

Kreditanstalt für Wiederaufbau Letter to Management

Executive Summary

A team comprising Anne Clerc of AFD, David Ferrand of DFID, and Syed Hashemi and Alexia Latortue of CGAP conducted a Donor Peer Review of Kreditanstalt für Wiederaufbau (KfW) in Frankfurt from 14-18 October, 2002. The review is part of a 20-agency initiative launched by UK Secretary of State Clare Short 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 KfW to identify the success factors and constraints that influence the effectiveness of the agency's microfinance operations. The financial sector policy group within the Secretariat of International Credit provided the team with an orientation to the entire German development cooperation which, under the supervision and guidance of BMZ, includes GTZ, DEG, and KfW. The team met with 40 persons from throughout KfW's financial cooperation arm, DEG, GTZ, and BMZ. The team briefed Wolfgang Kroh, member of the Board of Managing Directors of KfW, and other senior managers and staff on 18 October.

The Peer Review's visit was timely, given the impending implementation of KfW's re-organization in January 2003. The team hopes that this letter to management will contribute specific ideas of how KfW can reach the stated objectives of its re-organization: increasing sector know-how; overcoming the gap between sector policy development and implementation; and, promoting the sharing of learning, new instruments and innovation across regions.

This letter outlines KfW'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 six areas:

- ***Achieve financial systems development (FSD) vision.*** KfW should further develop the operational definition of what FSD means, its comparative advantage in FSD work, and how it can best collaborate with other donors to develop financial systems for the poor.
- ***Ensure the long-term effectiveness and development impact of the greenfield strategy.*** KfW should think systematically about exit strategies from the very beginning and proactively address the issues of institutional capacity building and governance of its partners.
- ***Consider expansion in Africa and Asia with caution.*** KfW should define its actual and potential comparative advantage in working on microfinance in Africa and Asia before making decisions on whether and how to expand in these regions.
- ***Optimize the new structure for improving quality.*** KfW should build incentives, create a quality at entry committee, collect global portfolio data in an automated central database, preserve program knowledge, and maximize the use of local offices.
- ***Address financial implications of supporting microfinance.*** KfW should obtain greater transparency of the costs of microfinance projects and pursue creative financing mechanisms to reduce aggregate KfW transaction costs.
- ***Revisit the issue of state guarantees with BMZ.*** KfW should engage BMZ in discussions on the possibility of waiving the state guarantee requirement for private sector work, thus enhancing KfW's effectiveness in supporting 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, 20 bilateral and multilateral development agencies, including KfW, 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 Anne Clerc, Microfinance Specialist of Agence Française de Développement (AFD), David Ferrand, Financial Sector Specialist of the Department for International Development (DFID), Syed Hashemi, Senior Poverty Specialist of the Consultative Group to Assist the Poor (CGAP), and Alexia Latortue, Microfinance Specialist of CGAP, visited KfW in Frankfurt from 14-18 October, 2002.

The review team interviewed 40 people. In Frankfurt, the team met with staff from throughout KfW's financial cooperation arm,¹ including the policy (ASa) and development cooperation strategies (ASb) departments, all regional departments, the Evaluation Department, the Board of Managing Directors, and held a telephone interview with Deutsche Investitions-und Entwicklungsgesellschaft (DEG). The team also traveled to Bonn to meet with the Ministry for Economic Cooperation and Development (BMZ), and to Eschborn to meet with Gesellschaft für Technische Zusammenarbeit (GTZ).

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 KfW 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 KfW's strengths and challenges with respect to applying good practices in microfinance. It then presents a number of specific recommendations for KfW, some of which may imply actions from other parts of the German development cooperation system. Finally, a summary matrix presents the key findings and recommendations according to six analytical areas.

¹ KfW also works domestically. Its international development assistance work falls under "financial cooperation."

Strengths

After the collapse of the state bank approach, the German development cooperation embraced a new way of thinking about and working on the financial sector: financial systems development (FSD). The 1994 BMZ sector strategy paper, “Financial Systems Development - Promotion of Savings and Credit” articulates the importance of the financial system for economic and social development.

