

# Asian Development Bank Letter to Management

## Executive Summary

A team comprising David Stanton, Chief Enterprise Development Advisor of the Department for International Development (DFID), Henri Dommel, Rural Finance Advisor of the International Fund for Agricultural Development (IFAD), Syed Hashemi, Senior Poverty Specialist of the Consultative Group to Assist the Poorest (CGAP), and Alexia Latortue, Microfinance Specialist of CGAP, conducted a Donor Peer Review of the Asian Development Bank (ADB) in Manila from 8-12 July, 2002. The review is part of a 21-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 ADB to identify the success factors and constraints that influence the effectiveness of the agency's microfinance operations. As the Focal Point for microfinance, the Finance and Infrastructure Division (RSFI) of the Regional and Sustainable Development Department (RSDD) briefed the team on ADB. The Focal Point also organized meetings with over 45 staff members from the regional departments, the sector divisions, RSDD, the Human Resources Division, the Operations Evaluation Department, the Economics and Research Department, and the Management Support Division. The team shared initial findings and recommendations with Vice-President Eichenberger, senior management and staff on 12 July.

The Peer Review team considered this visit timely, given the recent re-organization of ADB and its implications for how support to microfinance is organized. The team hopes that this letter to management will enrich internal discussions and provide specific ideas on how ADB can improve the quality of its microfinance operations, and further strengthen links between regional departments and RSDD to better support financial services for the poor.

This letter outlines ADB's strengths and challenges, and presents a number of specific recommendations for change. 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 four main categories:

- ***Develop an ADB-wide Vision of Microfinance.*** ADB should achieve a common vision of microfinance and how it contributes to poverty reduction.
- ***Improve Quality of Operations.*** ADB should obtain better knowledge of its portfolio, introduce performance-based monitoring, focus its resources where they have greatest impact, and improve the quality of credit components in multi-sector programs.
- ***Increase and Enhance Technical Capacity.*** ADB should increase the number of specialist staff in RSFI. RSFI should build strong partnerships with non microfinance specialists in the regions, provide more training to microfinance specialists and non-specialists, and prioritize technical resources for countries with a significant microfinance portfolio.
- ***Improve Learning.*** ADB should promote learning across regions, sectors and field operations, pro-actively mainstreaming sound practices in microfinance.

## **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, 21 bilateral and multilateral development assistance agencies, including ADB, 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 will 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 David Stanton of DFID, Henri Dommel of IFAD, and Syed Hashemi and Alexia Latortue of CGAP, visited ADB in Manila from 8-12 July, 2002. The review team interviewed over 45 people from ADB's five regional departments (RDs). Among the sector divisions, the team met with Infrastructure; Agriculture, Environment and Natural Resources; Social Sectors; and Governance, Finance and Trade. Within RSDD, the team met with the Poverty Reduction and Social Development Division, the Finance and Infrastructure Division and the Governance and Regional Cooperation Division. Other divisions consulted included Management Support; Economic Analysis and Operations Support; Human Resources; and Operations Evaluation. The team also held telephone interviews with staff in Resident Missions in Bangladesh and Indonesia.

The Peer Review team's findings for ADB, contained in this letter to management, will be combined with those from other agencies in a synthesis report. Overall results and follow-up action will be discussed in a meeting hosted by Clare Short in Rabat, Morocco on 9 September, 2002. 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 ADB'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 the Re-organization**

ADB rededicated itself to reducing poverty in the Asia and Pacific region in 1999. Three internal documents underpin ADB's sharper focus on poverty, and set a comprehensive framework for work in this area. "Fighting Poverty in Asia and the Pacific: the Poverty Reduction Strategy" (1999) pinpoints poverty reduction as ADB's overarching goal. "Private Sector Development Strategy" (2001) argues that a strong and dynamic private sector is the engine of pro-poor economic growth, a precondition for sustained poverty reduction. "Long-Term Strategic Framework 2001-2015" (2001) provides the operating principles for implementing the poverty strategy.

