

Netherlands Development Cooperation System Letter to Management

Executive Summary

A team comprising Bernd Balkenhol of the ILO, Mavis Owusu-Gyamfi of DFID, Sanjay Sinha of EDA, and Syed Hashemi and Alexia Latortue of CGAP conducted a Donor Peer Review of the Netherlands Development Cooperation System (Netherlands) in the Hague from 19-23 May, 2003. The review is part of a 17-agency initiative launched by Development Ministers, agency heads, and CGAP to concretely tackle aid effectiveness by using microfinance as a test case.

The Peer Review focused on selected internal procedures, practices and processes of the Department for Development Cooperation within the Ministry of Foreign Affairs (Ministry), and on the Ministry's relationship with the 10 institutions that form, together with the Ministry (through DDE/OB), the Dutch Microfinance Platform (Platform). The purpose of the review was to identify the success factors and constraints that influence the effectiveness of the Dutch microfinance offer.

DDE of DGIS and the Platform Coordinator provided the peer review team with an orientation to the Ministry and the Platform members. The team had meetings with 69 people, including staff of DGIS, DGRC, and several Central Service departments. The team also met all the Platform institutions and key external resource persons. The team consulted with Minister van Ardenne-van der Hoeven and Director-General Keller. On 23 May, the team briefed 40 Ministry staff and management and staff of the Platform institutions in a meeting chaired Ron Keller.

The team noted a strong commitment to improve the effectiveness, efficiency and transparency of the Dutch microfinance offer. This commitment is reflected in the establishment of the Platform with DDE's engagement, and the Minister and Director-General's interest in CGAP's work. The team hopes that this letter will enrich the internal discussions and provide specific ideas on how the Netherlands can maximize the effectiveness and efficiency of the microfinance activities of the overall system, above and beyond individual institutions' contributions.

This letter outlines the Netherlands' strengths and challenges, and presents specific recommendations for improving quality, effectiveness, and efficiency. A matrix at the end of the letter provides a summary of key findings and recommendations. The four recommendations are:

- **Articulate joint vision on financial services.** The Ministry and Platform should draft a short vision statement in a consensual manner and communicate it widely. The Ministry should then provide operational guidance to ensure the effective delivery of the vision.
- **Define role of the Ministry beyond financing.** DDE should pro-actively engage on a technical level with its internal and external stakeholders. A permanent focal point function with sufficient visibility and Ministry staff with basic knowledge of best practices is needed.
- **Improve accountability and transparency.** Building on the trend toward results-oriented funding of organizations, the Ministry should select 4 questions to screen applications and should only consider funding requests from new organizations with proven track records.
- **Strengthen the platform.** The Platform should write a work plan with activities in training, information sharing, tools development, innovations, joint operations, comparative advantage definition, and advocacy. The Ministry should support the plan with a small, flexible fund.

Background

Early in 2002, Development Ministers, heads of agencies, and the Consultative Group to Assist the Poor (CGAP) launched an initiative to improve aid effectiveness, using microfinance as a test case. As a first step, 17 bilateral and multilateral development agencies 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 Bernd Balkenhol, Director, Social Finance Programme of the International Labor Organization (ILO), Mavis Owusu-Gyamfi, Private Sector Development Advisor of the Department for International Development (DFID), Sanjay Sinha, Executive Director of EDA Rural Systems (EDA) in India, Syed Hashemi, Senior Poverty Specialist of CGAP, and Alexia Latortue, Microfinance Specialist of CGAP, visited the Hague from 18-23 May, 2003.

The review team met 69 people, including the Minister for Development Cooperation and the Director-General for International Cooperation. In DGIS, the team interviewed staff from thematic (DDE, DML, DSI, DVF) and regional (DWH, DAF, DAO) departments, including several embassies. Central Service departments (FEZ, HDPO, IOB,) and PME and SPL were also consulted. The team met with all Dutch institutions involved in microfinance that have organized themselves in the Platform (in addition to the Ministry, Cordaid, HIVOS, ICCO, NOVIB, FMO, DOEN Foundation, Oikocredit, Rabobank Foundation, ASN-NOVIB Fund, Triodos Doen Foundation and HIVOS Triodos Fund). Finally, the team interviewed resource persons from Argidius Foundation, FACET, Stichting IntEnt, and Messrs. Kuiper and van Maanen. During field visits to India and Mali, team members spoke with embassy staff and Platform institutions.

