

# International Labor Organization Letter to Management

## Executive Summary

A team comprising Hege Gulli of NORAD, Peter Kooi of UNCDF/UNDP, and Brigit Helms and Alexia Latortue of CGAP conducted a Donor Peer Review of the International Labor Organization (ILO) in Geneva from 10-14 February, 2003. The review is part of a 17-agency initiative launched by Development Ministers, heads of agencies, and CGAP to concretely tackle aid effectiveness by using microfinance as a test case.

The Peer Review focused on the internal procedures, practices and processes of the ILO to identify the success factors and constraints that influence the effectiveness of the agency's microfinance operations. Director-General Juan Somavia launched an invitation to ILO staff to participate in the review. The review team met with about 80 persons from the four sectors, REGIONS, and several offices reporting directly to the Director-General. In REGIONS, the team met with CODEV and called field offices. Other offices consulted include CABINET, GENDER, HRD, PROGRAM, EXREL, DCOMM, VERIF, TURIN, and the Washington, D.C., New York, and London branch offices. The team also consulted with Executive Directors Tapiola, Hultin, Diop, Paxton and Trémeaud. The team briefed Mr. Somavia on 13 February, and Mr. Hultin on 14 February. Other managers and staff attended a de-briefing session on 14 February.

During its November 2002 meeting, the Governing Body gave broad and strong encouragement for the ILO to continue its work on pro-poor financial services (GB.285./ESP/3 and GB.285.13). With this mandate, the ILO is well poised to further integrate microfinance into the Decent Work Agenda. The team hopes that this letter to management will contribute specific ideas on how the ILO can achieve greater coherence in its microfinance activities across the four sectors, and continue to develop an operational microfinance strategy on the basis of its distinctive mandate.

This letter outlines the ILO'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 four main areas:

- ***Establish a shared vision and objectives for pro-poor financial services.*** The ILO should develop an Office-wide consensus on its vision and objectives in financial services, and articulate an operational strategy to underpin the attainment of its objectives.
- ***Develop a Framework Approach.*** The ILO should approach resource mobilization proactively and invite donors to buy wholesale into its operational strategy for microfinance.
- ***Clarify the function of the microfinance focal point.*** The ILO should build on SFP's capacity and allocate resources for spreading good practices through a recognized focal point.
- ***Increase accountability and improve quality.*** The ILO should pursue the following five inter-related activities: integrate financial services in the Programme and Budget; link with specialized institutions; establish a system to "flag" projects with microfinance; avoid revolving funds; and track key performance indicators.

**Background**

Early in 2002, Development Ministers, heads of agencies, and CGAP launched an initiative to improve aid effectiveness, using microfinance as a test case. As a first step, 17 bilateral and multilateral development agencies, including the ILO, 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 to identify success factors and constraints to good practices in microfinance.

The short but intensive reviews result in concrete recommendations for each agency. The recommendations 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 Hege Gulli, Microfinance Advisor of NORAD, Peter Kooi, Director of the Special Unit for Microfinance, UNCDF/UNDP, Brigit Helms, Lead Microfinance Specialist of the Consultative Group to Assist the Poor (CGAP), and Alexia Latortue, Microfinance Specialist of CGAP, visited the ILO in Geneva from 10-14 February, 2003.

The review team interviewed about 80 people, including the Director-General and five Executive Directors. The team’s meetings spanned the four sectors (Standards and Fundamental Principles and Rights at Work, Employment, Social Protection, and Social Dialogue), as well as Regions and Technical Cooperation, and several offices reporting directly to the Director-General. The team also called several offices and multi-disciplinary teams (MDTs) in the field and met with external partners such as UNHCR and independent consultants. The table below summarizes the different parts of the house with whom the team met.

<b>NORMS</b>	<b>EMP</b>	<b>PROTECT</b>	<b>DIALOGUE</b>	<b>REGIONS</b>	<b>Reporting to the DG</b>
ED/NORM EGALITE APPL DECLARATION IPEC	ED/EMP EMP/STRAT IFP/SKILLS EMP/RECON IFP/CRISIS EMP/INVEST IFP/SEED COOP GENPROM SFP	ED/PROTECT SOC/POL MIGRANT ILO/AIDS STEP	ED/DIALOGUE ACT/EMP ACTRAV SECTOR	ED/REGIONS CODEV/COMBI AMERICAS ASIA	CABINET Integration GENDER HRD PROGRAM EXREL NYLO, WBO, London DCOMM VERIF TURIN

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 the ILO will also be combined with those from other agencies reviewed in a synthesis report. Such a synthesis report already exists for agencies reviewed in 2002. 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 late 2003/ early 2004 to share experiences and reforms made as a result of the exercise.

