DONOR PEER REVIEW 2003
FRAMEWORK & TERMS OF REFERENCE

-GENERIC VERSION-
To be adapted & fine tuned as required for needs/realities of specific agencies

BACKGROUND

The Donor Peer Reviews emerged from conversations between Secretary of State Clare Short of DFID and CGAP on ways that CGAP member donors could use microfinance as a concrete test case for improving aid effectiveness. Many preconditions for success in this endeavor exist: consensus in principle among donors on standards in the form of the "Pink Book"[1]; a global coordinating organization to promote good donor practice (CGAP); and appropriate microfinance policies in place (although not always followed) in many individual agencies. CGAP member donors have a unique and unprecedented opportunity to advance one of their key stated goals: to apply good donor practices and thus improve their microfinance operations.

CGAP members' response to the peer review initiative has been enthusiastic. Eight agencies—AfDB, AsDB, DFID, IFAD, KfW, NORAD, Sida, and UNDP/UNCDF were reviewed in 2002. Up to twelve reviews are planned for 2003 (AFD, AusAID, CIDA, DANIDA, EBRD, EC, GTZ, ILO, the Netherlands, SDC, USAID and WB) (see Annex A). Of the eight agencies reviewed, six have already agreed to disclose the results of their reviews (AfDB, AsDB, DFID, IFAD, NORAD and Sida).

The CGAP Secretariat serves as a facilitator to organize the scope and the structure of the reviews. It also takes primary responsibility for documenting the review process and preparing the final reports for each participating agency and synthesis documents. The synthesis report of the first six reviews is available on the CGAP website as is a three-page policy paper on the policy implications of the peer reviews emerging from the first year of reviews.

The most interesting findings from a policy perspective are: (i) a lack of clear vision within agencies on the role of the financial sector in development, (ii) an increasing focus on policy and sector level work that has costs for retail level work on the ground (iii) little accountability for quality of microfinance portfolios, (iv) thin technical capacity of staff, (v) interest in defining individual donor comparative advantages and in collaboration, and (vi) recognition of common challenges that need to be tackled by donors working together. Some agencies, for example the AfDB, IFAD and UNDP/UNCDF, have already taken concrete action steps in response to peer review recommendations.

This document builds on the experience of the previous reviews, and on a participatory process of consultation with more than fifteen agencies. This consultation consisted of two questionnaires, two telephone conferences (in February and December 2002), and the meeting in Rabat in September 2002.

[1] Donors' Working Group on Financial Sector Development, Committee of Donor Agencies for Small Enterprise Development, Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries, October 1995.