Furthermore, ADB has joined the international community in adopting the International Development Goals (IDGs) to halve extreme poverty in the world by 2015. ADB has a special role in helping to meet this objective given that two-thirds of the world's poor, roughly 800 million people, live in the Asia and Pacific region.

### Strengths

Building on its commitment to poverty reduction, ADB has the following strengths:

- ADB's exclusive regional focus and location has enabled it to become a knowledgeable, long-term partner to its developing member countries (DMCs). ADB's staff and management, most of them drawn from the region, are dedicated to helping governments resolve their countries' challenges. Perhaps more than any other donor in the region, ADB has the cultural affinity, high level of trust, and ease of access to governments in member countries. These advantages are conducive to ADB's recent increased emphasis on financial sector development work, including policy reforms.
- ADB's sizeable financial and human resources and influence provide a comparative advantage in engaging governments to improve the enabling environment for financial services for the poor.
- ADB's involvement in legal and regulatory reform of the financial sector—particularly since the 1997 Asian financial crisis—positions it well to deepen financial services to underserved, poor populations. ADB understands the importance of financial markets and each regional department draws on financial expertise in its Governance, Finance and Trade Division. This knowledge and experience at all levels of the financial sector supports the emerging global vision of microfinance as an integral part of the financial sector.
- The Microfinance Development Strategy (MDS), approved by the ADB Board in June 2000, is an excellent, comprehensive and coherent document. The strategy presents a broad vision of microfinance and how it contributes to ADB's poverty reduction goal. It clearly lays out how, given permanent access to a wide range of financial services, the poor can smooth their consumption, manage their risks better, build their social, physical and financial assets, and develop their microenterprises. The strategy also builds on ADB's first decade of experience with microfinance projects, microfinance components in larger programs, and technical assistance activities, to provide clear strategic direction on what ADB should and should not support. Furthermore, the strategy envisions enhancing ADB's private sector operations to support microfinance development through equity investments, technical assistance to commercial banks interested in downscaling, and direct support for promoting microfinance industry infrastructure such as rating agencies. Finally, the strategy stresses that ADB should strengthen its human resources and knowledge base to improve the quality of its microfinance operations.
- The presence of a microfinance specialist in RSFI with no project processing or administration responsibilities offers an important—if overstretched—resource for the RDs. The technical advice provided by the Focal Point is of high quality. Moreover, technical

inputs are valued both by specialist staff who possess microfinance expertise, and by those with little technical exposure.

### **Opportunities and Implications of the Re-organization**

ADB's new organizational structure and business processes present significant opportunities to improve its effectiveness in supporting microfinance. However, certain conditions must be fulfilled for ADB to reap all the benefits of the structural changes.

- **Establishment of RSDD.** The rationale for setting up RSDD is strong. The RDs can improve the quality of their operations with the technical inputs of the competent and respected RSDD staff. However, while the department is very important to the reorganized ADB, it remains unclear whether there is an alignment of the requisite human resources, incentives and authority in the new RSDD for it to fulfill its broad mandate of quality assurance, technical support, knowledge management and regional cooperation. Indeed, RSDD may face difficulties given the challenge in matching the resources it has and its mission to improve the quality of on-going microfinance operations and upcoming programming. Balancing the role of guardian of technical standards with that of supporter and trainer of non-specialist colleagues will also be delicate. Tensions may also emerge between the RDs that manage loans—the lifeblood of ADB—and the purely advisory RSDD, which commands very limited financial resources
- **Shift of microfinance to Governance, Finance and Trade.** The team considers this shift positive, since microfinance is fundamentally about financial intermediation. Yet the structural relocation of microfinance—in all but one RD—is not accompanied by an appreciation of how microfinance really fits into the financial sector.
- **Creation of Sector Committees.** The new committees provide an important link between the RDs and RSDD, on which the quality of ADB's programs ultimately depends. The committees are also crucial to RSFI's mainstreaming activities and improving learning across regions. The effectiveness of the committees will depend on whether busy staff can make the time and are provided sufficient incentives to contribute actively to this learning process. The degree of openness and interest in the suggestions of the sector committees on the part of the RDs will also affect the committees' ultimate success.
- **Upgrading and strengthening of Private Sector Group.** ADB's increased emphasis on private sector development has led to the creation of the Private Sector Operations Department (PSOD). As indicated in the MDS, a greater engagement of private sector operations would offer attractive new possibilities for ADB to support equity investments in microfinance by commercial financial institutions.