Building on what the team learnt through interviews and documents, this letter outlines the ILO's strengths and challenges with respect to applying good practices in microfinance. It then offers a number of specific recommendations for the ILO. Finally, a summary matrix presents the key findings and recommendations according to six analytical areas.

## **Strengths**

The ILO's history, mandate, and structure distinguish it from other development assistance agencies. Most striking is the Office's unique tripartite structure, with equal representation for workers, employers, and governments. The Office partners with the three constituents to address the needs of workers in a holistic fashion that goes beyond the development of labor standards. Leading ILO policy documents, the 1919 Constitution and the 1944 Philadelphia Declaration, firmly anchor the Office's work in a social justice perspective concerned with poverty reduction: "poverty anywhere is a threat to peace everywhere." Introduced by Director-General Somavia in 1999, the Decent Work Agenda is the most recent articulation of the ILO's commitment to promoting employment, rights, social protection, and social dialogue.

The ILO's social justice and rights-based approach to development recognizes the multi-dimensional aspects of poverty. This way of thinking is perfectly in line with the new global vision of microfinance as a wide range of client-responsive financial services with cross-cutting contributions to attaining the Millennium Development Goals (MDGs). Though not a panacea for all social and economic problems, access to financial services provides poor people with options and opportunities to build human, social and physical capital. Flexible services that include credit, savings, remittances, and insurance, empower poor people to take control of their financial lives. The results often are increased investments in health care, schooling, housing, businesses, and greater gender equity.

The elements of the ILO's specific strengths related to pro-poor financial services follow:

- Microfinance benefits from the recent, clear mandate of the Governing Body to articulate the link between financial services, the Decent Work Agenda, and the priorities of the social partners and government (GB.285.13). For the first time, microfinance is explicitly recognized as a legitimate area of activity to fulfill the strategic objectives of the ILO and to help meet the MDGs. The November 2002 mandate opens the way for the Social Finance Programme (SFP) and other parts of the house interested in financial services for the poor to develop programmes in a more strategic and pro-active fashion.
- The ILO is engaging in a serious dialogue about the links between poverty eradication and the Decent Work Agenda. This dialogue has resulted in a greater interest on the part of management and staff in the informal economy, and the role of employment in national poverty reduction strategies. The ILO also launched the World Commission on the Social Dimension of Globalization in February 2002 to examine how the benefits of globalization can reach more people, and to identify globalization policies that reduce poverty. The openness to engaging with the informal economy is especially important for microfinance, given that most of the world's poor people and most microfinance clients are dependent on the informal economy.

- A well-respected and highly motivated microfinance technical unit--SFP--is in place. Although microfinance projects and components emanate from many parts of the house, SFP offers a critical mass of people with solid skills and knowledge of international experiences in supporting microfinance. Equally important, SFP is eager to function as a focal point or resource center on microfinance. SFP staff often reach out on an extracurricular and volunteer basis (in addition to their project responsibilities) to support colleagues in design, implementation and monitoring of microfinance projects. On two occasions, SFP compiled an inventory of microfinance projects throughout the house. SFP's expertise is recognized by UNHCR, which recently partnered with the unit to develop a training manual on microfinance in conflict-afflicted communities.
- Management and staff in all sectors demonstrate a great deal of creativity in designing microfinance projects that build on the Office's unique structure and core values. The ILO is exploring numerous innovative topics in microfinance such as micro-insurance, remittances, and leasing. This cutting-edge research and pilot projects are emerging from staff's explorations of the link between finance and the Office's work in child labor, social protection, bonded labor, and crisis situations.
- Staff exhibit a willingness to learn and an openness to new ideas that bodes well for internalizing new concepts of good practice in microfinance. They are interested in practical solutions that both embody the Office's core values and enable projects to be sustainable.