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 Netherlands will be combined with those from other agencies reviewed in a synthesis report. 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 meeting of Ministers and agency heads participating in the Peer Reviews will be organized in February 2004, upon completion of all the reviews, to share experiences and reforms made as a result of the exercise.

The number and diversity of institutions that form the Dutch microfinance landscape make this review the most complex to date. This letter to management takes into account the views expressed by all Platform members. But, the concrete analysis of strengths and challenges with

respect to applying microfinance good practices and recommendations for change pertain to the Ministry and to the Platform as an organizing body. A matrix at the end of the letter summarizes the key findings and recommendations according to six analytical areas.

This peer review could well be followed by a more detailed internal review to more fully examine the comparative advantage of different parts of the system, and to perform scenario analyses of possible effectiveness and efficiency gains of consolidation.

Country Context

All organizations operate within a contextual environment, influenced by past experiences, national culture, and historical patterns of behavior and interaction. This context in turn affects decision-making, communications, and ultimately operations. The peer review team noted some contextual characteristics of Dutch development cooperation that present both opportunities and risks for effective support to financial services for the poor.

History: Asset or Liability? The Netherlands has an impressive history of active social contribution. A significant portion of that contribution for microfinance is delivered through four co-financing agencies (MFOs), each representing a main pillar of Dutch socio-religious life. Most people interviewed displayed resistance to changing this well-organized system, even at the expense of possible effectiveness and efficiency gains (unless it was guaranteed that their organization would not be affected). However, no one could clearly articulate the rationale underlying the engagement of four generalist, multi-sector MFOs in microfinance.

Trust vs. Accountability. The Ministry's arms-length management of the MFOs raises questions about its ability to be accountable for results of work implemented by institutions using taxpayer money.

Culture of Consensus vs. Uniqueness Syndrome. The culture of consensus and negotiation described by many interviewees appears at odds with each Platform member's conviction of their unique contribution to microfinance. This "uniqueness" syndrome leads to a proliferation of initiatives that raises questions of effectiveness and efficiency.

Southern Ownership vs. Dutch politics. The value placed on Southern ownership does not match with the direct impact that changes in Dutch politics appear to have on policy priorities affecting the implementation of Dutch development cooperation, e.g., the importance accorded to the role of the private sector in development.

Strengths

The Netherlands' long history of commitment to poverty reduction and development is exceptional. It is one of the few countries to exceed the United Nations' target for official development assistance, with 0.8% of GDP going to development cooperation. The Netherlands also sets the bar high with regard to quality. In the first annual Center for Global Development/Foreign Policy Commitment to Development Index that measures the effects of rich nations' policies (aid, trade, migration, investment, peacekeeping, and environment) on poor nations, the Netherlands ranked number 1 out of 21 countries.

Specifically with regard to microfinance, the Netherlands exhibits the following strengths:

- There is **broad support for microfinance** in the Netherlands. An unparalleled diversity of institutions are involved in microfinance, including financial institutions, NGOs, universities, and consulting firms. Private capital for microfinance is raised from Dutch citizens on the capital market. The involvement of financial institutions is very promising for the professionalization of the field and possible partnerships between Dutch and developing country financial institutions.
- Numerous **innovative institutional arrangements** have been established by MFOs, Dutch commercial banks and other actors, offering creative possibilities to support microfinance. Generalist MFOs and foundations have joined with commercial banks to create microfinance funds, enabling each institution to focus on what it does best. For example, Triodos Bank performs the financial due diligence of institutions that apply to the Hivos-Triodos Fund. Hivos then verifies whether institutions meet the development criteria, thus safeguarding the social mission of the fund.
- Few other donors have the advantage of the **wide range of instruments** available in the Dutch development cooperation system for microfinance, enabling the Dutch to support many types of financial institutions that reach a diverse range of clients. The availability of grants (capitalization and technical assistance), loans (short and long term, and hard and local currency), guarantees and equity means that instruments can be properly matched and sequenced to institutions' needs. International experience shows that financial institutions require access to different instruments based on country context, level of maturity, institutional development priorities, target clientele, and expansion plans.
- The four MFOs demonstrate a **clear commitment to poverty alleviation and sustainability**. Shared for the most part by both financial and non-financial specialists, the insistence on achieving these dual goals is relevant to ensuring permanent access to financial services and pushing the financial frontier down as far as possible.
- The presence of a **highly dedicated focal point** in DDE/OB serves as a valued counterpart in the Ministry for Platform members. Respected and appreciated for its commitment, the focal point works in close partnership with the Platform to share new ideas and experiences gathered at international events such as the CGAP meetings.
- **Strong informal networks** exist among Platform members. Staff move from one organization to another, forging links among the institutions. They sometimes draw on personal contacts in other organizations to informally discuss strategies for a country or specific institution. This informal network is in the process of becoming more systematic with the recent creation of the Platform, offering increased opportunities for collaboration.

