

USAID Letter to Management

Executive Summary

A team comprising Richard Boulter of DFID, Henri Dommel of IFAD, and Brigit Helms and Eric Duflos of CGAP conducted a microfinance Donor Peer Review of the United States Agency for International Development (USAID) in Washington DC from 10 to 18 November 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 team focused on the internal procedures, practices and processes of USAID to identify the success factors and constraints that influence the effectiveness of the Agency's microfinance operations. The Microenterprise Development (MD) team from the Economic Growth, Agriculture and Trade Bureau (EGAT) provided the peer review team with an orientation to USAID and organized meetings with 71 people throughout the Agency. The peer review team interviewed 21 people from the missions, mostly by phone, 20 staff from EGAT, 12 staff from other bureaus and 18 people from external partner organizations. The team briefed Assistant Administrator Emmy Simmons and staff on its initial findings on 18 November 2003.

The team was impressed by the overall technical capacity and experience of USAID in microfinance and hopes that this letter to management will enrich the internal discussions and provide ideas on how USAID can further increase its effectiveness in this area and overall. This letter outlines USAID's strengths and challenges, and presents specific recommendations.

Based on the results of its interviews, the peer review team makes four concrete recommendations to management to enable USAID to improve its microfinance operations.

1. ***Clarify vision and strategy on financial sector deepening.*** USAID should develop a consensus around an Agency-wide vision that integrates microfinance into the financial sector, demonstrate how microfinance contributes to USAID's larger goals and mission strategies, and identify and act on the Agency's comparative advantage in microfinance.
2. ***Optimize USAID's microfinance program quality.*** USAID should launch a joint EGAT financial sector deepening initiative, showcase the integration of microfinance into multi-sectoral strategic objectives, and create "how to" notes for difficult environments. USAID needs to study the effectiveness of its current umbrella contracts, integrate MD's pilot grants more fully in missions' work, widen its choice of implementing partners, and promote the flexible use by missions of the new microenterprise Indefinite Quantity Contract (IQC), AMAP (Accelerating the Advancement of Microenterprise Program).
3. ***Prioritize the roles of the Microenterprise Development (MD) team.*** Once the new vision is internalized, the MD team should focus its work along the following priorities: (1) support missions and partners in the field; (2) promote USAID-wide learning and staff training; (3) improve relationships within and outside of USAID; and (4) facilitate a limited number of high priority centrally-funded programs, e.g. pilots and research.
4. ***Improve mutual learning and staff training.*** USAID should create a network on financial sector deepening, include learning in everyone's work objectives and increase basic training for non-microfinance specialists. MD should also ensure that AMAP adds value, encourage missions to include knowledge sharing by contractors in their Requests for Proposals (RFPs), and explore linking the Microenterprise Results Reporting (MRR) system to the Microfinance Information eXchange (MIX).

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 assistance 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, processes, practices and systems 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 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 Richard Boulter, Head of the Financial Sector Team at Department for International Development (DFID), Henri Dommel, Rural Finance Advisor at International Agency For Agriculture Development (IFAD), and Brigit Helms, Lead Microfinance Specialist and Eric Duflos, Microfinance Specialist of the Consultative Group to Assist the Poor (CGAP) visited USAID headquarters from 10-18 November, 2003. The Microenterprise Development (MD) team of the Economic Growth, Agriculture and Trade (EGAT) Bureau organized interviews for the peer review team with a total of 71 persons including 21 staff working in missions (Armenia, Bolivia, Caucasus, Colombia, El Salvador, Ghana, India, Indonesia, Kazakhstan, Mexico, Morocco, Nepal, Peru, Philippines, Senegal, South Africa, Uganda, Zimbabwe), 20 staff from EGAT (Assistant Administrator's Office, Offices of Program Analysis, Information, Communications, and Outreach; Agriculture; Economic Growth; Poverty Reduction; Development Credit), 12 staff from other bureaus and offices (Latin America and Caribbean; Europe and Eurasia; Asia and Near East; Democracy, Conflict and Humanitarian Assistance; Human Resources; Program and Policy Coordination; Global Development Alliance; Office of Procurement) and 18 people from external partner organizations (contractors, PVOs and networks). The reviewers also read a comprehensive set of documents on USAID. The team briefed Assistant Administrator Emmy Simmons and staff on its initial findings on 18 November 2003.