**Challenges**

Some organizational characteristics of the ILO can be considered a double-edged sword, presenting potential opportunities and risks for the Office's ability to effectively deliver quality development assistance in general.

**Organizational Characteristics: Opportunities and Risks**

<i>Characteristics</i>	<i>Opportunities</i>	<i>Risks</i>
<b>Tripartite structure &amp; history</b>	<ul style="list-style-type: none"> <li>➤ unique and organized access to social partners</li> <li>➤ strong focus on employment creation</li> </ul>	<ul style="list-style-type: none"> <li>➤ unease about engaging with the informal economy persists among some staff</li> <li>➤ role of poverty eradication in the ILO's program remains uncertain</li> </ul>
<b>Decent work agenda &amp; strategic objectives</b>	<ul style="list-style-type: none"> <li>➤ provides framework that is easily understood by external partners</li> <li>➤ "decent work" represents a shared vision for all ILO staff</li> <li>➤ marries economic and social goals; "quantity and quality of work"</li> </ul>	<ul style="list-style-type: none"> <li>➤ implementation lags behind the shared vision → how to operationalize decent work agenda</li> <li>➤ silos have emerged around the four strategic objectives and disincentives are in place for collaborating within and between sectors</li> <li>➤ difficult to address cross-cutting issues</li> </ul>
<b>Resource mobilization</b>	<ul style="list-style-type: none"> <li>➤ promotes entrepreneurial behavior among staff</li> <li>➤ offers possibility of funding new and innovative projects in a zero growth context</li> <li>➤ encourages expanded partnerships with key donors (e.g. DFID, Netherlands)</li> </ul>	<ul style="list-style-type: none"> <li>➤ TC is driven by donors' priorities, resulting in a lack of strategic programming and lost opportunities for learning</li> <li>➤ some donors do not apply good practices</li> <li>➤ staff time is diverted away from operations; overwhelms management capacity</li> <li>➤ competition for funds may create confusion among donors that receive solicitations from diverse parts of the house</li> </ul>

In addition to these organizational characteristics, the ILO faces several challenges in the area of human resource management that have serious implications for quality assurance. The organizational culture and work environment causes stress for many staff and compromises long-term strategic planning. The instability of staff contracts financed through technical cooperation projects (not core budget) diverts energy to contract renewal and resource mobilization for survival, further diminishing effective capacity. The ILO also has limited scope for investments in staff training. With the exception of the associate expert program, the budget structure does not allow for internal capacity building.

More specifically, the ILO faces a number of challenges to maximizing its effectiveness in pro-poor financial services.

- There is no shared vision, objective, and strategy for pro-poor financial sector work at the ILO. As a consequence, the Office as a whole appears to be unclear about how to strategically position microfinance internally *vis-à-vis* other activities, and externally *vis-à-vis* donor agencies. Differing and competing views of what microfinance is and can accomplish prevail. Some staff are uncertain about when and under what conditions microfinance is an appropriate development response. Microfinance projects are all over the map and there is little coherence in the portfolio. Many staff equate microfinance to microcredit, with the exception of those working on innovative areas in microfinance. Designed as a resource transfer, credit is sometimes used as an incentive to attract target populations to projects. Moreover, some staff have unrealistic expectations about microcredit's ability to deliver certain results, for example, the enforcement of labor standards. Finally, some staff interviewed express a discomfort at the idea of the ILO becoming too "bank-like" in its approaches.
- The often conflicting, and frequently narrow views of microfinance translate into the uneven application of good practices related to achieving breadth of outreach, depth of outreach, sustainability, permanence, and efficiency. Credit components in projects emanate from all parts of the ILO with mixed results. Numerous staff assume that credit is always a binding constraint to achieving social objectives, and that it can easily be added into projects. A number of staff interviewed indicated that no systematic analysis is done to study market demand to understand whether credit is a constraint.
- Financial services are not included in the operational objectives of the 2004-5 biennium Programme and Budget, contributing to a lack of visibility in the management and budget framework, and in the organizational chart. This exclusion means that there is no Office-level strategy for the ILO's work in financial services, nor are there specific indicators or targets. Pro-poor financial services are also largely absent from overarching policy initiatives such as the informal economy, the Poverty Reduction Strategy Papers, and the Global Employment Agenda.
- There is insufficient technical capacity in microfinance at the ILO to effectively support microfinance projects and components. Specifically, there is a mismatch between the sectoral location of most staff with microfinance expertise and the concentration of the greatest number of projects. SFP is centralized in the employment sector, while the largest number of projects with microfinance components currently are in IPEC. Furthermore, there

is insufficient collaboration between SFP staff and those with knowledge and experience in pro-poor financial services dispersed throughout the house. Consultation that does take place tends to be ad-hoc and based on informal contacts.

