

United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF) Letter to Management

Executive Summary

A team comprising Nimal Fernando of AsDB, Arlina Tarigan-Sibero of KfW, and Brigit Helms and Alexia Latortue of CGAP, conducted a Donor Peer Review of the United Nations Development Programme (UNDP) and the United Nations Capital Development Fund (UNCDF) in New York from 21-25 October, 2002. The review is part of a 20-agency initiative launched by UK Secretary of State Clare Short and CGAP to tackle aid effectiveness by using microfinance as a test case.

The Peer Review focused on the internal procedures, practices and processes of UNDP to identify success factors and constraints that influence the effectiveness of the agency's microfinance operations. The review also looked at how UNCDF/Special Unit for Microfinance (UNCDF/SUM), the lead technical unit for microfinance in the UNDP group, can best support UNDP's Country Offices and relevant units based in New York. SUM organized meetings with over 60 people from UNDP's Country Offices, including numerous Resident Representatives (RRs) and Deputy Resident Representatives (DRRs), the Sub-regional Resources Facilities (SURFs), Regional Bureaus, the Bureaus for Development Policy (BDP), Management (BOM), and Crisis Prevention and Recovery (BCPR). In addition, meetings were held with the Evaluation Office, Operations Support Group (OSG), Office of Audit and Performance Review (OAPR), the Office of the Administrator, and UNCDF. The team shared initial findings with UNCDF Executive Secretary Normand Lauzon, and UNDP and UNCDF staff on 25 October.

The Peer Review team considered its visit timely, given the on-going UNDP transformation to become a network organization. The review also coincided with the arrival of Peter Kooi as the new SUM Director. The team hopes that this letter to management will contribute specific ideas on how UNDP can improve the quality of its microfinance operations, and how UNCDF/SUM can spread microfinance good practices throughout the UNDP group.

This letter outlines UNDP and UNCDF/SUM's strengths and challenges, and presents a number of specific recommendations for improving quality and effectiveness. A matrix at the end of the letter provides a summary of the key findings and recommendations organized around six strategic areas. The Peer Review team's recommendations fall into five main categories:

- ***Achieve a shared agency-wide understanding of pro-poor financial services.*** UNDP and UNCDF/SUM should develop, and top management should endorse, a common definition of pro-poor financial services and their contributions to poverty reduction and the MDGs.
- ***Improve Accountability.*** UNDP should undergo a portfolio review and integrate transparent mechanisms to improve accountability, as a pre-requisite for results-based management.
- ***Improve Quality.*** As a top priority, UNDP should take concrete actions and provide incentives to improve and consolidate its microfinance portfolio. Uneven quality of operations could threaten the agency's brand name as a whole, not just in microfinance.
- ***Retain and strengthen SUM.*** The vast majority of SUM's time should be spent on spreading good practices by providing technical assistance to Country Offices.
- ***Leverage.*** UNDP should leverage its limited resources, experience on the ground, and knowledge infrastructure to become more effective.

Background

Early in 2002, CGAP and DFID's Secretary of State Clare Short launched an initiative to improve aid effectiveness, using microfinance as a test case. As a first step in this initiative, 20 bilateral and multilateral development agencies, including UNDP and UNCDF, volunteered to participate in a series of Donor Peer Reviews. These Peer Reviews are not evaluations or detailed portfolio reviews, but rather focus on each agency's internal procedures, practices, and processes in order to identify success factors and constraints to good practices in microfinance.

The short but intensive reviews result in concrete recommendations for each agency and should lead to commitments by senior management to specific changes that improve the effectiveness of their agency's microfinance operations. It is expected that the analysis and recommendations may also apply to other areas of development assistance pursued by each agency.

A Peer Review team including Nimal Fernando, Lead Rural Finance Specialist of the Asian Development Bank (AsDB), Arlina Tarigan-Sibero, Senior Sector Economist of Kreditanstalt für Wiederaufbau (KfW), Brigit Helms, Lead Microfinance Specialist of the Consultative Group to Assist to Poor (CGAP), and Alexia Latortue, Microfinance Specialist of CGAP, visited UNDP and UNCDF in New York from 21-25, October 2002. The review team interviewed over 60 people. About half the interviews were conducted by telephone to UNDP's Country Offices (including eleven RRs and five DRRs), SURFs and technical partners. In headquarters, the team met with the Regional Bureaus, the Evaluation Office, BDP, BOM, OSG, OAPR, and BCPR. The team also met with Zéphirin Diabré in the Office of the Administrator. Subsequent to the peer review on 20 November, CGAP staff briefed Mark Malloch Brown on the review findings and recommendations.