Against this backdrop, KfW, the implementing agency of the Ministry’s financial cooperation to developing countries, is actively engaged in small and medium enterprise (SME) finance and microfinance as part of a comprehensive approach to supporting pro-poor financial services. In few other development agencies is microfinance so clearly embedded in a financial sector perspective, both conceptually and organizationally. As a result, microfinance projects are managed by financial sector specialists in a business-like manner. KfW is to be congratulated for this clarity of vision and adherence to international sound practices for microfinance.

Building on the central role FSD occupies in the German development and poverty reduction strategies, KfW exhibits the following strengths related to microfinance:

- There is a unique coherence between KfW policy and staff’s beliefs about what microfinance is and why KfW is engaged in supporting its development. Senior management, project managers and technical advisory staff, including rural development staff, are committed to a FSD approach. The lion’s share, if not all, of microfinance projects emanate from the financial sector teams in the various regions. Staff believe in the link between FSD, private sector-led growth, and the German development cooperation’s overarching goal of poverty alleviation.
- A conceptual and operational commitment to following the 1995 “Guiding Principles for Selecting and Supporting Financial Intermediaries” (otherwise known as the *Pink Book*) is fully evident at KfW. The sustainability of microfinance projects is expected and project design, implementation and monitoring incorporates this expectation at every step. The recently created independent Evaluation Department that reports directly to the Board includes sustainability as one of six key aspects considered in the final evaluation of projects’ development effectiveness.
- KfW staff are uniformly highly qualified, motivated, results-oriented, and dedicated to performing quality work. The institutional culture places a high premium on technical skills and everyone working on microfinance has a finance or economics background. Unlike many other agencies, the trend is towards the greater specialization of staff. A rigorous recruitment strategy ensures that the best candidates with appropriate academic qualifications are hired. Staff performance evaluations are taken very seriously and promotions are competitive and linked to performance. Financial sector work at KfW also benefits from the fact that KfW is a bank. Staff takes pride in this status that differentiates them from other development assistance agencies. Frequent exchanges of staff occur between financial cooperation and the more traditional banking arm of KfW.

- A technically strong and accessible microfinance focal point (representing a total of 1 ½ persons' time drawn from 2 people) provides highly valued technical advice, quality assurance, knowledge management, and networking services. Staff report calling on the focal point often for informal consultations, including reviewing TORs and appraisal reports, as well as more formal project reviews. Staff also count on the focal point to collect experiences and case studies on new approaches, products, and financing instruments from the international microfinance field.
- Management and staff demonstrate strong leadership and creativity in leveraging KfW's development instruments, relationships, and resources to support innovative and effective microfinance operations. KfW firmly believes that competition and the use of a variety of approaches (upscaling, downscaling, and greenfielding) are important to enhance financial service delivery to people without access to formal banking services.
 - ✓ KfW's purchase of DEG in 2001 provides greater flexibility to make equity investments in financial intermediaries. The equity instrument has proved critical in the "greenfield" strategy that KfW has successfully adopted, primarily in Eastern Europe and the Balkans.
 - ✓ In cases where capacity is the most urgent constraint of a promising institution and KfW's limited technical assistance grant funds are not sufficient, KfW enters into strategic partnerships with GTZ and other donors.
 - ✓ Faced with a declining aid budget, KfW capitalizes on its strong technical expertise to obtain mandates from other donors to serve as the technical implementing agency for various international funds for financial sector work, including microfinance.
 - ✓ KfW sometimes uses its own capital to make loans to microfinance institutions. KfW is thus able to supplement the BMZ budget funds to support a greater number of projects. In some cases, projects are funded entirely with KfW funds, with BMZ funds used to reduce the market interest rate KfW charges. This willingness to assume risk by investing its own money also allows KfW to respond quickly to opportunities in countries like Albania and Georgia, without requirements such as state guarantees.
- Substantial investment in staff training is paying off. Numerous in-house training events are organized, including orientation sessions on microfinance for new staff hired to work on the financial sector. Staff's common vision of microfinance can in part be attributed to this proactive orientation and training strategy. Within financial sector teams, staff selected to work on microfinance are often sent to intensive three to six week training workshops at Boulder. Closer to home, staff benefit from Bankakademie's strong training program and the exposure and networking opportunities of the Frankfurt Seminar on New Development Finance, co-sponsored by KfW.
- Strong internal networks and a collegial atmosphere exists at KfW. Staff value input from peers and frequently call on each other to brainstorm ideas, discuss problems and share lessons learned. Especially strong peer groups are formed among staff that enter KfW at the same time and follow the orientation training together. Project management meetings, the Microfinance Cluster, and informal sector working groups provide additional opportunities

for staff exchanges on projects, strategies for microfinance, and specific themes in a fairly informal manner.