### **Challenges**

Notwithstanding its strengths, ADB faces a number of challenges to maximizing its effectiveness in supporting pro-poor financial services.

- ADB lacks a shared vision of microfinance. Many staff have a very specific and sometimes narrow perspective on microfinance and its contributions to ADB's development efforts. Some staff see microfinance as an input to agricultural production. Others, as a one-time provision of credit to a target group. Yet others see it as a convenient add-on activity that

gives a poverty dimension to projects, or as a small-scale activity delivered primarily by NGOs. Moreover, while staff generally view microfinance as being both about financial and social intermediation, they disagree on which objectives should be prioritized, with some staff giving more weight to financial objectives and others to social objectives. These different perceptions are far from the systemic vision of microfinance offered in the MDS. The strategy views microfinance as a means of building financial systems and developing markets to serve vast numbers of the poor with a broad range of financial services, including credit, insurance, savings, payment systems and remittances. This lack of clarity about microfinance in ADB makes it difficult to include it coherently into ADB's country strategy and programs (CSPs).

- The shift of microfinance from the Agriculture, Environment and Natural Resources divisions to the Governance, Finance and Trade divisions, while positive, presents a number of challenges for current and future microfinance operations. First, some microfinance experts did not move to the finance divisions resulting in a mismatch between the structure with responsibility for microfinance and those staff with skills in this area. Second, staff in the finance sector may possess all the requisite formal finance skills, but may have limited understanding of or interest in microfinance. As a consequence, some staff worry that microfinance will become marginalized or increasingly limited to certain institutional models, with resources prioritized for work on other, formal financial markets programs. Third, it will be important to find ways to ensure that the years of accumulated knowledge in rural development is shared with colleagues in finance.
- Microfinance operations require specialist skill and can be labor-intensive. However, the incentive to get projects presented to the Board within a pre-specified time period leads to insufficient front-end technical inputs in design. Furthermore, RSFI's current official mechanism to provide quality assurance, the Comments on Quality (COQ), comes much too late. Even if project officers agree with the comments, there is often too little time to make serious modifications. However, the re-organization addresses this problem and envisions much earlier involvement of RSFI in the project cycle. The challenge will then be to align staff behavior--and capacity--with the expectations created by the re-organization. Will RSFI have sufficient resources to provide thorough assistance early on to all projects? Will project officers come to RSFI for technical advice outside of the official review procedure?
- Staff in general, and certainly the few with microfinance expertise, are overloaded. In addition to the Focal Point, there are only a handful of microfinance specialists and staff with some exposure to microfinance throughout ADB. This scarce technical capacity raises a number of questions. How can ADB ensure that microfinance loans and technical assistance projects are processed by staff with appropriate knowledge? How can ADB bolster the capacity of the non-specialists who control the majority of the microfinance portfolio? Who will monitor the performance of projects? Who will technically engage with the external consultants involved in PPTA and ADTA?
- The quality of ADB microfinance projects appears to be patchy. Problems with quality are in part due to the considerable pressure to get large loans approved. Several staff indicate that performance appraisal systems in ADB reward staff based on the volume of loans processed. Others feel that loan sizes can be artificially inflated in order to meet lending targets. This

approval culture and emphasis on volume, shared in some other development agencies, tends to distort markets, fails to take into account the absorptive capacity of institutions, and leads to ineffective microfinance programs. Microfinance typically requires relatively small amounts of money compared, for example, to infrastructure projects.