Follow-up to the Peer Reviews is envisioned both at the agency-specific level and across all agencies participating in the exercise. The review team and CGAP are available to discuss the recommendations contained in this letter in more detail and to support their implementation. The team's findings for UNDP and UNCDF will also be combined with those from other agencies in a synthesis report. Overall results and issues for agencies to tackle jointly will be discussed in various fora involving technical staff and senior management. A final meeting of Ministers and heads of agencies participating in the Peer Reviews will be organized upon completion of all the reviews in 2003 to share experiences and reforms made as a result of the exercise.

This letter outlines UNDP and UNCDF/SUM's strengths and challenges in applying good practice in microfinance. It then presents a number of specific recommendations. Finally, a summary matrix presents key findings and recommendations according to six analytical areas.

Strengths and Implications of UNDP's Transformation

UNDP exhibits a clear commitment to helping developing countries reduce poverty. Internationally lauded for its "Human Development Report," UNDP espouses a holistic concept of poverty that encompasses many dimensions of human development. These dimensions include income poverty, but also emphasize the need for women's empowerment, equity, social inclusion, and respect for human rights. Moreover, UNDP has joined the international pledge to reach the Millennium Development Goals (MDGs) and to cut poverty in half by 2015.

UNCDF/SUM possesses an equally clear commitment to helping build sustainable financial institutions that serve the poor and those without access to formal, banking services in developing countries.

The visions of UNDP and UNCDF/SUM are compatible when it comes to microfinance. The emerging global vision of microfinance is about ensuring poor people's continued access to a broad range of financial services--savings, credit, insurance, payment systems--thus empowering them to make their own choices about purchasing healthcare, improving shelter, sending children to school, protecting against risks, and building physical and social assets. Adopting a business-like approach centered on achieving sustainability is the only way to ensure that financial services will be available on a permanent basis. Sustainability ensures the on-going social returns of financial services projects.

Strengths

Drawing on this deep commitment to poverty reduction and building sustainable financial institutions, UNDP and UNCDF exhibit the following strengths:

- As a UN organization with international staff and presence in 166 countries, UNDP is considered a neutral, trusted development partner of governments. Resident Representatives (RRs) invest heavily in building close relationships with government officials and generally have good access to them. UNDP is also considered a long-term partner, often staying in countries in turbulent times when other development agencies opt for evacuation. Many UNDP staff believe that the bond of trust it has with governments is the agency's main comparative advantage, especially given the current emphasis on upstream, policy work.
- UNDP's highly decentralized structure reflects the agency's commitment to promoting nationally-owned development solutions. Among the most decentralized of all donor agencies, UNDP values local knowledge and participatory processes that gather inputs from government and civil society at the community levels. UNDP staff often work throughout the countries in which they operate, not only in the capital city. The majority of projects are conceived, designed and approved locally. Because microfinance is an information-intensive activity, being close to the ground helps ensure the development of client-responsive financial services.
- The "UNCDF Working Paper on Microfinance" of 1999 lays out a major shift in the agency's microfinance policy that fully reflects internationally accepted good practices, and provides operational guidelines to identify and build sustainable financial institutions that serve the poor. The microfinance policy includes clear criteria for how and when UNCDF should support financial services for the poor. In addition, UNDP's Operational Policy for microfinance (programme manual) reflects internationally accepted good practices.
- UNDP has privileged access to the excellent technical services of the internationally recognized, dedicated microfinance unit of UNCDF. UNDP staff that have worked with UNCDF/SUM uniformly praise its technical competence and exceptional service. Country Offices appreciate the proximity and field knowledge of the roving SUM regional advisors as well the unit's vast network of international and local consultants.