Challenges

Notwithstanding these strengths, KfW faces a number of challenges to maximizing its effectiveness in microfinance.

- The 1994 BMZ financial sector strategy paper presents a definition of FSD that covers financial institutions, financial markets and instruments, the legal and regulatory environment, and financial norms and standards. Yet, in practice, due to the instruments available KfW concentrates on retail-level interventions. While the high quality projects make important contributions to financial sector development in the countries in which KfW works, the strong project approach should be linked more closely with wider sectoral issues. Moreover, staff's work at the policy level often appears to be tied to a concrete obstacle faced by a specific project, rather than a result of a sector-wide analysis of constraints.
- There is a risk that KfW's main instrument, loans for re-financing intermediaries, drive the agency's strategy in financial sector work, rather than the strategy driving the use of instruments. Staff discussing work on pro-poor financial services often automatically focus on opportunities for refinancing or establishing credit lines. However, in some markets with a lot of liquidity, other instruments should be explored more widely to avoid the risk of crowding out the private sector.
- KfW's centralized structure raises questions of how the agency can best fulfill its increasing interest in working at the macro level. Experience indicates that staff active in ground-level, operational work are the best suited for making solid, technical arguments for policy changes at the meso and macro levels. Currently, field offices in some countries are mostly seen as representatives of project managers in the field, responsible for information exchange, contractual or administrative management, and coordination with ministry offices and donors. Field offices do not seem to uniformly have a strong operational or policy mandate.
- It appears that KfW does not engage with all market segments, including very poor clients and those living in remote, rural areas. While not all donor agencies can or should necessarily attempt to serve all markets, the question remains whether the vast knowledge KfW has amassed on successful technologies and methodologies can be used to reach more difficult market segments.
- The fact that many greenfield projects are not very deeply rooted in the local context raises questions about the long-term development impact of the financial institutions, especially in regards to cultivating local management and governance. Most microbanks are still young and neither locally owned, governed or managed. KfW, in a consortium with other like-minded donors (e.g. IFC and EBRD) often has a majority stake in the microfinance banks, thus controlling the board. In addition, the exit strategy for greenfield banks remains undefined. Finally, the successful greenfield strategy relies almost exclusively on one service provider, raising issues of over dependency. Working mostly with only one provider may also stifle learning about other approaches and further innovations in the long-term.

- Expanding KfW's microfinance operations in Africa and Asia by building on successful experiences in Eastern Europe and Latin America represents a challenge. Especially in Africa, BMZ appears interested in KfW taking on a greater role in developing microfinance as a means to contribute to the poverty reduction objective of the Millennium Development Goals (MDGs). Yet, it remains to be defined what KfW's comparative advantage is in Africa. Most African markets require first and foremost capacity building, but KfW's technical assistance funds are very limited. The greenfield approach, as currently conceived with little local ownership, would not easily work in Asia. Finally, KfW currently does not have sufficient microfinance technical staff working in these regions to plan an extensive expansion of activities.
- Though the re-organization promises to be successful, the placement of the competency center for the financial sector in the Europe and Caucasus regional department carries a number of potential risks. It remains to be seen whether the competency center will be Eastern Europe-centric, busy with its own region's work and less interested in serving other regions. Will other regions perceive the experiences made in Eastern Europe, the Balkans, and the Caucasus as relevant to their realities? Do sufficient incentives exist for the flow of information?
- KfW's income structure does not appear to match with the transaction costs of its microfinance practice. On average, microfinance projects tend to be relatively small and more human resource-intensive than most other projects. In the past, cross-subsidizing microfinance projects was possible. But KfW's overall average project size has decreased over the past seven years as the agency is shifting from supporting physical infrastructure (i.e. transportation) to social infrastructure (i.e. decentralization). There are thus fewer opportunities today for offsetting the smaller microfinance projects. Although the current political tide is very favorable to microfinance both within BMZ and KfW, continued support of microfinance is particularly vulnerable should that change.
- All financial cooperation projects are subject to state-to-state bilateral negotiations. There are inherent inconsistencies in the fact that a state guarantee is required for KfW to lend to the private sector, even to banks. The state guarantee requirement compromises KfW's competitive advantage (derived from its bank status) of being able to work in a more "business-like" or private sector way than most other donor agencies. Obtaining a state guarantee is often the most time consuming part of the project cycle. Staff report that a two year lead time until project approval is not unusual, thus inhibiting KfW's ability to respond quickly to private sector opportunities before they are lost. Additionally, some governments are not interested in extending a guarantee for non-government entities.
- No automated central system for tracking detailed and regular performance of the microfinance portfolio exists. The lack of readily available information on the global portfolio impedes learning across regions and trend analysis of the size, content and performance of the portfolio.