- Credit and finance components in multi-sector projects are sometimes not visible to the Focal Point. There is no systematic way to identify such components in the processing schedules other than looking at projects' names. As a result, many components do not get sufficient technical attention in design, implementation and monitoring. Some microfinance components of special co-financed grants, e.g. Japan Fund for Poverty Reduction, are not generally seen by RSFI.
- Portfolio monitoring is not very effective and does not appear to be a priority for anyone within ADB. Although quarterly monitoring reports exist, they tend to be activity-based focusing on such issues as disbursement and administrative problems. As a result, project officers have insufficient information on financial intermediaries' performance in key areas such as financial viability, portfolio quality, efficiency and outreach. The Focal Point does not have an overview of the performance of the overall microfinance portfolio. Finally, OED's activities focus primarily on post-project evaluation, so it cannot fill the gaps that exist in the monitoring of on-going projects. The lack of information on the performance of the portfolio means that ineffective projects are often not closed down and are sometimes even renewed.
- Resources are skewed towards loan processing at the expense of loan administration and monitoring. During the recent budget squeeze, for example, priority was given to travel and consultants for project design rather than loan reviews. In addition, it appears that RSFI does not have a clear mandate to support the administration of projects. Thus, it does not assume a quality assurance role beyond project approval. Moreover, even if RSFI had the explicit mandate to help project officers improve on-going operations, it most likely would not be able to perform this function owing to time constraints. Finally, the Resident Missions do not seem to have a strong role in providing implementation support even though they have the advantage of being close to projects in the field. The lack of emphasis on project administration and the resulting weak support to on-going projects is particularly troubling given that many projects are implemented by weak project implementation units.
- Along with other multilateral development banks, ADB must determine how its main instrument—credit lines to governments—can effectively support the development of sound microfinance. Evidence worldwide shows that most government agencies are not well equipped for direct provision of financial services. Moreover, reaching massive scale and working toward the emerging global vision of microfinance requires a range of flexible instruments to support a diversity of institutions offering a range of financial services.
- Knowledge management remains an important challenge although ADB's focus on this issue in the re-organization is promising. Progress on cross-regional communications has been made, but far less cross-sectoral exchange occurs. In fact, cross-sectoral work within RDs seems difficult to organize. While the Focal Point does a good job of collecting and disseminating information on microfinance, prioritization and tailoring of this information is

needed to meet the needs and time constraints of busy project officers in the RDs. Also, feedback mechanisms to extract learning from projects are weak.

## Recommendations

The Donor Peer Review team has specific recommendations, grouped under four categories, for ADB to build on its strengths and improve its effectiveness in microfinance. Many of the recommendations are aimed at finding ways to ensure better and more rapid implementation of the MDS. Some of these specific actions are already included in the MDS, but not yet reflected in ADB's microfinance operations.