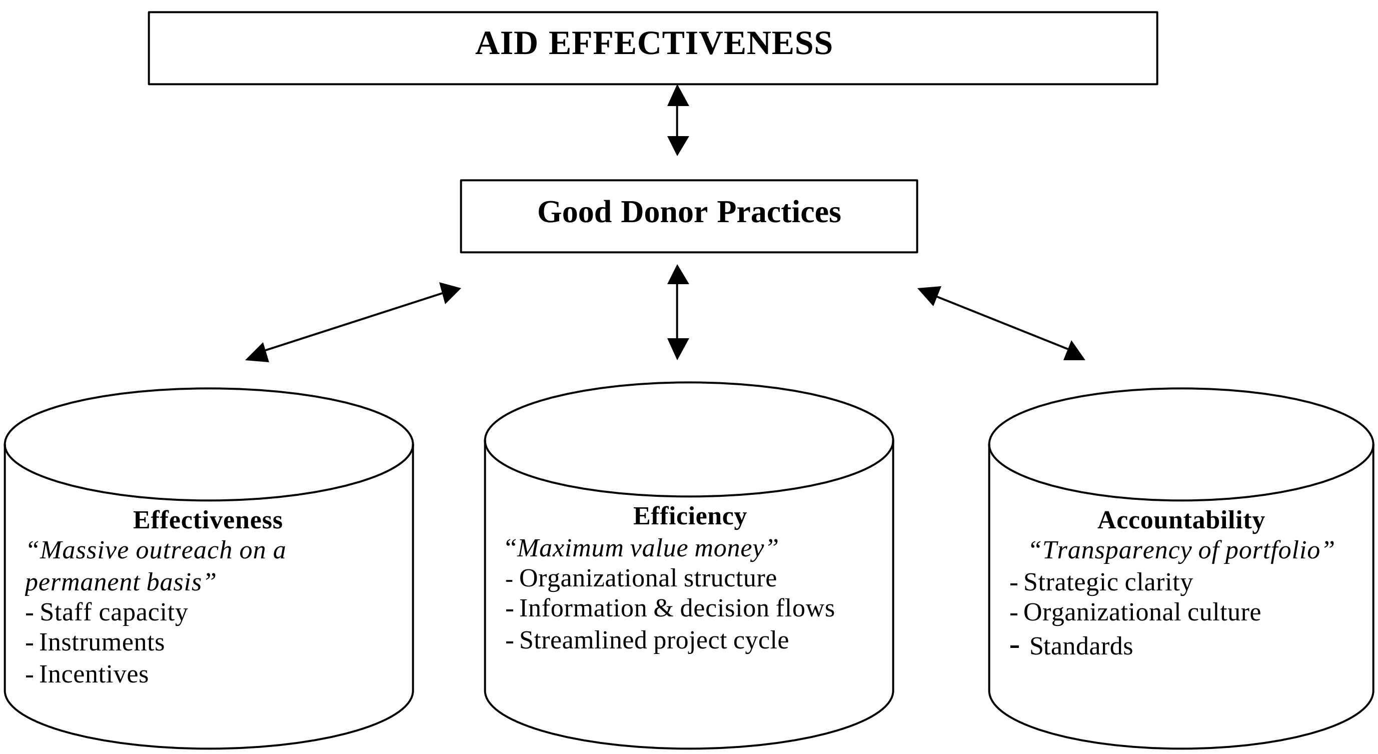
AID EFFECTIVENESS AND MICROFINANCE

The development community struggles to define aid effectiveness. This review focuses on one necessary—though not sufficient—ingredient for improving aid effectiveness: good donor practices.

Good donor practices rest on the three pillars of effectiveness, efficiency and accountability. While these pillars are applicable to many areas of development assistance, this review will analyze them through a microfinance lens. The diagram below presents a conceptual framework that links the three pillars of good donor practices and aid effectiveness. It also details the strategic areas that form the main elements of the review.

> **Unpacking Aid Effectiveness in Microfinance**
>
> Donor practices that are:
>
> ***Effective:*** Contributing to the permanent availability of appropriate, client-responsive financial services via sustainable institutions and mechanisms on a massive scale.
>
> ***Efficient:*** Maximum value for money.
>
> ***Accountable*****:** Full transparency regarding the purpose, content and performance of the microfinance portfolio.

Linking Aid Effectiveness to Good Donor Practices



PURPOSE

The peer reviews are strategic in nature. The purpose of the peer reviews is four-fold:

- Improve aid effectiveness, using microfinance as a test case;

- Link top management agency leadership with technical staff to help identify success factors and constraints to following good donor practices;

- Build on the high level interest from Ministers and head of agencies to garner commitment to implement specific recommendations to enhance the effectiveness of microfinance operations; and,

- Encourage coordination, mutual support and cross-learning among donor agencies seeking to improve their microfinance operations.

OUTPUTS AND EXPECTED RESULTS

I. Agency-Specific Recommendations

A concrete output of the Donor Peer Review is a set of specific recommendations made by the review team to the highest level of management in each of the agencies. The recommendations will take into account agency-specific constraints. There are three critical components to this output:

- ***Briefing to high-level management*** by the review team on the last day of the review to outline the key preliminary findings and recommendations. The briefing notes will then feed into the letter to management.

- ***Letter to management*** to provide high-level management with specific organizational and operational recommendations that address agency-specific key constraints in implementing sound microfinance practices identified during the review process. At a minimum, the letter will include: 1) a summary of key strengths and, when possible, comparative advantages; 2) a list of key challenges facing the agency in following good practices; and, 3) specific recommendations to address key constraints and build on strengths. Management is encouraged to widely disseminate the review recommendations to staff in headquarters and the field.