Recommendations

The Peer Review team has specific recommendations for KfW to build on its strengths and comparative advantages, and improve its effectiveness in microfinance.

- 1) KfW needs to refine its strategy for **achieving the financial systems development (FSD) vision** it has set out for itself. Attaining the vision will require that KfW develop an operational definition for what FSD means, what its comparative advantage is in FSD work, and how it can best collaborate with others on FSD.
 - *Provide inputs into BMZ's planned revision of the 1994 FSD policy and strategy paper.* KfW's staff should work to better craft an operational definition of FSD within the context of German development cooperation and share its ideas with BMZ for the new draft of the FSD strategy paper.
 - *Increase synergies with GTZ.* KfW should find ways to work more closely with GTZ in countries where they are both present. In particular, KfW should, along with GTZ, better utilize the potential of the sector strategy papers (SSPs) to develop financial sector strategy papers, and to determine the type and sequencing of activities best suited to each agency based on their instruments, staff and other strengths in microfinance.
 - *Coordinate with other donors.* KfW's excellent donor coordination work should not be restricted to funding mechanisms, but rather should extend to the strategy level. Debt financing at the institutional level is just one constraint to FSD. KfW should explore with BMZ the possibility of developing a sector strategy fund (perhaps with other donors) to address more holistically the work that is needed on all levels, such as developing local networks, industry associations, etc.
- 2) KfW should **ensure the long-term effectiveness and development impact of its greenfield approach.**
 - *Think systematically about exit strategies from the beginning.* The very success of greenfielding in the long-term depends on finding strategies to exit at the right time and to the right investors who will maintain both the technical integrity of operations and the mission. Management should signal to staff that they should think about exit strategies from the very beginning. For example, KfW could examine the implications of various alternative scenarios, i.e., trust funds, employee stock ownership plans (ESOPs), and management buy-out (MBO).
 - *Address pro-actively the issues of capacity building and governance.* KfW should actively work with its main technical service provider to ensure that technical assistance is offered to maximize building the capacity of middle and senior management locally. A major theme of capacity building efforts should be good governance.
- 3) KfW should **consider a potential expansion in Africa and Asia with caution.**
 - *Define options for expanding microfinance portfolios in Africa and Asia.* Management and staff should determine what KfW's current and potential comparative advantages are in these regions. KfW should develop alternative scenarios of possible expansion, taking into account its instruments, human resources, funding, and what other donors are already doing.