- SUM's commitment to development effectiveness and technical rigor is evidenced by the bold step it has taken to close down several poorly performing projects that were present in the UNCDF portfolio before SUM was merged with UNCDF, and to assist UNDP to terminate similar projects. Very few other instances of donors shutting down projects exist. Typically, donors wait out projects' natural end, even when they are ineffective, rather than take the unpopular and difficult decision to close a project early. SUM's actions create a positive precedent and are to be commended.
- SUM's menu of services lay the groundwork for spreading microfinance good practices throughout UNDP. The services run the gamut from supporting a learning agenda (e.g. SEMFIN) and running a capacity building program to offering technical advisory services (TAS). Through its substantial investment in classroom and distance learning training products, SUM has become one of the few sources of first-rate microfinance training for donors. Numerous donor agencies send their staff to SUM training sessions. MicroStart is an effective vehicle to introduce good practices to countries, foster dialogue among financial intermediaries and to help accelerate the emergence of promising microfinance institutions. MicroStart has incorporated the recommendations of the global mid-term evaluation and is demonstrating more flexibility to support different types of institutions that can reach both sustainability and scale. Through co-investing with UNDP and the TAS, SUM offers highly-valued, hands-on technical assistance.
- UNDP's main instrument, grants, are very flexible and conducive to supporting financial services for the poor, especially in the important area of capacity building. The ability to support relatively small projects (under 5 million USD) is critical for microfinance, and other private sector activities, where technical inputs, not a lot of money is needed. In addition to grants, UNDCF/SUM can also give loans.
- UNCDF/SUM has identified young and emerging markets without a lot of microfinance activity as its niche. Many donors shy from working in emerging markets and with young institutions. Supporting this market niche both builds on the strengths of UNCDF and UNDP, and paves the way for other donors to come in at a later time when the market and/or institutions are more mature.

Implications of UNDP's Transformation

UNDP is in the midst of an operational transformation introduced by the current Administrator with the full backing and commitment of resources on the part of top management. The purpose of the transformation is to improve UNDP's overall effectiveness and flexibility. The vision of a new UNDP focused on information-brokering and systemic results promises significant opportunities to improve the agency's effectiveness in microfinance.

Staff find many of the ideals of UNDP's transformation positive and hope they will materialize. There is a lag, however, between the implementation of the transformation at the policy level and changes in practices at the operational level. The transformation will disappoint if the organizational culture, mindset and incentives are not aligned to match the new philosophy, structure and systems.

A Promising but Incomplete Transformation

	<i>Promising...</i>	<i>...but should consider</i>
Network Organization	<ul style="list-style-type: none"> information infrastructure in place (networks) opportunity for headquarters to add value by providing support services to Country Offices trend towards more technical know-how (SURFs, T system) 	<ul style="list-style-type: none"> staff feel bombarded by too much, sometimes irrelevant and low-quality information lack of clarity on how headquarters can transition from a hub and spoke structure to a demand-driven service center (this would require a new service orientation on the part of staff) institutional culture of distrust and Country Office reluctance to engage with headquarters how to share uniform standards across 166 UNDPs? uneven perception of quality of advice from SURFs weak technical capacity of RR and DRRs and lack of technical career track
Upstream Approach	<ul style="list-style-type: none"> moving from isolated projects to more systemic, policy approach 	<ul style="list-style-type: none"> credibility and effectiveness at the policy level requires solid, grounded, hands-on experience at the retail and meso levels no clear comparative advantage in working at policy level in the financial sector
Results-based Management	<ul style="list-style-type: none"> focus shifting from inputs to development results and outcomes 	<ul style="list-style-type: none"> incentives for good programming and results are weak or non-existent

Challenges

Some aspects of UNDP's organizational culture and incentive structure pose challenges for its ability to effectively deliver quality development assistance in general.

- There is a mismatch of incentives for staff, especially RRs and DRRs, to mobilize resources and develop close relationships with governments on the one hand, and to ensure the quality of operations on the other. Numerous staff indicate that the incentive for RRs to satisfy requests from governments is stronger than the incentive to heed sound technical advice. The resource mobilization strategy could pose risks if divergent priorities and/or disbursement pressures weaken quality standards.
- The cultural focus and highly-valued RR career track that emphasizes process and partnerships can lead to a neglect of results and development impact. The lack of incentive or career track for staff to specialize in a technical area means that the largely generalist staff are unable to provide technical inputs to projects and adequately supervise consultants. Appropriate technical expertise, however, is necessary to ensure effective microfinance operations. While other donors can learn from UNDP's participatory approaches, process cannot replace the delivery of demonstrable results.
- Insufficient knowledge is created, shared and used for decision-making. The agency faces several challenges in this regard. How can staff be spared from information overload while having access to quality, "just-in-time" information? How can network managers strike a

balance between creating a welcoming platform for all views while preventing the spread of misinformation or ill-conceived advice?