- ***Management response to the review recommendations*** included in the letter will indicate to the review team which recommendations the agency chooses to adopt. The letter should reflect high level commitment to implement specific changes that improve the effectiveness of microfinance operations. Agencies will be encouraged to produce a plan detailing specific actions, a timeline and identification of key decision points and resources for the implementation of changes.

II. Recommendation for all Donors

- ***Updated donor guidelines for microfinance*** that include the definition of good donor practices in microfinance and the presentation of a list of sub-optimal practices in microfinance that donors should not do or try to avoid. These guidelines could build on the most recent existing donor guidelines for microfinance ("Guiding Principles for Selecting and Supporting Intermediaries" or the "Pink Book") which were written in 1995. This output will flow from the synthesis and analysis of good practices that should emerge after several rounds of reviews and discussion among participating agencies.

- ***Opportunities for donors to jointly tackle common challenges*** emerging from the peer reviews will be catalogued and discussed in meetings involving the focal points. Examples of possible areas requiring joint donor action include determining the appropriate role of subsidies, rural finance, and field-level collaboration.

III. Recommendations for Improving Donor Coordination

- ***Note on the role of donors and their effectiveness at the field level*** drawing from the observations and lessons learned from the field visits.

SCOPE – AREAS OF REVIEW

Drawing on the conceptual framework linking donor practice to aid effectiveness, the scope encompasses six strategic areas of review:

1. Strategic clarity and organizational culture
2. Technical expertise and resources
3. Organizational structure and flows
4. Instruments and incentives
5. Project cycle
6. Future microfinance operations

Each area contains key indicators of good practices. These indicators comprise a preliminary version of a new "Pink Book" that can be refined during the course of the reviews.

The following matrix concentrates on the six strategic areas and will serve as an overall guide for the content of the reviews. However, the review team and focal point will tailor the guide to the needs of each agency. Some areas may require more detailed analysis than others. Annex B offers a menu of possible detailed questions for each of the six areas. The review team can draw on these questions or develop their own.

AID EFFECTIVESS AND MICROFINANCE MATRIX

		Analysis	Recommendations
1.	**Strategic Clarity and Organizational Culture** - internal clarity in vision of microfinance - operational consistency with agreed upon microfinance standards - culture of openness and learning		
2.	**Technical Expertise & Resources** - sufficient staff with technical capacity relative to portfolio - agency commitment to professional development of staff - appropriate selection and monitoring of outsourced expertise		
3.	**Organizational Structure and Flows** - focal unit informed of all microfinance projects and able to exert quality control and influence - operational coordination and coherence within agency - information flows conducive to exchange of technical information and knowledge of local (field) conditions - collaborative relationships with other donors		
4.	**Instruments and Incentives** - appropriate and flexible instruments - instruments that minimize market distortions - instruments targeted to specialized implementing partners who can use them most efficiently - approval/disbursement pressure is reduced/non-existent - procurement rules do not interfere with good practices		
5.	**Project Cycle** - qualified staff with local knowledge responsible for origination and design - ability to influence projects past origination/design stage - management and board sensitized to basic good practices - performance-based monitoring /supervision		
6.	**Future Microfinance Operations** - operations based on a coherent microfinance policy/vision - operations leverages agency's comparative advantage		

SPECIFIC TASKS AND SCHEDULE

There are several components to the peer review exercise. The first one consists of a four to five day visit to the agency headquarters by a team of four reviewers (two donor staff and two CGAP staff). The second component entails field visits that help to incorporate the field perspective into the reviews. Finally, given the large number of agencies participating in the exercise, a number of meetings are planned to exchange lessons learnt and results. The peer review exercise for 2003 is organized according to the schedule presented in Annex A (still a draft).

There are five main tasks for the review: Tasks I and II (pre-review planning and headquarters visit) presented below will be repeated for all the agencies. Task III (field visits) is applicable only to the agencies that are decentralized and choose to incorporate the field visit in their review process. Field visits will be for multiple agencies. Two visits are planned, one in India and a second in Mali. Task IV (report preparation and submission) outlines how the findings and recommendations of the reviews are synthesized and sent to agency management and how the broad lessons learnt from the whole exercise are captured. Task V (meetings to discuss actions and results of the peer reviews) entails sharing the results of the reviews and discussing possible follow up plans.