- 1) ADB should **promote a shared agency-wide vision** across all RDs and sector divisions of microfinance and a common understanding of how it contributes to poverty reduction.
  - *Facilitate ADB-wide dialogue on vision of microfinance.* The Focal Point should work with the Rural and Microfinance Committee to facilitate discussions across ADB on the MDS with a wide cross-section of staff (microfinance specialists and non-specialists) and divisional and departmental Directors. As a result of these discussions, an agency-wide shared vision for microfinance should be distilled from the MDS.
  - *Craft Vision Statement and get high-level endorsement.* Various media strategies can be used to develop internal understanding and buy-in for the vision. One specific tool would be a short *Vision Statement*. This one- to two-page statement should draw on the MDS to define microfinance, how it is part of the financial sector and contributes in a cross-cutting manner to other development objectives, and how it relates to ADB's poverty reduction goal. This *Vision Statement* should be endorsed by the highest possible level of management. The Focal Point should communicate the brief *Vision Statement* widely to senior management and non-specialists.
  - *Reach out to formal finance and PSOD staff.* ADB should encourage staff working on formal financial sector issues and PSOD to develop an overall roadmap for financial systems development that includes microfinance. PSOD's involvement in microfinance should be encouraged so that ADB like other donors, can deploy non-grant financial instruments such as equity investment to provide long-term support to financial services for the poor.
  - *Develop practical, operational guidance.* ADB should translate the broad objectives and vision of the MDS (distilled in the *Vision Statement*) in a series of "how to" and "what works" briefs for staff. These briefs would help de-mystify microfinance and address specific practical constraints or questions. Examples of topics include: appraisal of microfinance institutions, structuring finance components of multi-sector projects, and improving outreach and diversity of financial services.
- 2) ADB should take specific operational steps to **improve the quality** of its operations.
  - *Perform portfolio reviews.* ADB should obtain better knowledge of its portfolio to understand which approaches have or have not worked. ADB should commission regular portfolio reviews by region in a phased fashion, with results disseminated to all RDs.
  - *Adopt simple performance-based indicators.* Drawing on new literature from SEEP, CGAP and other international networks, ADB should select 3-5 simple performance indicators for mandatory reporting on all microfinance projects, regardless of methodology, or whether

they are components or stand-alone projects. Examples of useful indicators include: portfolio quality, client outreach, operating efficiency and financial sustainability. These indicators could be introduced in PPMS and on the first page of the quarterly reports.

- *Focus and prioritize resources for particular projects.* Although the principle of selectivity is highlighted in the MDS, it not being implemented. ADB tries to do too much in microfinance without the appropriate resources, which too often produces poor results. The pre-requisite for higher portfolio quality is to be more selective on where and how to support microfinance. For instance, multi-sector projects with credit components often do not really need them. ADB should focus its limited technical resources where they will have the greatest impact and demonstration effect. ADB should prioritize its technical resources to improve operations in the three countries that account for 60% of ADB's microfinance portfolio—Pakistan, Bangladesh and Indonesia. With regard to the pipeline, ADB should avoid duplication with other donors, focusing on where it can add the most value.
  - *Track and limit components.* ADB should ensure that the Focal Point has full knowledge of credit and finance components in multi-sector projects, by developing a system to identify and track such components. Given that the overall performance of credit components in multi-sector projects across all donor agencies is extremely weak, ADB should restrict such components wherever it can.
- 3) To support its current microfinance portfolio and pipeline and to improve quality, ADB should **increase and enhance microfinance technical capacity** in RSFI, the RDs and the Resident Missions. ADB should also use the critical transition period of the reorganization to further fine-tune the role and approach of the Focal Point.
- *Increase staffing in RSFI.* ADB should increase the number of microfinance specialists in RSFI by one or two persons. Although severe constraints exist to hiring new Manila-based staff, additional resources are crucial if ADB wants to ensure RSFI's success in fulfilling its multiple internal and external roles.
  - *Build strong partnerships with RDs by providing pro-active, hands-on support.* The single, overriding priority for the Focal Point should be to build supportive partnerships with microfinance specialist and non-specialist colleagues in the RDs. The best way for the Focal Point to build strong relationships and to help deliver quality is to actively reach out and offer proactive, operational, technical support throughout the project cycle to both microfinance non-specialists and specialists. In particular, the Focal Point's early involvement in the conception of microfinance activities, starting with the CSPs and PPTA papers should be encouraged. The Focal Point should participate in fact finding missions and provide operational, hands-on technical assistance to project officers.
  - *Introduce minimum training requirement for project officers with a microfinance portfolio.* ADB should ensure that all project officers working on microfinance complete a minimum number of hours of microfinance training. The Focal Point should coordinate with the RDs to identify appropriate training and/or offer such training in-house. Given overstretched staff, a strong signal from management that all staff should receive a minimum number of hours of training per year may be necessary to ensure staff's participation. Moreover, directors' evaluations should include a section on whether they have facilitated the on-going professional development of the staff they manage.
  - *Provide two-track training.* The Focal Point should augment its past training efforts and offer a two-track training plan: advanced training for microfinance specialists, and

orientations for senior management and staff with little to no microfinance knowledge. In addition, the Focal Point could organize periodic brown bags and internal workshops on the “how to” briefs or on subjects proposed by staff. The Focal Point could draw on international resources to send the core group of specialists to in-depth, technical external workshops.