Challenges

Notwithstanding its strengths, the Netherlands faces a number of constraints to improving its effectiveness and efficiency in microfinance.

- There is a **lack of a Ministry-wide shared vision** on the role of the private sector in development (PSD), and the role of financial services for the poor within it. Though well-

written with several sections on financial services, most staff are either not familiar with or remain unconvinced of the arguments present in the report, *In Business Against Poverty*. The limited buy-in for the paper across DGIS is due in part to the way it was written with little active solicitation for inputs from other departments within the Ministry. Moreover, many staff interviewed have a limited understanding of microfinance and DDE's work in general, with serious consequences:

- microfinance is marginalized at DGIS, and thus suffers from a lack of management and staff attention and resources.
- microfinance is disconnected from the broader poverty agenda of the Ministry in staff's minds and hearts. Opportunities to maximize the cross-cutting contributions of financial services by forging links with other areas of the Ministry such as social and institutional development are lost. Effective cooperation between departments appears limited.
- without a common vision, the Ministry is ill-equipped to provide strategic leadership and operational guidance to the Platform, and as such no mechanism to ensure operational consistency within the development cooperation system exists. The 10 visions of the Platform members, combined with the lack of shared vision and strategic guidance from the Ministry means that there is little overall clarity on microfinance within the Dutch development cooperation system.

The paradox is that the Netherlands is one of the biggest bilateral players in microfinance, as measured by size of microfinance portfolio. Yet, the lack of vision and strategic coherence within the system means that the Netherlands' impact and reputation does not adequately reflect its significant investment in microfinance.

- The Ministry is **unclear of its role beyond that of financier**, both with regard to the embassies (especially since the 1995 decentralization) and *vis-à-vis* the institutions it supports, for example, the MFOs. There is limited technical engagement with the Platform, though several Platform members indicated they would welcome more technical discussions with the Ministry.
- Though DDE is responsible for microfinance development cooperation, the department has **limited information on most funding channels**. As a result, no one has a good overview of the multitude of microfinance initiatives financed. In addition, the Ministry has virtually no means to ensure that the CGAP III Strategy which it has adopted will be translated into operations financed by development cooperation money, thus jeopardizing the achievement of the objectives laid forth in the document.
- The Dutch microfinance offer may **lack coherence to external partners**, such as clients, governments, and other donors. Its unique structure presents challenges for feeding back policy dialogue with governments on key issues (PRSPs, FSDs) to all concerned partners. Donors at the field level may be uncertain about whom to contact or may feel overwhelmed by the task of speaking with up to 10 "donors" to engage the Dutch on microfinance issues. This situation may hinder opportunities for effective donor collaboration. Both financial institutions and other donors sometimes do not understand the relationships between different Dutch actors, and do not have a reference point for general information on Dutch microfinance development cooperation.