- The MDTs do not appear to include experts with a specialization in financial sector and/or microfinance issues, leaving field offices without easy access to expertise, backstopping, and advisory services.
- Quality assurance and control mechanisms are very weak during project origination, design, and implementation. There are no rules or incentives--positive or negative--for staff originating or designing microfinance projects or components to systematically consult with SFP. As a result, microfinance projects can be designed, approved, managed, and supervised with no specialist involvement. This lack of technical review is particularly acute for credit components within multi-sector projects.
- The focal point function for pro-poor financial services is very precarious. As a result, the technical resources within the ILO are not optimized, duplication of efforts leads to redundancy, and quality is compromised. A number of issues contribute to the uncertain role of SFP as a focal point:
  - Lack of precedence of focal point function in the ILO. Unlike many other agencies, there is no formal system of focal points or advisory units to support the main sectors in which the ILO works. An exception is GENDER, which enjoys political support from the top and financial resources from the core budget, and successfully engages in active mainstreaming.
  - A number of questions arise regarding the possible roles of a financial services focal point: quality assurance, resource center, technical assistance provider, or external representation? How would a combination of these roles be managed?
  - Inadequate human and financial resources curtail the focal point's ability to focus outwards and engage deeply with colleagues in other departments and sectors. Only two positions are funded from the core budget. Remaining staff are on technical cooperation projects.
  - Several institutional obstacles to spreading good practices are in place:
    - Lack of universal acceptance of SFP as the focal point
    - Perception that a focal point might not be relevant across all parts of the house because microfinance is isolated from Office priorities
    - Absence of guidance from senior management about the need to consult with technical experts and/or the focal point when designing projects
    - No discernable project cycle and dispersed project origination that make it difficult to identify the most appropriate timing for technical inputs
    - Compartmentalization (silos within silos) that discourages collaboration and teamwork
    - Resource mobilization pressure that overrides concerns of quality
    - Culture that permits professional differences and conflicts to persist, stifling open communication among colleagues
- There is insufficient knowledge of the content and performance of the microfinance portfolio throughout the ILO. No central depository for this information exists, nor is there a common

understanding of what information should be tracked. In many cases, inappropriate monitoring systems emphasize inputs and outputs instead of outcomes and results.

- The role and comparative advantage of the ILO's support to pro-poor financial sector work is unclear. There is disagreement within the house about the primary role of the ILO-- knowledge organization or policy advisor or operational implementer. This lack of clarity is further compounded in the area of microfinance given the absence of a shared vision and strategy. As a result, the ILO is not able to clearly determine its value-added in this sector, above and beyond what the other development assistance agencies do.

## Recommendations

The Peer Review team has specific recommendations for the ILO to build on its strengths and to improve its effectiveness in pro-poor financial services work.