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 USAID will also be combined with those from other agencies reviewed in a synthesis report. A synthesis report already exists for the first eight agencies reviewed. A meeting of Ministers and Heads of the agencies participating in the Peer Reviews will take place on 13 February 2004 in Paris to share experiences and reforms made as a result of the exercise and to build on agencies' comparative advantages. The meeting will be co-hosted by Mark Malloch Brown, UNDP's Administrator, and Jean-Michel Severino, AFD's Director General.

This letter to management outlines USAID's strengths and challenges with respect to applying good practices in microfinance. It then presents a number of specific recommendations for change. Finally, a matrix summarizes the key findings and recommendations according to five analytical areas. The team hopes these recommendations will also prove helpful for enhancing USAID's overall effectiveness.

USAID at a glance

It is insufficient to analyze USAID's effectiveness in microfinance without understanding the context of USAID as a whole. The peer review team has identified the following elements of this context:

- *Commitment*: USAID's staff often work in difficult conditions (both at head office and in the field), and are nevertheless invariably highly committed to development.
- *Professionalism*: With some of the most experienced and well trained staff in the sector, USAID reflects a high degree of professionalism.
- *Multiple goals*: USAID has many goals including economic growth, trade capacity, investment, democracy, humanitarian assistance, HIV/AIDS and national security, making the vision of the Agency complex and difficult to understand for staff and outsiders.
- *Political influence*: Among the 17 development agencies reviewed, USAID is the most affected by political pressures. Political imperatives, including those related to international conflicts, drive programs in places like Iraq, Afghanistan, and Columbia.
- *Earmarking*: The US Congress earmarks funds for specific geographical areas and in several fields of development such as HIV/AIDS, microfinance etc. These earmarks tend to create disbursement pressures, and leave very little discretionary budget to implement the Agency's strategy.
- *Stove piping*: Communication among different teams, offices and bureaus remains limited, which poses challenges for cross-sector programming and learning.
- *Procurement*: The complexity of procurement of services is a source of concern to many staff interviewed. Mechanisms put in place to deal with procurement constraints may drive programs rather than development needs.

USAID trends

In addition to the above context, there are certain trends emerging within the organization that influence its *modus operandi*. These trends are of major concern to staff and affect the way they work.

- *Downsizing*: the number of staff, especially technical staff, has decreased consistently both at USAID/Washington and in the missions over the past decades, challenging program quality.
- *Increasing program resources*: The program budget continues to grow, presenting opportunities for increased impact internationally but also posing difficulties to manage larger programs with declining staff numbers.
- *Fewer Strategic Objectives (SOs)*: Larger programs within fewer Strategic Objectives create "multi-sectoral SOs", and could make smaller sectors such as microfinance become invisible. This invisibility can make programs difficult to design and monitor with consistent technical quality.
- *Generalists*: The current trend toward general development officers rather than technical specialists throughout the organization can reduce technical competency in the Agency's work.
- *Outsourcing*: The Agency increasingly uses contractors to implement and manage its programs. Excessive outsourcing has implications for accountability of results and raises questions about where capacity is being built.
- *Millennium Challenge Account (MCA)*: While the MCA represents an opportunity for the US to maximize its influence on new or additional funding going into development, there is uncertainty among staff on the relationship between future USAID programs and the MCA.

Microfinance in 2004

Microfinance is a rapidly changing field. Increasingly, international agencies seek to understand the place of microfinance within the financial sector as a whole, and adopt strategies and programs that ensure that microfinance fills identified gaps according to the context. This might mean an emphasis on savings and insurance, rather than credit and on working with banks rather than NGOs. Today, microfinance encompasses a diverse range of financial services (savings, credit, insurance, remittances and transfers, etc.) provided to a wide diversity of clients (poor landless women, retirees, urban families, rural entrepreneurs, etc.) through many different types of institutions (banks, NGOs, credit unions etc). Taking a sector approach includes not only working at the retail level but also strengthening linkages between microfinance services and the formal financial sector, financial networks, investors and policy makers.