- The **focal point function is not institutionalized** in the Ministry. Crucial focal point tasks are performed as a result of personal decision, not institutional mandate. These tasks include promoting information exchange and learning, bringing international lessons learned to the Netherlands, and liaising with partners. Platform members are concerned about whether they will always have a technical entry point to the Ministry. The overall lack of incentives within DGIS and the Ministry of Foreign Affairs for technical experts, coupled with frequent staff rotations and the one career track (to become an ambassador), means that it will be difficult to find a candidate with some microfinance knowledge when the position becomes open. Moreover, the position itself appears to be at a relatively low grade and may not be particularly attractive to those interested in career advancement.
- There is uneven **technical expertise within the Platform**, raising a fundamental question: is it effective and efficient to build up technical capacity across so many players? The uneven access to technical specialists translates into variances in the quality of different Platform institutions' work in microfinance. Additionally, there are few substantive mechanisms for professional development in microfinance among staff, though the commitment exists in principle. With regard to outsourced expertise, there is a tendency to revert to Dutch consultants over internationally sourced expertise with mixed results.
- The Ministry currently has **no microfinance-specific selection criteria or due diligence** for partners that receive the bulk of microfinance development cooperation money. Co-financing agreements and budgets are approved at a general level, and no questions specific to microfinance are asked about the MFOs' and other applicants' track record in the area, including portfolio quality, and technical capacity.
- Accountability is still largely defined in financial terms, with **very little accountability for quality of results among the Ministry and the institutions it finances**. Information on the number of projects and dollar value by instrument type appears more readily available than portfolio quality information among the MFOs, raising the risk that substandard programs exist and persist. At the Ministry level, good performers do not appear to be rewarded nor are poor performers sanctioned consistently.
- The lack of accountability for results is linked to **weak monitoring systems** that provide limited information at the Ministry level about the content and performance of the portfolio. The new system, Pyramid, promises to track more results-type information, but it is unclear whether it could effectively monitor the Ministry's money invested in microfinance. Even with FMO, funded directly through a PSD budget line, no clear mechanism for monitoring performance exists.
- **Information flows remain inadequate** among Platform members. Coordination regarding interventions at the country or institution level tends to be ad-hoc, resulting in Platform members sometimes offering credit to the same clients. There is also duplication of effort in developing new tools and conducting general market information.
- **Very little systematic lesson-learning** takes place within the development cooperation system. Mechanisms for extracting lessons from Platform members' rich diversity of

experiences and transforming them into action are absent. Platform members often possess only superficial knowledge of each others' work. Further, the role of research to inform program design and facilitate monitoring remains unclear. Consequentially, opportunities for capitalizing on lessons learned to generate greater innovation and impact are missed.

Recommendations

The Peer Review team has specific recommendations for the Netherlands to build on its strengths and improve its effectiveness in supporting financial services for poor. The recommendations principally address challenges linked to vision, accountability, and the coordination of the many stakeholders involved in microfinance (the core focal point functions of knowledge management, training, and networking). The first three recommendations are primarily targeted to the Ministry, while the fourth recommendation is for the Platform.

- 1) The Ministry and the Platform should **articulate a joint vision on the role of financial services** in poverty reduction and take concrete steps to translate the vision into operations.
 - *Draft a short Vision Statement in a consensual manner.* DDE, working closely with all departments, and the Platform Coordinator should take the lead to formulate a 1-2 page statement that defines the Dutch vision for microfinance, the links between microfinance and the Ministry's other areas of intervention, and the role of financial services in poverty reduction. The *Vision Statement* should not be a long policy paper. The short note should also acknowledge the overall Dutch contribution to microfinance. DDE and Platform members can inspire themselves from similar documents of international donors to do this work, as for example the CGAP III Strategy which the Ministry had adopted.
 - *Communicate the joint vision widely.* The Minister, the Director General, the DDE Director, and senior management of Platform institutions should signal their support for the *Vision Statement* and ensure that it is widely disseminated across the Ministry, embassies, and Platform member institutions. Senior management can demonstrate their support for the vision through various channels, including references to the statement in key speeches and at regional and/or headquarter meetings of embassy staff and the summer orientation training. The statement should also be shared with external partners such as other donor agencies and consultants.
 - *Provide operational guidance to ensure the effective delivery of the vision.* Guidance is not the same as control. Ministry staff, including embassy staff, that oversee microfinance projects directly as well as those responsible for relationships with the MFOs and multilateral agencies require strategic and operational guidance. Platform members can also benefit from guidance. Different types of guidance may be needed for the various target audiences. Guidance could take the form of short "how to" notes. Examples of subjects that merit attention include (i) when microfinance is an appropriate intervention; (ii) using performance-based contracting; (iii) defining exit strategies; (iv) microfinance and key sectors such as rural development and health; (v) identifying promising institutions (the next generation of success stories); (vi) integrating microfinance into the formal financial sector; and (vii) key financial and social indicators.

2) The Ministry should **define its role beyond the distribution of funds**. The existence of a stable focal point with a clear function and mandate will be crucial to the Ministry's ability to increase the coherence, effectiveness and efficiency of development cooperation in microfinance.