I. Pre-Review Planning

The majority of the pre-review planning will be done by the focal point and the CGAP Secretariat. The focal point is instrumental to set the stage well within his/her agency for the review team. The relationship between the review team and the focal point is somewhat delicate. The review team has to draw a line between supporting the focal point and maintaining objectivity. This is why the focal points hold regular briefings with the team during the review but do not take part in the interviews. Donor review team members will also have to read certain key documents in preparation for the reviews.

Specific Tasks:

- **Reconfirm high level management commitment.** In early 2002, top management of all the participating agencies indicated their interest and commitment to the objectives of the review by responding favorably to Clare Short's letter of invitation. As the date of the review approaches for each agency, there may be a need to re-ignite the engagement of top management. The focal point will inform management of the review date and solicit their help in mobilizing internal support for the review. If necessary, the focal point can call upon the CGAP Secretariat or heads of other agencies to assist in this task.

- **Confirm date and review team.** CGAP is responsible for confirming the dates of the reviews and coordinating the composition of the review teams. Information on the date and team composition for reviews should be sent to the agencies as soon as they are confirmed.

- **Draft explanatory note.** The success of the reviews hinges in large part on whether the agency staff and high level management that will be interviewed are fully briefed on the purpose of the exercise. The explanatory note will be one tool the focal point can use to explain the Donor Peer Review process to all colleagues that will be involved. The CGAP Secretariat has drafted a generic explanatory note that can be tailored by the focal point to meet the needs of each individual agency. The note is attached in Annex C.

- **Circulate explanatory note.** Top management should circulate the explanatory note to all relevant staff, inviting them to participate in the peer review and explaining that the focal point will contact them to schedule meetings with the review team.

- **Identify key informants.** The focal point should identify and brief key informants from a wide cross-section of staff from regional/country departments, technical staff, and non-specialist staff in social or rural development departments as well as field staff that can be interviewed via telephone. It is also useful to meet with staff from the policy/strategy, evaluation, and human resources departments. In some cases, meeting with people from administrative units like contracts/procurement might also be relevant.

- **Informal microfinance discussion session (*optional).*** In some cases, the focal point might find it useful to take advantage of the review team's presence to organize an informal discussion session on microfinance for interested staff. If the focal point chooses to add this optional element into the review process, s/he should clearly identify the objectives of the workshop, its timing and duration so that the review team can prepare adequately.

- **Schedule meetings**. The focal point should schedule meetings and telephone interviews with all key informants and incorporate the meetings in the agenda. Depending on the agency's level of decentralization, up to 50% of the interviews may be with field staff. The focal point may also wish to include meetings with select consultants who work regularly with the agency. The number of interviews can vary from 30 to 60 people depending on the size of the agency. The focal point should develop the agenda to most efficiently use the time available. Most of the time, the review team will split in two to be able to meet more people. Small meetings involving two to three persons tend to yield the most insightful information. It is important to leave some time throughout the schedule for 1) the team to meet with the focal point for continuous de-briefing, vetting of ideas and clarifications; 2) the team to meet again with certain key people on Thursday to vet recommendations it is thinking of making; and 3) the team to plan the Friday de-brief.

- **Prepare Donor Profile.** The focal point should prepare a Donor Profile for dissemination prior to the review that includes general information on the microfinance portfolio of the agency. This general information will provide a context for the review team members to address the issues provided in the "Scope – Areas of Review" section of this document and the specific questions in Annex B. Key information points to be included in the profile are detailed in Annex D (size of portfolio, type of projects and instruments, and trends in the portfolio). The Donor Profile will also be attached to the letter to management.