- *Create RETAs for de-centralized training.* ADB should replicate select workshops in the sub-regions with the most microfinance activity for project implementation unit staff and other DMC stakeholders involved in loan administration. Regional technical assistance projects (RETAs) could be established for this purpose.
  - *Make more technical resources available to field operations.* ADB should consider hiring national professionals with microfinance expertise for Resident Missions in countries with significant microfinance portfolios. These professionals would not work entirely on microfinance, but could have broader financial or private sector responsibilities. In addition, ADB should consider working with executing agencies to outsource loan administration support, given that project officers are focused on loan processing. ADB could identify and place on retainer field-based technical assistance providers to serve its main sub-regions.
- 4) ADB should build on the high-level commitment to knowledge management to **improve learning in microfinance** from both internal and external sources.
- *Use the Rural and Microfinance Committee more actively.* As a cross-cutting issue, microfinance has much to draw from, and contribute to, the many sectors ADB supports. Although effective informal technical networks already exist in ADB, more systematic mechanisms for learning and mainstreaming can be developed through the Rural and Microfinance Committee. Senior management should ensure that the proper incentives are in place to encourage active participation on the committees, such as creating time for committee participation in work programs and linking active involvement to compensation. Given that committee members are overburdened and some have limited microfinance expertise, the committee may be best able to serve as a two-way conduit of information between the RDs and the Focal Point. This knowledge management role should take priority over the technical review role of the committee.
  - *Leverage ground-level experiences with other donors for innovation.* ADB should capture lessons from rural finance and network with other donors to identify better approaches to the challenges of agricultural credit. It should consider co-financing innovative pilots in agricultural credit—drawing on the expertise of its staff in the Agriculture, Environment, and Natural Resources divisions—with other donors.

## AID EFFECTIVENESS AND MICROFINANCE MATRIX -- Asian Development Bank

		<b>Analysis</b>	<b>Recommendations</b>
1.	<b>Strategic Clarity &amp; Organizational Culture</b>	<ul style="list-style-type: none"> <li>• Clear focus on poverty reduction and commitment to IDGs is underpinned by key policy documents</li> <li>• Recognition of strong and dynamic private sector as engine of pro-poor economic growth</li> <li>• Exclusive regional focus and location makes ADB a knowledgeable, trusted, long-term development partner</li> <li>• Comprehensive and coherent microfinance strategy exists but not yet adequately-reflected in operations</li> <li>• Absence of an ADB-wide vision of microfinance</li> <li>• Lack of clarity about microfinance makes it difficult to include it coherently into ADB's CSPs</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate ADB-wide dialogue on vision of microfinance including microfinance specialists, non-specialists and senior management</li> <li>• Draw on MDS to craft a 1-2 page <i>Vision Statement</i> that defines microfinance, how it is an integral part of the financial sector and how it relates to ADB's poverty reduction goals; obtain senior management endorsement</li> <li>• Develop practical, operational guidance in the form of "what works" and "how to" briefs</li> </ul>
2.	<b>Technical Expertise &amp; Resources</b>	<ul style="list-style-type: none"> <li>• Formal finance expertise positions ADB well to deepen financial services to underserved, poor populations</li> <li>• Too few microfinance specialists throughout ADB and only one in RSFI</li> <li>• Staff are overloaded</li> <li>• Resources are skewed toward loan processing at the expense of loan administration</li> </ul>	<ul style="list-style-type: none"> <li>• Increase the number of microfinance specialists by one or two persons in RSFI</li> <li>• Encourage staff working in formal finance and PSOD to develop roadmap for financial systems development that includes microfinance</li> <li>• Build on past training initiatives to offer two track training: advanced training for specialists and orientations for non-specialists and management</li> <li>• Introduce minimum training requirement for project officers with a microfinance portfolio</li> <li>• Create RETA for de-centralized training to PMU staff and other DMC stakeholders</li> <li>• Make more technical resources available to the field; consider hiring local staff with microfinance expertise and outsourcing loan administration support for executing agencies to field-based technical assistance providers in select countries</li> </ul>
3.	<b>Organizational Structure &amp; Flows</b>	<ul style="list-style-type: none"> <li>• Microfinance focal point in RSFI provides high-quality technical advice to RDs</li> </ul>	<ul style="list-style-type: none"> <li>• RSFI should build strong partnerships with both microfinance specialists and non-specialists in RDs</li> </ul>