More specifically, UNDP and UNCDF/SUM face a number of challenges to maximizing their effectiveness in supporting pro-poor financial services.

- Staff at UNDP approach microfinance from multiple perspectives which often leads to the inconsistent application of good practices. Some see microfinance as an input for environment projects or a tool for social mobilization. Others view it as a resource transfer to vulnerable communities, e.g. in post-conflict situations. Few espouse financial systems approach centered on building sustainable financial institutions. It is not uncommon for country missions to have several microfinance projects or components of multi-sector programs simultaneously, all deploying divergent strategies. These numerous, and often narrow, perspectives are not necessarily negative in and of themselves, but they often result in poor performance and lack of sustainability because of conflicting and mixed objectives.
- This multiplicity of views means that there is no clear articulation of how microfinance can help UNDP achieve its goal of poverty reduction, or how it relates to the Millennium Development Goals (MDGs). Further, in the highly decentralized UNDP, it is unclear how such a vision, were it to be developed, would be disseminated and internalized by staff.
- UNDP's limited private sector experience poses challenges to working in microfinance which is an inherently private sector activity. Traditionally, UNDP works very closely with governments and often uses ministries for national execution of projects. Experience has shown that in order to have effective microfinance, governments should not be directly involved in the delivery of financial services. This activity is best taken on by private sector actors. The more appropriate role for governments is to help create a supportive enabling environment that allows the private sector to function properly. Donors should support improvements in the enabling environment and/or private entities that provide microfinance. With respect to funding private entities, donors should think and behave more like investors, clearly defining their expected social and financial return on investment.
- Microfinance does not appear anywhere in UNDP's management structure (ROAR, current information systems, internal audit system, etc.). Pro-poor financial services are neither a practice area nor a service line. Microfinance's invisibility means that projects with financial services are "tagged" under different names and often do not receive microfinance specialist attention. Yet, microfinance is proliferating in many countries and projects. The ROAR indicates that 77 countries are active in "access to productive resources and assets" and it can be assumed that a large number of these interventions include credit lines or revolving funds.
- Knowledge about the microfinance portfolio is inadequate throughout UNDP. To meet the challenge of results-based management, the agency must have transparent mechanisms to hold itself accountable. Accountability without knowledge of the performance of the portfolio is not possible. The challenge of getting portfolio information has three dimensions. The first is linked to defining microfinance and identifying which projects have microfinance in them. The second dimension has to do with the existing management results framework and its inability to track microfinance-specific relevant portfolio information.

Finally, it appears that institutional incentives for staff to collect portfolio information on a regular and timely basis do not exist.

- UNDP's highly decentralized structure, though very positive in many respects, presents a challenge for quality assurance. Staff repeatedly mentioned that there are virtually no incentives, positive or negative, for individual Country Offices to follow agreed-upon standards. The uneven application of standards within UNDP leads to the substandard quality of microfinance projects and financial components of multi-sector projects. Large credit lines directed at target groups for specific purposes with highly subsidized interest rates persist, as does a culture of low expectation of full reimbursement. Impact is often not achieved, or is time-bound to the duration of a project, i.e. not sustainable.
- Uneven quality of operations threaten the agency's brand name as a whole, not just in microfinance. A poorly performing credit component or revolving loan fund (even a small one) can distort local markets and make it difficult for other donors to support sustainable microfinance programs, thus undermining support for UNDP from its core donors.
- Safeguards or systematic mechanisms to ensure that microfinance projects or components receive adequate technical inputs do not exist. Country Offices that design and manage microfinance projects and/or components often do not consult appropriate expertise such as qualified technical resources in-country or SUM. When this expertise is tapped, it is often too late in the process. Especially in the case of finance components of multi-sector projects, UNDP staff may not even know that they need microfinance specialist input to avoid creating unsustainable structures and distorting markets. It is very difficult and time-consuming to correct bad practices that are built into project designs.
- Not all Country Offices are familiar with SUM and therefore often choose sub-optimal or no microfinance specialist advice at all. Conversely, SUM does not know the full extent of the UNDP microfinance portfolio. The unit's strong point--its technical skills and rigor--can make it appear unapproachable to some staff, especially those without a financial background and/or knowledge of sound microfinance principles. SUM has not done enough to dispel this perception. There are also questions of how the still largely centralized, small SUM can best serve the highly decentralized UNDP. When Country Office staff consult resources other than SUM, for example the SURFs and locally available consultants, they may be prioritizing proximity, availability for travel on short notice, and local knowledge over quality.
- The potential demand from UNDP for SUM's services is huge and risks overwhelming the unit, especially if SUM reaches out more proactively to Country Offices. A few Country Offices have already been frustrated by the difficulty of getting a SUM staff to their country, although responses to phone calls and emails are always rapid. SUM does not have a clear strategy that defines the manner in which it prioritizes its work (geographically, type of project, etc.) or criteria for how to respond to demands from Country Offices.
- SUM operates within an uncertain budgetary environment. SUM's management does not know its annual budget from year to year. Although SUM is a global service unit that serves all of UNDP, it is constrained to using its own resources in LDCs due to UNCDF's mandate.