- 1) The ILO should **establish an Office-wide shared vision for pro-poor financial services** and articulate a concrete operational strategy to support that vision.
- *Launch a process to build consensus on a vision for pro-poor financial services.* With the support of top management, SFP should engage the social partners and colleagues across sectors and regions in a dialogue to develop a *Vision Statement* for microfinance at the ILO. This statement would outline a vision for the role and future of pro-poor financial services in the ILO as well as the Office's main objectives and strategic positioning in this area. The process of engagement and dialogue is as important as the end product. SFP should explore precedents within the house for building this type of consensus. The PRSP steering committee and the gender network are useful examples. SFP could also consider the strategy of ILO/AIDS to identify "champions" or persons interested in the issue in all relevant departments, sectors, and in the MDTs. Revitalizing the dormant Inter-department Working Group on Finance may also be an effective way to draw colleagues into the process. Once defined, the *Vision Statement* should be backed by the Director-General and included in key policy initiatives such as the Poverty Reduction Strategy process and the Global Employment Agenda.
  - *Articulate an operational strategy.* The *Vision Statement* must be underpinned by an operational strategy. The strategy should emphasize the ILO's core values and explicitly link ILO activities in financial services to the interests of the ILO constituents. Developing the strategy will require further consultations between SFP and a wide cross-section of staff.
  - *Focus operations tightly around the shared vision and strategy.* The ILO should pursue pro-poor financial services work that falls directly from its shared vision and operational strategy. Based on the ILO's mandate and strategic objectives, the ILO should continue to reflect on its comparative advantage and identify specific market niches for itself. Possible areas the ILO may explore include:
    - Constituency-based work is an area where the ILO could really innovate. Examples include collective bargaining with banks to ensure workers' access to finance; worker banks; employee services such as ATMs in the workplace; and working with social partners on the democratization of the financial sector (property rights, collateral laws).
    - Reduction of vulnerability through micro-insurance, emergency loans, and the links between finance and international labor standards. Though tensions between a financial

sector perspective and a social protection perspective may exist, for example in micro-insurance, the ILO should delve head-on into the differences to demonstrate where common ground may exist.

Small enterprise finance in both developing and industrialized countries.

- 2) The ILO should **develop a framework approach** to mobilize resources for its operational strategy for pro-poor financial services in a pro-active fashion.
  - *Offer strategy as a package to donors.* SFP and other interested departments should collaborate with CODEV to develop a programmatic, proactive approach to resource mobilization. This approach could entail presenting donors with a comprehensive package for financial services work within the ILO that they could “buy into” wholesale. The ILO would market its operational strategy and ask donors to fund the pieces that interest them the most. This way, ILO strategy will be leading funding decisions, rather than funding requirements leading the strategy. Donor interest in this approach should be high, especially if the ILO focuses its operations in innovative areas linked to its unique mandate and structure.
  - *Design umbrella projects.* Within the framework approach, the ILO could design financial sector umbrella projects at the field or regional level that cover the breadth of the ILO’s possible interventions. The umbrella projects would have one overall manager, with technical advisors for each area of specialization, for example, remittances or micro-insurance. Such an approach would increase the coherence of the ILO’s microfinance operations at the field level and reduce transaction costs linked to piece-meal resource mobilization.
  - *Change systems to enable resource sharing within and between sectors.* CABINET, PROGRAM and CODEV should assign a small working group the task of devising a system that allows joint ventures between departments/sectors and pooled resource sharing. A framework approach to operations and resource mobilization must be matched by incentives for staff to work in a more integrated and collaborative way.
- 3) The ILO should **clarify the function of a recognized microfinance focal point/resource center** that builds on the existing capacity of SFP.
  - *Build on the existing capacity of SFP.* SFP should be confirmed as the focal point, with a specific mandate to proactively offer services to colleagues in other departments and sectors. This commitment to a focal point function should be reflected in the organizational chart.
  - *Allocate resources for spreading good practices.* The ILO should include person-hours and an accompanying budget for spreading good practices in framework agreements with donors. Explicitly budgeting for focal point tasks will help stabilize the expert staff in SFP. SFP cannot market its services proactively without the human and financial resources to then meet the demand.
  - *Cultivate helpful, hands-on, relationships with colleagues.* SFP will only be able to fulfill its focal point role completely if it gains the trust of its colleagues. To do this, SFP should offer a mix of services related to the following roles: facilitator, technical support, resource center, and external representation. Quality assurance rather than control should be the primary focus of the unit. Through regular in-house presentations, workshops, and brown bag lunches, SFP should build up a microfinance network composed of key resource persons both

in Geneva and in the field. The exchange of information would be two-way, with SFP staff learning about different activities and realities from colleagues in other departments and sectors.