- *Map DDE's different client groups and services they may require.* DDE maintains relationships with a diversity of stakeholders involved in microfinance. Internal stakeholders include DSI, DVF, the embassies, and top management. External stakeholders include country governments, Platform members, other donor agencies, parliament, and the Dutch public. DDE should determine the possibility of adding value to each client group by offering targeted services.

Illustrative examples of specific activities/roles DDE could assume *vis-à-vis* its clientele follow. Many of these activities can be undertaken in close collaboration with the Platform, though the Ministry has advantages in taking the leadership on some of them:

- ✓ help link Platform institutions with best practice donors in microfinance to increase collaboration between the Netherlands and other donors
 - ✓ collaborate with DSI to establish a list of questions for MFOs with microfinance portfolios, thereby improving screening during the application process
 - ✓ engage with non-specialist MFOs and other NGOs about the appropriateness of developing microfinance activities
 - ✓ invite respected international speakers on various microfinance topics to address the Platform
 - ✓ organize coherent messages to the public about what works in microfinance and the contribution of financial services to poverty reduction and the MDGs
- *Ensure continuity of microfinance focal point function in the Ministry.* The terms of reference of the DDE position should include a specific description of focal points tasks (linked to sharing the established vision, offering operational guidance, and fulfilling the roles beyond financing). At least 75 percent of that person's time should be set aside to serve as focal point. Moreover, DDE management should formally integrate feedback from Platform members on the person during his/her annual performance evaluation.
 - *Ensure quality of the focal point function.* The focal point function will only yield positive results if the position is filled with the best possible Ministry staff, supported by firm backing from management. The focal point position should be of a sufficiently high grade to attract the top Ministry cadre. Ideally, the person assuming the position will have a financial sector or microfinance background. If not, the person should receive training and exposure to best practice microfinance operations in the field to come up to speed quickly and gain credibility. Effective communication skills are also necessary. As appropriate, the focal point should integrate messages on the role of financial services in poverty reduction in major speeches and policy statements of the Minister and the DG.
 - *Build up basic microfinance knowledge of selected Ministry staff.* Staff in the embassies, DSI, DML, DVF, and DDE merit an orientation to better understand what microfinance

is and to learn about good practices. The goal is to enable staff to engage more effectively with the Ministry's partners and other donors, not to transform them into microfinance specialists. International understanding of microfinance has recently evolved dramatically from a narrow vision of small loans for microenterprise development (the woman with the sewing machine) to a full range of client-responsive financial services (financial systems that work for the poor). The benefits of small investments in basic training will allow staff to forge better links between financial services and their work, steer partners in the right direction, and recognize opportunities for collaboration with other donors.

- 3) The Ministry should **improve accountability and transparency** in its financing agreements for microfinance.
 - *Build on trend toward more result-oriented funding of MFOs.* The Ministry should investigate simple ways to introduce sector-specific budget lines to better understand the planned activities of MFOs.
 - *Select four questions to screen applications of Platform institutions that have in the past, or plan to in the future, engage in microfinance.* The Ministry, in consultation with Platform institutions, should define questions to gauge Platform institutions' ability to be effective partners for microfinance. The questions could cover issues linked to financial and social performance as well as impact. For example, the Ministry might wish to look at cost recovery and efficiency of institutions' operations. An efficiency indicator, for example, could include cost per partner institution financed or even cost per thousand low-income clients financed. Other elements to consider include quality and number of staff compared to actual size of microfinance portfolio, and previous track record (portfolio quality and outreach of institutions supported by the MFO). MFOs' systems are also important. Does the MFO have a contractual, performance-based relationship with its partners? Does the MFO have the systems in place to collect performance indicators from its partners on a regular basis? Once collected, is the information analyzed and used constructively to inform the MFO's relationships with its partners?
 - *Do not approve applications for new microfinance programs unless the institution has a proven track record.* The Ministry should not fund the proliferation of generalist, multi-sector NGOs engaging in microfinance. Applications under the thematic window should be judged using the same indicators mentioned above.
- 4) The Platform should, after having reached understanding and consensus among the members, formally **assume key focal point roles**. The Platform is an important complement, but not replacement, to the Ministry microfinance focal point.
 - *Define priority roles and work plan.* To continue to function effectively and add value to its members, a consensus on the Platform's major roles should be achieved. Based on the prioritization of roles, the Platform, under the overall guidance of the Platform's coordinator and with the assistance of a Secretariat, should write an annual work plan including specific outcomes for each activity for approval by its members. The services of the Platform must be demand-driven, though possible roles include:

- ✓ Training. To benefit from economies of scale, the Platform could organize introductory courses on microfinance (mini Boulder in the Netherlands) as well as workshops on specific issues of interest to all, for example, impact assessment.
 - ✓ Central repository on Dutch microfinance. The Platform should continue to collect information on all its partners' microfinance activities. The content could be enhanced to include a few portfolio quality and other performance indicators as well as information on grant funding. The information would be more valuable if presented in a simple, searchable database accessible on the web. The data sheets on all Platform members could also be posted on this site. Parts of the database could be public for those interested in the Dutch microfinance offer. The Platform should also investigate the possibility of using the MIX Market for this purpose.
 - ✓ Technical information sharing. The Platform should facilitate the sharing of lessons learned by organizing periodic brown bags (2 or 3 a year) on specific experiences and innovations of Platform members. Speakers could be Platform institution staff members or the leaders of organizations they support. The Platform could also commission research, including case studies, highlighting examples of what works and develop a select bibliography of documents that hold particularly pertinent lessons for the Dutch microfinance offer (subset of the Microfinance Gateway, for example).
 - ✓ Tools development. Following interest in a specific challenge or questions, the Platform could survey existing tools available, and facilitate the adaptation of existing materials for the purposes of the Platform members.
 - ✓ Innovations. The Platform could identify opportunities for one or more members to search for innovations in products or delivery approaches to push the financial frontier as far as possible to reach remote and poor clients.
 - ✓ Joint operations. Much like donors are starting to coordinate more on operations, Platform members could find opportunities to work jointly when appropriate. Possible coordination areas include conducting joint appraisals, funding deals, and market studies.
 - ✓ Advocacy. The Platform could work closely with the Ministry in educating the public on the role of financial services in poverty reduction.
- *Establish small fund for the Platform*. If the Ministry is serious about promoting a greater role for the Platform, it should establish a small and flexible fund to support the Platform's mandate and cost-share with the member institutions. Part of the fund should be used to pay for the services of a dedicated person (perhaps part-time to start) responsible for moving forward on the tasks described above. However, individual institutions would still be responsible for cost sharing for specific activities like training.
 - *Launch a comparative advantage exercise*. The Platform could make a major contribution by launching an exercise to help its members determine their comparative advantage in microfinance and to then align activities with their comparative advantage. The second, and more difficult, part of the exercise would be to help members jointly determine the comparative advantage of their institution *vis-à-vis* other Platform members. The objective would be to ensure maximum leveraging of individual agencies' strengths within the system, while examining the possibility of consolidation for effectiveness and efficiency gains.

AID EFFECTIVENESS AND MICROFINANCE MATRIX – Netherlands Development Cooperation System (Netherlands)