Recommendations

The Peer Review team has the following recommendations to build on UNDP and UNCDF/SUM's strengths, and to improve the effectiveness of microfinance operations.

1) UNDP and UNCDF need **to achieve a shared, agency-wide understanding of microfinance**, its contributions to poverty reduction and the achievement of the MDGs, and how best to support sustainable financial services for the poor.

- *Develop Vision Statement that defines and links pro-poor financial services to UNDP and UNCDF's core priorities.* The gap between UNCDF/SUM's clear vision of sustainable financial services and the panoply of views on microfinance within UNDP should be bridged. SUM should take the lead, drawing from UNCDF's microfinance policy, to draft a short *Pro-Poor Financial Services Vision Statement*. The *Vision Statement* should make the case for how building financial systems that serve the poor is important for reaching the MDGs. The statement should be developed in an inclusive manner with full participation from staff in other sectors (e.g. post conflict).
- *Re-affirm commitment from the top.* The *Vision Statement* should be circulated to all Country Offices, SURFs and Headquarters staff with a note of endorsement from the Administrator. This message from the top will help ensure that that the statement is viewed and embraced as a UNDP-wide vision.
- *Integrate into practice areas.* The Administrator's commitment to microfinance should be translated into concrete action by ensuring that pro-poor financial services appear in UNDP's management structure. Pro-poor financial services should be integrated as a service line, possibly under poverty reduction where it currently resides informally. Should a PSD practice area be created in the future, that would be an even more appropriate institutional home given that microfinance is inherently a private sector activity and requires a business-like approach. Embedding microfinance within a PSD approach would by no means diminish its cross-cutting contributions to many sectors such as education, environment, health, and agriculture.
- *Engage RRs and DRRs.* Because RRs and DRRs are the strategy setters and operational leaders with great influence on Country Office operations, a concerted effort should be made to get them to buy-in to the *Vision Statement*. The cluster meetings may be an appropriate mechanism to disseminate the statement. Additionally, a short (approximately, two hour) presentation on the links between pro-poor financial services and poverty reduction should be developed specifically for RRs and DRRs. Additional sessions to expose DRRs with more detailed information on basic good practices, SUM's services, performance indicators and consultant selection may also be appropriate.

2) UNDP should back its commitment to results-based management by integrating transparent mechanisms to **improve accountability**.

- *Conduct UNDP-wide microfinance portfolio review.* The review team congratulates and endorses the Administrator's decision to undertake a portfolio review of UNDP's microfinance operations in 2003. The review should be conducted by an independent third party, with SUM playing a facilitating and supporting role by handling the preparation and data collection process at the direction of the independent party. A prerequisite for a meaningful review is to define criteria for identifying the portfolio, given that many projects with microfinance components are not readily recognizable. It would also be important that

the review compares the actual on-the-ground performance of UNDP microfinance projects both to internationally accepted microfinance standards and to the new vision of microfinance to be developed within UNDP. All relevant staff should be briefed on the purpose of the review as a learning opportunity upon which future decisions on microfinance can be taken. The results should be disseminated widely in the spirit of improving accountability and planning future steps in line with UNDP's objective to increase aid effectiveness and sustainability of development efforts in light of the MDGs. Given UNDP's transformation stage, care should be taken that findings are not misinterpreted by some as a means to assign blame. Significant time and resources should be dedicated to define and implement a post-review action plan.