- *Identify project proposals early on.* SFP should develop formal and informal systems to ensure that it is aware of project ideas that involve microfinance early on. The executive directors of all sectors should send strong signals to staff that they should consult with SFP in the early stages of project conception and design.
  - *Develop and disseminate practical tools and checklists.* To help colleagues who are not specialists in microfinance, SFP should develop easy-to-use tools for when and how microfinance can be considered, for example, bonded labor, post-conflict, child labor, and HIV/AIDS. Whenever possible, SFP should draw on resources that already exist from within the UN system, other development assistance agencies, and CGAP.
- 4) To **increase accountability for results and improve the quality** of its microfinance operations, the ILO should pursue the following five inter-related activities.
- *Explore desirability/feasibility of incorporating financial services into Programme and Budget.* Building on the Governing Body's mandate and following the development of the *Vision Statement*, top management should consider integrating microfinance in a more visible manner in future Programme and Budgets. Integrating financial services in this document will give it more responsibility (target and budget) and accountability (indicators).
  - *Link with specialized institutions.* International experience shows that financial services are most effective when they are designed and delivered by specialized institutions. The ILO should always partner with professional, specialized financial institutions in projects that include the delivery of financial services.
  - *Avoid revolving funds.* Before adding credit components to projects, ILO staff should answer key questions about the existing sources of finance and client needs in the area of the project. Without this upfront market research, credit should not be included in projects. Revolving funds have serious limitations to building financial services for the poor. Most often, they are not effective and results tend to be one-off and limited to the life of the project.
  - *Establish a system to identify the portfolio of both microfinance stand-alone projects and credit components.* Transparency of operations is a first step in assuring effectiveness. SFP should work with colleagues in Geneva and in the MDTs to develop systems to identify projects with microfinance. SFP should proactively encourage departments to use the system, and should perform regular trend analysis on the portfolio. This analysis could help management align technical resources to where the portfolio is and identify patterns in performing and non-performing projects by country, type of project, etc.
  - *Track performance of key indicators.* All projects involving finance or credit components should track the same, basic key performance indicators. Drawing on international good practices and existing systems like the MIX Market, SFP should select key indicators for reporting on microfinance across the Office. The new reporting indicators could be phased in, starting perhaps with IPEC. Phasing will allow time for SFP to train colleagues on how to interpret the information. SFP staff could also work with MDTs in the regions with the most microfinance activity to ensure the availability of support to collect and analyze the new indicators in the field.

## AID EFFECTIVENESS AND MICROFINANCE MATRIX – International Labor Organization (ILO)

		<b>Analysis</b>	<b>Recommendations</b>
1.	<b>Strategic Clarity and Organizational Culture</b>	<ul style="list-style-type: none"> <li>• Unique tripartite structure offers organized access to social partners and a strong focus on employment creation</li> <li>• Social justice approach to poverty reduction</li> <li>• Decent Work Agenda represents a shared vision for all ILO staff, but implementation lags</li> <li>• Dialogue about links between poverty eradication and Decent Work results in greater openness to engaging with the informal economy, although unease persists among some staff</li> <li>• Microfinance enjoys recent mandate from Governing Body to further integrate financial services into Decent Work</li> <li>• No shared vision, objective and strategy for pro-poor financial services results in its unclear strategic positioning</li> <li>• Often conflicting and frequently narrow views of microfinance within the Office translate into uneven application of good practices</li> <li>• Financial services are not included in Programme &amp; Budget</li> <li>• Competition for funds may create confusion among donors that receive solicitations from diverse parts of the ILO</li> <li>• Staff exhibit openness to new ideas that bodes well for internalizing good practices in microfinance</li> </ul>	<ul style="list-style-type: none"> <li>• Launch a process with the social partners and colleagues across sectors and regions to build consensus on a vision and objectives for pro-poor financial services</li> <li>• Articulate an operational strategy to underpin the attainment of the objectives. The strategy should emphasize the ILO’s core values and explicitly link activities in financial services to constituents’ interest</li> <li>• Focus operations tightly around the shared vision, objectives, and strategy</li> <li>• Explore desirability/feasibility of incorporating financial services into future Programme &amp; Budgets to give microfinance more responsibility (targets and budget) and accountability (indicators)</li> </ul>
2.	<b>Technical Expertise &amp; Resources</b>	<ul style="list-style-type: none"> <li>• Management and staff demonstrate creativity in designing projects that build on the Office’s structure and core values</li> <li>• Well-respected and highly motivated SFP is eager to function as a focal point/resource center for microfinance, but is not universally recognized as the focal point</li> <li>• Perception that the focal point might not be relevant across the ILO because microfinance is isolated from Office priorities</li> <li>• Budget structure does not allow for investments in internal capacity building (exception: associate expert program)</li> <li>• Insufficient technical capacity in microfinance to effectively support microfinance projects and components</li> <li>• MDTs do not appear to include microfinance expertise</li> <li>• Focal point function is very precarious</li> </ul>	<ul style="list-style-type: none"> <li>• Build on the existing capacity of SFP to clarify the function of a recognized microfinance focal point/resource center</li> <li>• Include person-hours and an accompanying budget for spreading good practices in framework agreements with donors</li> <li>• SFP should cultivate helpful, hands-on relationships with colleagues, offering a mix of services related to the following roles: facilitator, trainer, technical support, resource center, and external representation</li> <li>• SFP should identify project proposals with microfinance early on</li> <li>• SFP should develop practical tools and checklists</li> </ul>