The following analysis and recommendations assess USAID from the perspective of its potential to play a leadership role in defining the future of this sector, alongside the international community. They largely reflect the views of the 71 people interviewed as understood by the peer review team.

USAID's Strengths

The peer review team has identified the following strengths that all reinforce and contribute to quality programs and have a direct influence on the effectiveness of USAID in microfinance:

- **International leadership.** With over 25 years of experience, USAID rightly describes itself as a pioneer and a leader in the field of microfinance. USAID has largely contributed to the field by funding some of the most prominent MFIs and networks (such as BRI, Grameen replications, ACCION, FINCA, Banco Ademi, WOCCU, etc.) and by launching research programs that have produced significant knowledge and become public goods for the international community (such as MD's three major projects from 1996-2002: Assessing the Impact of Microenterprise Services (AIMS); the Microenterprise Best Practices program (MBP); and the MicroServe contract).
- **Microfinance policy that reflects good practices.** The 1995 Microenterprise Development Policy Paper focuses on an institutional approach that builds the capacity of microfinance institutions to reach financial sustainability. More than in most of the other agencies reviewed, USAID staff seems to be aware of the Policy Paper and uses it for guidance. By applying this policy, USAID programs have helped many institutions increase access to financial services for millions of poor people.
- **Private sector approach.** USAID can work directly with private sector through appropriate grants and contracts. There is widespread evidence that the private sector is more efficient at delivering financial services than governments. USAID has a comparative advantage in this area since many other donors are constrained to implement programs through government institutions.
- **Accountability for results.** USAID continues to be at the forefront of measuring performance by tracking financial and other indicators (quantitative and qualitative) through the internet-based Microenterprise Results Reporting (MRR) system. While the team could not verify the accuracy of the figures presented by the MRR, this system constitutes the most advanced donor framework to ensure accountability for results.

- **Commitment to learning.** USAID offers extensive opportunities for staff, including Foreign Service Nationals (FSNs), to undergo technical training. Staff often cite training such as the Microfinance Training Program in Boulder, Colorado and EGAT-wide events in Charlottesville, Virginia as key to their motivation. These opportunities contribute to building the expertise of the Agency in this technically intensive area of development. USAID's commitment to learning is also reflected in its knowledge generation programs in microfinance (formerly PISCES, GEMINI, AIMS, MBP and currently AMAP), and in the recent hiring of a full time knowledge management specialist by the MD team.
- **Global outreach.** With over 40 missions active in microfinance, USAID makes a global contribution to the sector. Such a large number of offices in the field, combined with decentralized management, enables USAID to better adapt its programs to local demand.
- **Consistent program funding levels.** On an Agency-wide basis, the scale of funding for microfinance has remained consistent, with approximately USD \$100 to \$110 million per annum over the past few years. This amount is expected to increase slightly this year. USAID is the largest bilateral funder in the sector. This significant amount of funding gives USAID the opportunity to make a remarkable contribution.
- **Strong technical capacity.** At USAID, technical capacity is a particular strength at the head office and in the missions. There are many FSNs with valuable technical skills in microfinance, and many of them have benefited from international training opportunities funded by MD and their missions. As demonstrated through other peer reviews, technical capacity of staff directly correlates with an agency's effectiveness in microfinance.
- **Specialized and appreciated focal unit.** In all the agencies reviewed, the focal unit is composed of a person or a team of people responsible for providing backstopping in microfinance. The peer review team found a widespread view among mission staff that MD support is welcome and of high quality. Strong focal units play a crucial role in improving effectiveness within their agencies.