		Analysis	Recommendations
1.	Strategic Clarity and Organizational Culture	<ul style="list-style-type: none"> • Exceptional commitment to poverty reduction and development reflected in 0.8% of GDP going to development cooperation • The four MFOs demonstrate a clear commitment to poverty alleviation and sustainability • Lack of Ministry-wide vision shared on the role of PSD and the role of financial services within it results in the marginalization of microfinance within DGIS and its disconnect from the Ministry's broader poverty agenda • 10 visions of the Platform members, combined with lack of shared vision at the Ministry means that there is little overall clarity on microfinance with the development cooperation system • Dutch microfinance offer may lack coherence to external partners such as governments, donors, and clients • Without a common vision, the Ministry is ill-equipped to provide strategic leadership and operational guidance to the Platform • Each Platform member's conviction of their unique contribution to microfinance leads to a proliferation of initiatives 	<ul style="list-style-type: none"> • DDE, working closely with all directorates and the Platform Coordinator should facilitate a process to articulate a joint vision on the role of financial services in poverty reduction in a short 1-2 page <i>Vision Statement</i> • The Minister, Director-General, and DDE Director should signal their support for the <i>Vision Statement</i> in key speeches and ensure that it is widely disseminated • The Ministry should provide operational guidance to its staff including embassies, and Platform members to ensure the effective delivery of the vision. Guidance could take the form of "how to" notes on topics such as when microfinance is an appropriate intervention, performance-based contracting, and microfinance's link to other sectors such as rural development and health
2.	Technical Expertise & Resources	<ul style="list-style-type: none"> • Broad support for microfinance in Netherlands with an unparalleled diversity of actors involved, including financial institutions, NGOs, universities, consulting firms. Private capital is raised from Dutch citizens on the capital market. • Unclear role of the Ministry beyond that of financier results in limited technical engagement with Platform members • Highly dedicated focal point in DDE/OB serves as a valued counterpart in the Ministry for Platform members • Focal point function is not institutionalized in the Ministry, with crucial focal point tasks performed as a result of personal decision, not institutional mandate 	<ul style="list-style-type: none"> • Define role of the Ministry beyond the distribution of funds by mapping out DDE's client groups and the services they may require. Internal clients include DSI, DVF, the embassies and top management. External clients include country governments, Platform members, other donors, the parliament and the Dutch public • Ensure continuity of the Ministry focal point function by establishing TORs a position with at least 75% of a person's time set aside for focal point tasks • Ensure the quality of the focal point; make sure that the position is of a sufficiently high grade to attract top Ministry cadre • Build up basic microfinance knowledge of Ministry staff through training
3.	Organizational Structure and Flows	<ul style="list-style-type: none"> • Establishment of the Dutch Microfinance Platform reflects the Ministry's and institutions' commitment to improve the effectiveness, efficiency and transparency of the microfinance offer 	<ul style="list-style-type: none"> • The Platform should assume key focal point roles as a complement, but not a replacement, to the Ministry microfinance focal point

		<p>effectiveness, efficiency and transparency of the microfinance offer</p> <ul style="list-style-type: none"> • Uneven technical expertise within the Platform results in variances in the quality of the institutions' work in microfinance • Innovative institutional arrangements between MFOs, Dutch commercial banks and other actors offer creative possibilities to support microfinance and leverage institutions' strengths • Information flows remain inadequate among Platform members. Coordination regarding interventions at the country or institution level are mostly ad-hoc • Arms-length management of the MFOs raise questions about the Ministry's accountability for results • Mechanisms for extracting lessons and translating them into action are absent, resulting in lost opportunities to generate greater innovation and impact 	<p>microfinance focal point</p> <ul style="list-style-type: none"> • The Platform should define and prioritize its roles and draft an annual work plan including specific outcomes for each activity. Possible roles include coordinating training; setting up a central repository on Dutch microfinance; facilitating technical information sharing; developing tools for microfinance; promoting innovations; finding opportunities for joint operations; and advocacy. • The Ministry should establish a small, flexible fund to support the Platform's mandate on a cost-sharing basis. Part of the fund should be used to pay for the services of a dedicated (perhaps part-time) person.
4.	Instruments and Incentives	<ul style="list-style-type: none"> • Wide range of instruments for microfinance available in Netherlands (grants for capitalization technical assistance, short and long-term loans in both hard and local currency, guarantees and equity) allows the choice of instrument to be properly matched and sequenced to institutions' needs • No incentives for technical experts, and the one career path is to become ambassador (generalist position) 	
5.	Project Cycle	<ul style="list-style-type: none"> • Ministry has limited information on most funding channels, and has virtually no means to ensure that good practices are incorporated in operations • Ministry currently has no microfinance-specific selection criteria or due diligence for the institutions its funds • Accountability is largely defined in financial terms, with little accountability for the quality of results in the Ministry • Weak monitoring systems provide limited information at the Ministry level about the content and performance of the portfolio 	<ul style="list-style-type: none"> • Build on trend toward more result-oriented funding of MFOs by investigating simple ways to introduce sector-specific budget lines • Select four questions to screen applications of institutions that have in the past, or plan to in the future, engage in microfinance • Do not approve generalist MFO applications for new microfinance programs unless the institution has a proven track record
6.	Future Microfinance Operations	<ul style="list-style-type: none"> • No clear rationale underlying the engagement of four generalist, multi-sector MFOs in microfinance 	<ul style="list-style-type: none"> • The Platform should launch an exercise to help its members determine their comparative advantage in microfinance and align activities with their comparative advantage. Members should then jointly determine the competitive advantage of their institution <i>vis-à-vis</i> other institutions