- *Define and introduce a few, carefully selected performance standards in the management results framework.* UNDP should select a few standards against which to continuously monitor the portfolio's performance, including indicators on portfolio quality, financial sustainability, efficiency, and client outreach. Internationally developed performance standards for microfinance exist, and SUM already has a good microfinance reporting system. These indicators should then be included in the ROAR and ERP. All projects with financial services, whether component or stand-alone, should regularly report the information. SUM should work with Country Offices to make sure that DRRs, project focal points (ARRs, NPOs, JPOs), and advisers understand the rationale behind the chosen indicators. Targeted training for technical implementers and executing agencies on the reporting system may also be required. Finally, the Evaluation Office and Office of Audit and Performance Review should also understand how to check compliance with the chosen targets.

3) Building a framework for accountability is an important step, but UNDP also needs to take concrete actions, including providing incentives, to **improve quality**.

- *Incorporate microfinance expertise early on and often in the project cycle.* All RRs and DRRs should be made aware that high quality microfinance expertise is needed in all microfinance projects or components. Expertise should be involved as early as possible, even before project design. For example, Country Offices should consult with SUM before entering into discussions or negotiations with government officials on microfinance. When SUM is not available, Country Offices should seek its advice on good consultants. In many countries, qualified local consultants are available. Country Offices should use SUM's vast network to identify the best resources. It is better to delay programming than to go without the appropriate technical inputs, despite the fact that this course of action presents risks for RRs who have the often difficult responsibility of mobilizing resources and developing close relationships with governments.
- *Clean up and consolidate the portfolio.* Following the portfolio review, a strategy should be defined to improve the portfolio. In some cases, it may be necessary to close down projects. Closing projects is a difficult and time-consuming task that SUM has already undertaken in several countries. During the consolidation period, the pipeline of new microfinance projects could slow down significantly. UNDP should prioritize the consolidation and learn from mistakes and ineffective projects
- *Encourage stand-alone microfinance projects whenever possible.* Finance components of multi-sector projects have historically performed poorly across all agencies. Microfinance specialists should collaborate with colleagues in other sectors to understand the needs of populations in specific circumstances, i.e. rural, post-conflict, high HIV/AIDS prevalence

areas. However, the design, implementation and supervision of financial services projects must be done by staff with the proper knowledge and experience of microfinance. For this, financial services should be either stand-alone projects or well-defined and separately managed components.

- *Build on the “T” approach.* The “T” approach to developing deep technical skills in one specific area of the next generation of managers is very positive. Recruiting and training RRs and DRRs interested in specialist knowledge should be continued and accelerated. While managers cannot all become experts in the many UNDP practice areas and service lines, they can become “intelligent consumers” aware of their limitations and armed with questions to ask of specialists.
- *Offer incentives for good practices.* Incentives to encourage staff to seek specialist advice and to increase their own knowledge should be created. For example, Country Offices using the new reporting system or showing the best performance in microfinance could be rewarded with scholarships to international training sessions or their successes could be written up in widely-read UNDP publications.

4) **Retain and strengthen UNCDF/SUM’s role** as a cohesive global unit with the primary task of providing technical services to UNDP’s Country Offices.

- *Retain SUM as a cohesive, global unit with adequate resources to be the microfinance reference point for the UNDP group.* In partnership with UNDP Country Offices, SUM has a critical role to play in improving the quality of microfinance and protecting UNDP’s brand name. Given how quickly the microfinance field is evolving and the need for more work at the vision and strategy level on microfinance within UNDP, it makes sense to keep a critical mass of professionals together in New York.
- *SUM should focus on supporting UNDP in a strategic manner.* Over the medium term (one to two years), the urgent need for improvement is with the UNDP portfolio. SUM should spend the bulk of its time providing services to UNDP Country Offices. SUM should further develop a clear strategy for how it will organize its offer of services to the vast network of UNDP Country Offices. There is likely to be a lot of work following the portfolio review. SUM staff should build on existing services and develop new services and approaches to develop constructive relationships with UNDP staff. Examples include:
 - continue to offer and refine TAS, training and MicroStart products
 - develop a specific strategy to work more effectively with the SURFs, including the maintenance of a regional microfinance expert database
 - segment the market of potential clients within UNDP and craft messages to reach all levels, with a special focus on senior management, RRs and DRRs
 - develop short, operational “how to” notes that are easy to understand on subjects related to financial services for the poor; pay particular attention to areas which UNDP prioritizes, for example, post-conflict, environment, and empowerment
 - establish clear criteria for how Country Offices can access each type of service offered and how resource allocation decisions will be made
 - publicize SUM’s menu of services via existing mainstream UNDP media
- *SUM staff should keep their operational edge by maintaining some strategic direct investments.* It is important that SUM staff have direct control over a pool of their own money for investments, while ensuring that managing them does not consume too much time and does not distract from the priority task of spreading good microfinance practices in UNDP. First, the UNCDF budget for this purpose must be fully clarified to facilitate