		<ul style="list-style-type: none"> <li>• Unclear whether the important RSDD has sufficient authority and resources to fulfill its broad mandate</li> <li>• Structural relocation of microfinance is not yet matched by appreciation of how microfinance really fits into the financial sector; some staff are concerned that microfinance will become marginalized over time</li> <li>• Rural and Microfinance Committee provides an as-of-yet unexploited crucial link between RSDD and RDs</li> <li>• Progress on cross-regional communications has been made, but far less cross-sectoral exchange occurs</li> <li>• Vast amounts of information is collected, but requires tailoring and prioritization to meet project officers' needs</li> </ul>	<ul style="list-style-type: none"> <li>• Use the Rural and Microfinance Committee more actively to develop systematic mechanisms for learning and mainstreaming</li> <li>• Move from raw material dissemination to the production of tailored, brief, and more operational information, including 2-page technical briefs</li> <li>• Capture lessons learned from rural finance and leverage ground-level experiences with other donors for innovation</li> </ul>
4.	<b>Instruments and Incentives</b>	<ul style="list-style-type: none"> <li>• Quality of microfinance projects appears to be patchy</li> <li>• Question of how main instrument—credit lines to government—can effectively support the development of sound microfinance</li> <li>• Considerable approval pressure and emphasis on volume can lead to compromises in quality, artificially inflated loan sizes and insufficient front-end technical inputs in design</li> <li>• Performance appraisal systems reward staff—at least in part—based on the volume of loans processed</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a tracking system to ensure that RSFI is aware of all credit components in multi-sector projects; restrict such components when possible</li> <li>• Perform portfolio reviews by region to obtain better knowledge of the microfinance portfolio</li> <li>• Prioritize technical resources to improve operations in the three countries that account for 60% of the microfinance portfolio</li> <li>• Build incentives for staff to actively participate and contribute to the committees</li> </ul>
5.	<b>Project Cycle</b>	<ul style="list-style-type: none"> <li>• Credit components are not always visible to RSFI and do not get sufficient technical attention</li> <li>• COQs come late much too late to make serious modifications to project designs,</li> <li>• Performance monitoring is not a priority for anyone and tends to be activity-based, resulting in a lack of information on financial intermediaries' performance</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt 3-5 simple performance indicators for mandatory reporting on all microfinance projects,</li> <li>• RSFI should offer active, operational, technical support at all stages of the project cycle, and especially in the early stages (CSPs, PPTA)</li> </ul>
6.	<b>Future Microfinance Operations</b>	<ul style="list-style-type: none"> <li>• Sizeable financial and human resources, and influence provides comparative advantage in policy work</li> <li>• PSOD offers new possibilities for collaboration</li> </ul>	<ul style="list-style-type: none"> <li>• Consider using non-grant financial instruments such as equity investments to provide long-term support in financial services for the poor</li> </ul>