USAID Challenges

With all these strengths, USAID remains a leading bilateral donor in microfinance. However, certain challenges pose risks for USAID's ability to retain this leadership: the isolation of microfinance within USAID, the potential for declining quality of programs, and the need to refine the role of the MD team.

Isolation of microfinance within USAID:

- **Unclear relevance of microfinance to USAID priorities.** Despite recent efforts within EGAT to show the connection between microfinance, poverty reduction and economic growth, many people interviewed are skeptical about the relevance of microfinance to larger USAID priorities such as economic growth, trade capacity, competitiveness and investment. This lack of clear articulation of these linkages makes it difficult for staff to appreciate the importance of financial services for the poor.
- **Constraining microfinance vision and strategy.** Staff often perceive microfinance as limited to microcredit for microenterprise development. Microfinance has matured a lot since 1995,

and USAID's policy statements do not reflect the level of progress and new emerging opportunities in the sector. For example, microfinance has become more integrated within the overall financial sector as illustrated by the trend of commercial banks to move down-market, and the growing interest of central banks and ministries of finance in financial sector deepening.

- **MD stuck in the “poverty box”.** MD has become a team of the Poverty Reduction office whereas previously it was a separate office. Many staff might wrongly perceive that the MD team's work consists only in poverty reduction. They often associate microfinance only or mainly with poverty lending or social services to survivalist entrepreneurs and not with overall economic growth. This view is restrictive as not all microenterprises are survivalist and the microenterprise sector contributes a large share of overall employment, income and GDP in many developing countries. Furthermore, many of the poor are not entrepreneurs, but still need financial services for their daily life, be it transfers, savings, insurance or credit. While microfinance is an effective tool for poverty reduction, it also significantly contributes to economic growth by deepening and strengthening the financial sector.
- **Congressional earmarks and poverty targeting measurement requirements.** Congress has required USAID to earmark specific amounts of funding annually to microenterprise development (of which microfinance constitutes the largest sector), creating the feeling that microfinance is being “forced” on the Agency. These earmarks cause some resentment from staff confronted with increasingly tighter discretionary budgets at USAID. The congressional obligation to target 50% of its microenterprise/microfinance funding to the very poor and to report on client poverty levels further reinforces the “poverty box” image and potentially conflicts with efforts to integrate microfinance more fully into the financial sector. Furthermore, the targeting requirement adds significant operational costs and disincentives to launch microfinance programs.
- **Need for greater engagement between MD and the rest of EGAT.** While the MD team has made significant progress recently by engaging with colleagues from different offices, several staff still perceive that MD is not often enough involved in joint programming or initiatives, especially in areas such as financial sector development, SME and agriculture. This limited sense of connectedness makes it difficult for specialists in related sectors to fully recognize the potential contribution of microfinance to the overall development of the financial sector. Unless further addressed in a proactive way, this lack of engagement could marginalize microfinance from the rest of USAID programs.

Potential for Declining Quality of Programs

- **Fewer and larger Strategic Objectives (SO) with more non-specialist staff** in the missions increase the likelihood of microfinance components appearing in larger multi-sectoral programs. These components, especially when managed by non-microfinance specialist staff, could be particularly damaging for program quality, since ill-designed credit components can negatively affect the poor and the overall financial market.
- **Political pressure to commit large amounts quickly.** Two factors could create damaging disbursement pressure: (i) the need to fit microenterprise earmarks to country programs, and (ii) foreign policy imperatives to spend, where credit appears to be a good solution to reach a lot of people quickly, such as in Iraq and Afghanistan. Typically sustainable microfinance operations require relatively small amounts of funding over several years rather than large lump sums.