- *Pursue a modest expansion strategy.* If KfW decides to increase its microfinance activities in the regions, it should not be over-ambitious. This caution is especially true for Africa. New activities should be based on KfW's clear vision of what it can contribute best to the regions. A possible source of funding for this work is BMZ's Poverty Alleviation Fund.
 - *Leverage activities of GTZ and other donors.* To work successfully in Africa where capacity building is often the primary need, KfW must sequence and/or structure its involvement to support institutions accordingly, depending whether they need or have received the requisite technical support from GTZ and other donors. This approach enhances chances of effectiveness and has the additional benefit of reducing transaction costs for KfW.
 - *Explore new models/innovations.* KfW should find new, innovative ways for helping to develop financial systems in Africa and Asia. To do so, KfW staff should network with donors and other stakeholders active in these regions to analyze where the needs are and what types of responses it could offer.
- 4) KfW should **optimize the new structure**'s chances of increasing quality through the following five inter-related activities.
- *Match incentives for competency center coaches to reflect global role.* KfW should build a specific time allocation for non-Eastern European work in the TORs of the microfinance coaches in the competency center. This measure should help ensure their active support of other regions. Additionally, the sector team leaders from other regions should be able to comment on the annual performance evaluations of the coaches.
 - *Implement idea to create a technically-based "quality at entry" committee.* KfW should establish a mandatory mechanism to ensure technical inputs very early in project design (right after pre-feasibility). The purpose the "quality at entry" committee should not only be corrective (gatekeeper), but also to improve or enhance projects. As such, it is important that the committees include persons from several regions, fostering learning across KfW.
 - *Automate the collection of global portfolio data for cross-learning.* The competency center should coordinate an effort for all regions to report a few "less is more" performance indicators into an automated central data repository. The competency center should then analyze this information, identifying trends and patterns to learn from the successes and mistakes of the global portfolio.
 - *Maximize use of local offices, and consider opening new ones when appropriate.* Local offices should be given an increased role in strategy setting, project management, donor coordination and engagement at the policy level, when appropriate. Qualified staff from Frankfurt as well as professional local staff working in KfW field offices can help improve KfW's ability to react faster to opportunities and possible obstacles.
 - *Plan strategies to preserve program knowledge during the transition to the new structure.* To ensure continuity of activities and institutional knowledge, KfW should recognize and plan for the extra burden of work placed on staff during the normal shuffle of responsibilities that occurs during re-organizations.

- 5) KfW should seize the opportunity, while the political climate is favorable, to **address the internal financial implications of supporting microfinance** projects within its current income structure.
- *Obtain greater transparency on the costs of supporting microfinance projects.* Although obtaining clarity may not be regarded as an immediate priority, KfW should gain a much better understanding of how its cost structure relates to its income structure. Decisions on financing projects, however, should not be made only to maximize profitability. Management should clearly indicate the importance of factoring in the potential development impact of projects. Achieving transparency on costs and income will allow KfW to make informed decisions about when cross-subsidies can be used.
 - *Pursue creative financing mechanisms to reduce aggregate KfW transaction costs.* KfW should build on the numerous strategies it already uses, and explore with relevant parties such as the BMZ ways to reduce aggregate transaction costs of microfinance projects. Such strategies include creating regional trust funds, supporting apexes (when the conditions are appropriate), and working through sector strategies at the country level.
- 6) KfW should **engage BMZ in discussions on the state guarantee requirement for private sector work**, emphasizing how German development cooperation can best work with the private sector for greater aid effectiveness.
- *Engage BMZ in discussions on the state guarantee requirement.* KfW's Board of Managing Directors and senior management should enter into discussions with BMZ to discuss the possibility of abandoning the state guaranty requirement when the flow of development cooperation monies is directly to a private sector entity.
 - *Adopt a sectoral approach.* KfW should consider the possibility of obtaining blanket approvals for FSD strategies at the country-level with an accompanying budget commitment. The processes for getting approval for supporting specific interventions within the strategy could then be greatly streamlined, speeding up the project cycle and responsiveness to local demands/conditions. The sectoral approach would also be helpful in addressing the cost structure challenge described above.