		<ul style="list-style-type: none"> <li>• Unstable contracts diverts staff energy to contract renewal and resource mobilization, diminishing effective capacity</li> <li>• Resource mobilization pressure promotes entrepreneurial behavior among staff but may override concerns of quality</li> <li>• Resource mobilization enables the funding of new and innovative projects in a zero growth context</li> </ul>	<p>for colleagues who are not specialists in microfinance</p> <ul style="list-style-type: none"> <li>• Develop a programmatic, pro-active approach to resource mobilization by presenting donors with a comprehensive package for financial services work into which they can “buy-into” wholesale → ILO strategy will then lead funding decisions, rather than funding requirements leading the strategy</li> </ul>
3.	<b>Organizational Structure and Flows</b>	<ul style="list-style-type: none"> <li>• Internal walls between and among sectors makes it difficult to address cross-cutting issues and to promote teamwork</li> <li>• Mismatch between the sectoral location of most staff with microfinance expertise and the concentration of the greatest number of projects; consultation that takes place tends to be ad-hoc and based on informal contacts</li> <li>• Culture that permits professional differences and conflicts to persist, stifling open communication among colleagues</li> </ul>	<ul style="list-style-type: none"> <li>• SFP should build a microfinance network composed of key persons both in Geneva and the field for the two-way exchange of information; SFP would learn about the different activities and realities from colleagues in other departments and sectors</li> </ul>
4.	<b>Instruments and Incentives</b>	<ul style="list-style-type: none"> <li>• Disincentives are in place for staff collaboration within and between sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Assign a small working group the task of devising a system that allows for joint ventures between departments/sectors and pooled sharing of resources</li> </ul>
5.	<b>Project Cycle</b>	<ul style="list-style-type: none"> <li>• Risk that donors’ priorities drive technical cooperation projects, resulting in a lack of strategic programming, little control over quality, and lost opportunities for learning</li> <li>• No discernable project cycle and dispersed project origination makes it difficult to identify the most appropriate timing for technical inputs</li> <li>• Absence of guidance from senior management about need to consult with technical experts/focal point when designing projects</li> <li>• Quality assurance mechanisms are very weak during project origination, design, approval, and implementation, especially for credit components within multi-sector projects</li> <li>• Insufficient knowledge of the content and performance of the microfinance portfolio</li> <li>• Expanded partnerships with key donors (DFID, Netherlands)</li> </ul>	<ul style="list-style-type: none"> <li>• Design financial sector umbrella projects at the field or regional level that cover the breadth of the ILO’s possible interventions; this approach would increase the coherence of operations on the ground and reduce the transaction costs linked to piece-meal resource mobilization</li> <li>• Partner with professional, specialized financial institutions for financial service delivery</li> <li>• Avoid revolving funds</li> <li>• Establish a system to identify the portfolio of both microfinance stand-alone projects and credit components</li> <li>• Track performance of key indicators for all projects with credit components and perform trend analysis</li> </ul>
6.	<b>Future Microfinance Operations</b>	<ul style="list-style-type: none"> <li>• Role and comparative advantage of the ILO’s support to pro-poor financial sector work is unclear</li> </ul>	<ul style="list-style-type: none"> <li>• Consider specific market niches such as constituency-based work; reduction of vulnerability; and small and micro enterprise finance</li> </ul>