- **Perceived trend of reliance on a few US contractors.** Interviewees often mentioned that most of the funding dedicated to microfinance is channeled through two contractors, which could narrow the perspectives and methodologies offered to USAID and partner countries. This concentration, also noticed by the review team, could build more knowledge capacity among contractors than in developing countries, or even in USAID.
- **Poverty targeting and measurement requirements.** The Congressionally-mandated obligation to use 50% of microenterprise funding for the very poor, and the burden of measuring the actual achievement of this obligation, could substantially reduce missions' flexibility to fund programs where they are most effective. More importantly, it could prevent USAID from contributing to the broader agenda of integrating microfinance into the financial sector. Financial sector deepening approaches usually require work with a diverse range of institutions and clientele.
- **Unbalanced knowledge sharing.** Knowledge sharing seems more concentrated in Washington than linked to field operations. Missions rarely share experiences with each other, which prevents them from building stronger programs on the basis of lessons learned on the ground.

Need to refine MD team priorities:

- **Lack of balance of roles between centrally-managed programs, mission support, and learning.** There is a sense that MD is not providing enough support to Missions relative to other central work. With declining technical staff in the field, significant support to missions from MD remains a key condition for program effectiveness.
- **Unclear relationship between business development services (BDS) and microfinance.** The trend of the MD team to work more in business development services than in the past, is causing some confusion to staff and outsiders. The priority of microfinance relative to BDS and the distinction and the overlap between the two remains fuzzy. This lack of clarity reinforces the narrow view that microfinance is limited to microcredit for entrepreneurs.
- **Complex budget process and regional resource allocation.** Budget processes seem particularly difficult for MD, which receives much of its core budget (approximately 80%) from "taxation" of the regional bureaus unlike other EGAT programs. The budget process has very significant consequences as it can create a mismatch between the actual regional distribution of USAID's overall microfinance funding and the allocations from the regional bureaus to the MD budget. MD might be required to spend time supporting regions that contribute to their budget and miss opportunities to support regions that do not contribute but have significant microfinance portfolios or needs.
- **Concerns over flexibility and costs of the new micro-enterprise Indefinite Quantity Contract (IQC), AMAP (Accelerating the Advancement of Microenterprise Program) by missions.** AMAP, the large IQC that has been split into three parts by the Office of Procurement (Financial Services, Business Development Services, and Enabling Environment) is sometimes perceived as a difficult mechanism to use. Missions wishing to develop programs that cut across more than one of these topics may perceive the need to issue multiple task orders. Some missions have chosen to issue their own RFP instead of using AMAP. Several people also questioned the cost effectiveness of this mechanism.

Recommendations

Based on its analysis, the peer review team saw important opportunities for USAID to improve its current programs and minimize the dual risks of increased marginalization of microfinance and diminished leadership. The peer review team makes four recommendations to management, many of which reinforce promising steps that have already commenced.

1. **Clarify vision and strategy on financial sector deepening.** USAID should develop a consensus around an Agency-wide vision that integrates microfinance into the financial sector, demonstrate how microfinance contributes to USAID's larger goals and mission strategies, and identify and act on the Agency's comparative advantage in microfinance.
 - Staff across EGAT should **develop a vision that integrates microfinance into financial sector deepening.** This exercise would build on current efforts to strengthen cross-team dialogue and a process of consultation to produce a brief (2 page) note. The staff involved would come from the MD team, financial sector specialists from the offices of Economic Growth, Development Credit, and Agriculture, and regional bureaus and would seek feedback from the missions on the draft vision. The paper itself would be less important than the process of dialogue and better understanding among different teams that work on financial sector development. The creation of a cross-team task force could be envisaged. Once completed, the new vision should be reflected in sector strategies and in an updated version of the 1995 Microenterprise Development Policy Paper.
 - **Demonstrate how financial sector deepening contributes to USAID's goals.** Considering the current focus of USAID on economic growth, the MD team should collect information and compile evidence on how microfinance contributes to financial sector development and economic growth while reducing poverty. Influential economists, including possibly World Bank and IMF staff, could be involved in this process through brown bag lunches and other dissemination vehicles.
 - **Identify and act on comparative advantage in microfinance.** As part of the vision exercise, USAID should identify its areas of comparative advantage in microfinance. Based on the benefit of the experience in 16 other peer reviews, the team feels that USAID has developed a significant comparative advantage in a few areas. USAID has a long experience and know-how in developing the capacity of retail-level institutions. It has adopted a commercial approach to microfinance by working directly with the private sector and looking at the financial breakeven of an institution as a key element of success. USAID has also built up international knowledge through its research projects. Finally, in some countries where USAID combines expertise and clout in financial sector and private sector development, it could play a significant role in the policy agenda.
 - To create conditions for maximizing the effectiveness of a financial sector deepening approach to microfinance, USAID's top management should work with Congress to **remove restrictive client poverty targeting requirements.**
 - In the process of developing a vision, EGAT management should **consider whether the current structure matters**, and determine whether the Microenterprise Development team should be placed somewhere outside of the poverty reduction office.