planning. In addition, UNDP Senior Management should create and mobilize resources for a Microfinance Trust Fund for UNCDF/SUM to manage, enabling them to work in a more agile way in all countries, including the LDCs. The funds (both UNCDF and the trust fund) would provide SUM with the flexibility to seize opportunities to invest in, for instance, potential “show-how” institutions or to co-invest with Country Offices, providing incentives for adherence to good practices.

- *SUM should increase the number of regional advisors in strategic regions.* The regional advisors should be used to provide decentralized support to Country Offices. They should be recruited and located in a manner that supports the strategy SUM will establish for how best to support UNDP’s Country Offices.
- *Assess feasibility of UNCDF becoming an executing agency.* SUM may be able to support UNDP more directly, quickly and with fewer bureaucratic hurdles if UNCDF were to become an executing agent. A quick cost/benefit analysis should be completed (not a long, complex and drawn out feasibility study) for decision making.

5) UNDP should seek **leverage** of its limited resources, experiences on the ground and knowledge infrastructure to become more effective.

- *Seek technical as well as financial leverage.* UNDP should develop constructive partnerships with other donors to share technical staff in-country, jointly develop microfinance support strategies for countries, and to exchange lessons learned from various experiences. Other donors should not be seen only as a potential source of funds.
- *Enhance quality and application of knowledge for decision-making.* Tools such as the Semfin newsletters and technical replies, short, operational notes, and moderated virtual conferences on specific topics help to transform raw information into useful knowledge. Program managers should have time built into their terms of reference (TORs) to engage in knowledge management. Moreover, the regional bureaus should ensure that mechanisms are found to exchange lessons learnt across regions.

AID EFFECTIVENESS AND MICROFINANCE MATRIX - UNDP and UNCDF

		Analysis	Recommendations
1.	Strategic Clarity & Organizational Culture	<ul style="list-style-type: none"> • UNDP’s vision: poverty reduction and the MDGs; UNCDF/SUM’s 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 (ROAR, current MIS, internal audit system) • Institutional culture that emphasizes process and partnerships can lead to a neglect of results 	<ul style="list-style-type: none"> • Develop <i>Vision Statement</i> that defines and links pro-poor financial services to UNDP and UNCDF’s core priorities • Administrator should endorse the <i>Vision Statement</i> 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 RRs and DRRs to ensure that they fully buy-into the vision statement through specially crafted presentations and messages
2.	Technical Expertise & Resources	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Retain 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 SURFs • 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

		<ul style="list-style-type: none"> • SUM operates within an uncertain budgetary environment • RRs and DRRs are often technically weak • SURFs are a means to increase technical expertise, but there is an uneven perception of the quality of advice from SURF advisors 	<p>manage, gaining the flexibility to work in non-LDCs</p> <ul style="list-style-type: none"> • Continue to build on “T” approach • Conduct a quick cost/benefit analysis to study the feasibility of UNCDF becoming an executing agency
3.	Organizational Structure & Flows	<ul style="list-style-type: none"> • 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 SUM 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 	<ul style="list-style-type: none"> • 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, RRs, and DRRs • 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 TORs
4.	Instruments and Incentives	<ul style="list-style-type: none"> • 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 RR career track that emphasizes process and partnerships serves as a disincentive for staff to specialize • Incentives for good programming are weak or non-existent 	<ul style="list-style-type: none"> • 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 • SUM should co-invest with Country Offices, providing incentives for adherence to good practices
5.	Project Cycle	<ul style="list-style-type: none"> • Uneven application of standards across UNDP microfinance projects • 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 • SUM has helped closed down poorly performing projects in the UNCDF and UNDP portfolios 	<ul style="list-style-type: none"> • Conduct a UNDP-wide microfinance portfolio review; prepare for the review by defining criteria to identify the portfolio • 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
6.	Future Microfinance Operations	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Seek technical as well as financial leverage from partnerships with other donors