AID EFFECTIVENESS AND MICROFINANCE MATRIX – Kreditanstalt für Wiederaufbau

		Analysis	Recommendations
1.	Strategic Clarity and Organizational Culture	<ul style="list-style-type: none"> • Microfinance clearly seen as part of financial sector • Conceptual and operational commitment to following international best practices for microfinance (<i>Pink Book</i>) • KfW supports competition and the use of a variety of approaches (upscaling, downscaling, and greenfielding) • Staff committed to a FSD approach, though strong focus on retail-level interventions should be linked more closely with wider sectoral issues • Institutional culture places a high premium on technical skills and identifies with KfW’s bank status 	<ul style="list-style-type: none"> • Refine operational strategy for working on financial sector development • Provide inputs into BMZ’s planned revision of the 1994 FSD policy and strategy paper • Work more closely with GTZ to develop country financial sector strategy papers and to determine type and sequencing of activities • Explore with BMZ the possibility to develop a sector strategy fund (e.g. with other donors) to address more holistically work needed on all levels of the financial sector
2.	Technical Expertise & Resources	<ul style="list-style-type: none"> • All staff working on microfinance have a finance or economics background • Staff are highly qualified, motivated, results-oriented, and dedicated to performing quality work • Trend toward greater specialization • Substantial investment in training paying off • Very competent and accessible microfinance focal point provides valued technical advice, quality assurance, knowledge management and networking services 	
3.	Organizational Structure and Flows	<ul style="list-style-type: none"> • Centralized structure raises questions of how KfW can best work at the macro level • Field offices are not uniformly seen to have a strong operational and policy mandate • Placement of financial sector competency center in the Europe and Caucasus department poses potential risks • Strong internal networks and information sharing 	<ul style="list-style-type: none"> • Maximize use of local offices for strategy setting, project management, donor coordination and policy work; consider opening new offices, if appropriate • Build-in time in the TORs of competency center coaches to reflect their global role; allow sector team leaders from other regions to comment on the annual performance evaluations of the coaches
4.	Instruments and Incentives	<ul style="list-style-type: none"> • Purchase of DEG provides greater flexibility to make equity investments • KfW successfully enters into strategic partnerships with GTZ and other donors to augment its limited grants • Mandates from donors to manage international funds 	<ul style="list-style-type: none"> • Consider with BMZ possibility of obtaining blanket approvals for FSD strategies at the country-level with an accompanying budget commitment • Engage BMZ in discussions on the possibility of abandoning the state guarantee requirement when the

		<p>for financial sector work capitalizes on KfW’s strong technical capacity and increases declining aid budget</p> <ul style="list-style-type: none"> • Willingness to use its own capital to make loans enables KfW to respond quickly to opportunities without requirements such as state guarantees • Risk that main instrument drives strategy in financial sector work, rather than the strategy driving the use of instruments • State guarantee requirement compromises KfW’s ability to work in a “business-like,” private sector way and reduces responsiveness • Exit strategy for greenfield banks remains to be defined; greenfield projects are not very deeply rooted in local context--most microbanks are still young and neither locally owned, governed and managed 	<p>flow of development cooperation monies is directly to a private sector entity</p> <ul style="list-style-type: none"> • Think strategically about exit strategies from the beginning, including various scenarios such as trust funds, employee stock ownership plans (ESOPs), and management buy-outs (MBOs) • Address pro-actively the issues of capacity building and governance
5.	Project Cycle	<ul style="list-style-type: none"> • Lion’s share, if not all, of microfinance projects emanate from the financial sector teams • Dependence on one service provider for most all greenfield work raises issues of over dependency and may stifle learning about other approaches • Lack of automated central system for tracking performance of microfinance portfolio reduces learning opportunities 	<ul style="list-style-type: none"> • Implement idea to create a technically-based “quality at entry” committee • Automate the collection of global portfolio data for cross-learning • Plan strategies to preserve program knowledge during the transition to the new structure
6.	Future Microfinance Operations	<ul style="list-style-type: none"> • Little engagement with some market segments, including very poor clients and those living in rural areas • Unclear what KfW’s comparative advantage is in African markets and to a lesser extent in Asia • KfW’s income structure does not appear to match with the transactions costs of its microfinance practice; continued support of microfinance could be vulnerable should the political tide change 	<ul style="list-style-type: none"> • Consider potential expansion in Africa and Asia with caution; base any new activities on a clear vision of what KfW can contribute; leverage GTZ and other donors to explore new models and sequence activities • Obtain greater transparency on the costs of supporting microfinance projects; decisions to finance projects should not be made solely to maximize profitability but also on potential development impact • Pursue creative financing mechanisms to reduce aggregate KfW transaction costs, including regional trust funds, supporting apexes, etc.