2. **Optimize USAID’s microfinance program quality.** USAID should launch a joint EGAT financial sector deepening initiative, showcase the integration of microfinance into multi-sectoral Strategic Objectives, and create “how to” notes for difficult environments. USAID needs to study the effectiveness of its current umbrella contracts, integrate MD’s pilot grants more fully in missions’ work, widen its choice of implementing partners, and promote the flexible use of AMAP by missions. The first set of recommendations looks at operationalizing the vision and the second considers tailoring USAID’s instruments to optimize program quality.

Operationalizing the vision:

- To ensure that the new vision becomes truly operational, EGAT should **launch a financial sector deepening initiative.** The cross-team task force could select a few countries where there is a demand from the missions. The task force could use a range of instruments (such as DCA, AMAP) and resources, such as the SWAT team approach proposed by the financial sector specialists of the Economic Growth Office (a flexible group of individual experts on retainer). This initiative could typically combine work at the policy level, with industry infrastructure like credit bureaus or working with auditors, and technical assistance to promising institutions.
- **Showcase integration of microfinance into multi-sectoral Strategic Objectives (SOs).** The MD team should synthesize and disseminate success stories where microfinance has been implemented using good practices in the framework of some of the larger SOs, such as rural finance, agriculture, trade, and private market development. These cases would also include practical tools like sample Scopes of Work. These documents would help non-microfinance specialist staff better understand what does and does not work in the context of their programming reality.
- **Create “How to” notes for difficult environments.** These notes would show when and whether it is appropriate to launch microfinance initiatives in difficult environments, such as post conflict. For example, when working in countries with high prevalence of HIV/AIDS, the notes would give advice such as: “don’t only target those directly affected by HIV/AIDS, but offer financial services that meet the needs of the broader community coping with the impact of AIDS”. Notes should be as operational as possible so that missions can readily use them.

Tailoring instruments and mechanisms:

- **Study current umbrella program effectiveness.** Umbrella programs enable USAID to work at different levels of the microfinance sector by awarding funding to a contractor or a consortium to launch a national microfinance industry-building initiative. Together with the missions, the MD team should identify success factors and lessons learned from umbrella programs. Some examples of these programs exist in Uganda, Haiti, and El Salvador.
- **Integrate Implementation Grant Programs (IGPs) more fully in mission work.** The MD team should prioritize IGPs in those countries where missions can most benefit from them. Building on experiences in West Africa and elsewhere, the MD team should systematically involve mission staff in appraisal and monitoring. MD should then

demonstrate how IGPs have influenced mission programs in microfinance, so that they become both an instrument for learning and for improving program quality.

- **Widen choice of implementing partners.** USAID should proactively seek out and work with non-US contractors, local contractors and networks. This approach would enable missions to get better value for money by increasing competition and diversity in the approaches proposed.
 - **Promote flexible use of AMAP.** The MD team should help the missions understand better how they might benefit from AMAP, referring to already successful examples and promoting its flexibility for implementing cross cutting task orders.
3. **Prioritize the roles of the Microenterprise Development (MD) team.** Once the new vision is internalized, the MD team should focus its work along the following priorities: (1) support missions and partners in the field; (2) promote USAID-wide learning and staff training; (3) improve relationships within and outside of USAID; and (4) facilitate a limited number of high priority centrally funded programs, e.g. pilots and research.

