfinance institutions to deliver insurance services to the rural poor.

The second recommendation in your Note to Management is also taking shape. The commissioning of rural finance portfolio reviews has already been discussed in

several Geographic Divisions (i.e. for the MENA region, Latin America and Eastern Africa), following the fruitful experience developed by the West/Central Africa Division. IFAD is also undergoing an important Corporate Evaluation of its Rural Finance Policy and Portfolio (led by the Office of the Evaluation). Future regional portfolio reviews will be organized in a way that enables us to build on the findings of this important exercise.

IFAD has just finalized a proposal to mainstream reporting from the MIX market throughout its rural finance portfolio (your third recommendation), and is actively seeking to mobilize the funding necessary to implement the proposal for the next three years. IFAD's partnership with the MIX, which started two years ago, is therefore about to be considerably strengthened, which will promote greater transparency on performance reporting by all IFAD-funded RF institutions.

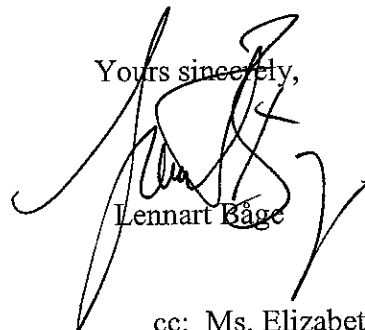
Turning to your remaining recommendations, the consolidation of staff positions in rural finance in PT will be considered through our annual budget processes; and the provision of better training opportunities for staff is an important priority for IFAD, which is being addressed in the context of the IFAD's Corporate Action Plan. This is also true of the issue of incentives, which needs to be addressed beyond the specific area of rural finance, indeed across IFAD in order to harness our organization's capacities and talents to its full potential.

Your final paragraph asks about disclosure of these papers; we would be happy to share both your letter and IFAD's response with the donor community and interested stakeholders.

As a conclusion, I wish to underline that the on-going reforms in the area of rural finance, incorporating your useful guidance, are part of an agenda for change that IFAD has undertaken in the context of its Corporate Action Plan. In that respect, I agree that rural finance can and should be considered as a test-case for IFAD's overall improved effectiveness, and that reforms in the rural finance area will be continued in that spirit.

Thank you again for your cooperation.

Yours sincerely,



Lennart Båge

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