MD already undertakes all these roles. For the largest and most influential bilateral donor in the sector, the question is more about where to put the emphasis to maximize effectiveness. The short-term priority of MD remains to complete an EGAT vision for financial sector deepening. The long-term objective should be to support the missions, and other areas of work should feed into this priority. To reach these objectives efficiently, USAID management should reconsider the budget allocation process to reduce the administrative burden on MD to secure funding.

- 1st. **Support missions and partners.** The top priority of the MD team should be to support the work done by USAID missions. More specifically, the MD team should further market its technical advice to the missions to help them design their country strategies and to provide demand-based technical advice. From experience, involvement of technical units in early phases of design is key to the success of a program. The case of the field based MD expert in West Africa should be further explored and replicated if appropriate. The PRIME mechanism represents a cost-sharing incentive for missions that the MD team could also further utilize.
- 2nd. **USAID-wide and staff learning.** The MD team does a lot already in this area. The recent hire of a knowledge management specialist and the current training for Economic Growth Officers including New Entry Professionals (NEPS) provide good opportunities to transmit basic knowledge and skills to non-microfinance specialist colleagues. The peer review team makes additional suggestions on this topic in the fourth and last recommendation below.
- 3rd. **Relationship management (internal and external).** Relationship management consists of assigning staff to become point people for specific bureaus, other offices and missions. The MD team could also assign individuals to work on relationships with Congress, PVOs and other external parties to increase mutual understanding and better promote MD's work to the outside world. Internally, the MD team should increase its presence at in-house fora such as sector councils.
- 4th. **Centrally funded programs such as IGPs and AMAP Knowledge Generation activities** (i.e. the buy-ins to support research, experimentation and tools development). To better

focus on the first three priorities, the MD team should decrease staff time on pilot projects (IGPs). While research remains a key area for USAID's technical leadership, the peer review team sees a need for shifting the emphasis toward re-packaging the information coming from the AMAP Knowledge Generation Project to make it more attractive, user-friendly and relevant for USAID missions.

4. **Improve mutual learning and staff training.** USAID should create an internal network on financial sector deepening, include learning in everyone's TORs and increase basic training for non-microfinance specialists. MD should also ensure that all AMAP knowledge generation activities add value, encourage missions to include knowledge sharing by contractors in their RFPs, and explore linking the MRR system to the MIX. USAID has been one of the best donors at international knowledge generation, but it has not entirely succeeded in translating this knowledge into internal support to operations. The peer review team sees knowledge management as a way to leverage its support to the missions.

- **Create a network on financial sector deepening.** The network would consist of national and international staff from missions and USAID/Washington sharing knowledge and promoting good practices. It would enable cross-bureau, cross-regional and cross-country exchange of knowledge. To ensure that this network can be effective, management needs to allocate budget resources for events and processes such as adding onto financial sector annual meetings, holding regional meetings on financial sector deepening, developing a network website and some intranet links. Considering the growing role of FSNs, they should be well represented in these networks.
- **Include learning in everyone's terms of reference.** Managing knowledge and information is not only the responsibility of one person or team. To become successful, knowledge management needs to be integrated into the culture of the Agency. All staff need to share the responsibility of exchanging information and enabling cross learning to take place. Management should bring its full support to this common task.
- **Increase training for "intelligent consumers".** Even non-microfinance specialists need minimum information to effectively manage their technical partners. USAID should build on the existing joint EGAT training and develop curricula that combine microfinance, financial sector development, and rural finance. Curricula should include the "How to" notes and methods on how to link microfinance with larger Strategic Objectives (both mentioned in the second set of recommendations). USAID should also continue to take advantage of the international courses in Boulder, Colorado, New Hampshire and others, and identify more specialized types of training for those who have already attended Boulder-type training. Training for FSNs and other mission staff would be particularly important, considering the decentralized nature of the Agency.
- **Incorporate knowledge sharing in Requests for Proposals (RFPs) from missions.** Considering the increasing role of contractors in the administration and implementation of USAID's microfinance programs, it has become crucial to involve contractors directly in knowledge management. Where appropriate, contractors should also be tasked with coordinating with other donors in order to assist under-resourced missions. USAID staff should more systematically apply the requirement for contractors to share learning and

information with USAID's head office and missions, and re-package lessons learned for easy dissemination.

- **Explore linking MRR to Microfinance Information eXchange.** The peer review team recommends that USAID explores a potential link with the Market Information eXchange. This link could enable the Agency and other donors to leverage the benchmarking function of the MIX, further analyze performance, and strengthen accountability and transparency for USAID programs.

AID EFFECTIVENESS AND MICROFINANCE MATRIX – USAID

| | | Analysis | Recommendations |
|----|---|--|--|
| 1. | Strategic Clarity and Organizational Culture | <ul style="list-style-type: none"> • International leadership in microfinance • Microfinance policy that reflects good practice with an institution-building approach • Private sector approach particularly well suited to supporting microfinance • Significant political pressures from Congress (earmarking) that limits ability to be strategic • Unclear relevance of microfinance to USAID priorities • Constraining microfinance vision and strategy restricts microfinance to microenterprise credit | <ul style="list-style-type: none"> • Develop a vision that integrates microfinance into financial sector deepening • Demonstrate how financial sector deepening contributes to USAID’s larger development goals • Work with Congress to remove restrictive poverty targeting requirements |
| 2. | Technical Expertise & Resources | <ul style="list-style-type: none"> • Strong technical capacity and professionalism among all staff • Commitment to learning as evidenced by opportunities for staff training and history of cutting-edge knowledge generation projects • Specialized and appreciated focal unit (MD team) • Fewer and larger Strategic Objectives with more generalist staff increase likelihood of potentially damaging multi-sectoral programs • Imbalance among MD roles: centrally-managed programs, mission support, and learning • Unclear relationship between business development services (BDS) and microfinance | <ul style="list-style-type: none"> • Create a cross-team task force to elaborate Agency-wide vision and conduct joint programs • Prioritize the roles of the MD team: (1) mission and partners support, (2) USAID wide learning and staff training; (3) relationship management within and outside USAID; and (4) management of existing centrally funded programs e.g. pilots and research • Create “How to” notes for difficult environments • Increase training for non-microfinance specialists so that they can become “intelligent consumers” of technical information |

| | | Analysis | Recommendation |
|----|---|---|--|
| 3. | Organizational Structure and Flows | <ul style="list-style-type: none"> • Accountability for results through the MRR system • Global outreach with over 40 missions active in microfinance • MD stuck in the “poverty box”, limiting USAID’s ability to lead on financial sector deepening • Need for greater engagement between MD and the rest of EGAT • Unbalanced knowledge sharing among head office and missions | <ul style="list-style-type: none"> • Create a network on financial sector deepening • Include learning and information sharing in everyone’s terms of reference (not just Washington) • Consider whether the current USAID/EGAT structure matters in the process of developing a financial sector deepening vision • Explore linking MRR to the Microfinance Information eXchange |
| 4. | Instruments and Incentives | <ul style="list-style-type: none"> • Consistently largest bilateral program funding levels among the agencies reviewed • Congressional earmarks and poverty targeting measurement isolate and restrict USAID’s microfinance initiatives • Political pressure to commit large amounts quickly • Perceived trend of reliance on a few US contractors • Concerns over flexibility and costs of AMAP IQC mechanism • Complex and inefficient MD budget process and regional resource allocation | <ul style="list-style-type: none"> • Showcase integration of microfinance into multi-sector Strategic Objectives • Study current umbrella program effectiveness • Integrate IGP’s more fully in mission work • Widen choice of implementing partners • Promote flexible use of AMAP • Incorporate knowledge sharing by contractors in RFPs from missions • Reconsider onerous MD budget process |
| 5. | Future Microfinance Operations | | <ul style="list-style-type: none"> • Identify and act on comparative advantage in microfinance • Launch a financial sector deepening initiative via a cross-team task force |