- **Compile and send key documents**. The focal point should select documents that will help the review team better understand the agency, its overall organization and goals, and its microfinance operations. As many of these documents as possible should be sent prior to the review date so as to ensure that the review team is well-informed and able to tailor the review to the priorities of the agency. These documents should illustrates key issues, challenges, and strengths of the agency. Some important documents are: Donor profile (Annex D of the TOR), organizational chart, microfinance policy, microfinance operational guidelines, microfinance strategy, etc

Task	Who?	When?
Confirm date	FP & CGAP	2 months prior to the review
Confirm review team	CGAP	6 weeks prior to the review
Re-confirm high level commitment	FP	6 weeks prior to the review
Circulate explanatory note	Management	One month before review
Identify key informants	FP	One month before review
Schedule meetings	FP	Three weeks prior to review
Prepare Donor Profile	FP	At least two weeks prior to review
Compile and send key documents	FP	Two weeks prior to review
Finalize agenda and send to review team	FP	At least one week prior to review

FP = Focal point
CGAP = CGAP Reviewers

II. Headquarters Review

Specific Tasks:

- **Hold preparatory meeting**. Once in headquarters country, the review team and focal point should meet to review the final agenda and go over the logistics for the week. Ideally, this meeting should take place on Sunday evening. The focal point should provide guidance on the areas of emphasis for that agency. The review team should then go over and tailor the questionnaire guide to prioritize questions for different levels of staff and meetings. During this meeting, the focal point may distribute any documents not previously sent.

- **Review key documents.** The review team will read key documents not previously received. The team may wish to ask questions to the focal point regarding matters that require clarification.

- **Facilitate microfinance discussion session (*optional).*** If considered necessary and helpful by the focal point, the review team and focal point will facilitate a discussion on microfinance. The objectives and content will have been defined prior to arrival with the focal point.

- **Interview key informants.** The donor team will interview a wide cross section (technical, regional, policy/strategy, evaluation, human resources and field) of key informants in person or by telephone. Smaller meetings (1-2 people) are the most effective, and it is very useful to split up the review team in two (1 donor reviewer with 1 CGAP reviewer).

- **Consult with high-level staff.** The review team will hold consultations with high level management and potentially board members as well. Such meetings should be scheduled far enough into the review week for the team to have gained a sense of the key issues, but not too late to incorporate thoughts from senior management (i.e. from Tuesday afternoon to Thursday morning).

- **Prepare briefing.** The review team will synthesize its initial findings and recommendations in a 15 minute presentation for high level management and staff. To check factual accuracy, the review team should vet the content of its briefing with the focal person.

- **Brief high level management and staff.** The review team will present its initial findings (strengths, challenges, and initial recommendations) to high level management. While the de-briefing is primarily for high level management, we have found it useful to have an open meeting to which all persons the team met with are invited.

Task	**Who?**	**When?**
Hold preparatory meeting	RT, FP	Day 1 or night before in hotel
Review key documents	RT	Day 1
Facilitate microfinance discussion session (*optional)*	RT, FP	Day 1 or Day 5
Interview key informants	RT	Days 1-4
Consult with high-level staff	RT	Days 2-4
Prepare briefing	RT, FP	Day 4
Brief high level management and staff	RT	Day 5

RT = Review Team
FP = Focal Point

III. Field Visits

Field visits are one important way of incorporating the field dimension in the peer reviews. A field visit took place in Uganda in 2002 and field visits to India and Mali are planned for 2003. The purpose of the multi-agency field visits is to meet with field-level donor staff and stakeholders (practitioners, apexes, service providers) to discuss the six strategic areas of the peer review. The purpose of the field visits is <u>not</u> to conduct an in-depth review of projects or project portfolios.

In going over the strategic areas, three issues will merit special attention. They are:

- Perception of donor behavior. Donors and stakeholders will be asked to comment on how they perceive the behavior of agencies involved in the peer review.

- Consistency. How consistent are headquarter and field perceptions of items discussed in the six strategic areas?

- Role of donors and donor coordination. How can donors contribute to the specific countries' microfinance industry? Given individual donors' strengths and challenges, what is their role? What drives donor coordination? What is the extent of donor coordination? What is the role of headquarters in supporting country-level donor coordination?

Separate guidelines to incorporate the field dimension, including field visits, are included as Annex E.

IV. Report Preparation and Submission

Agency-Specific Letter to management

Several steps are involved in preparing the letter to management for official submission to the agency.

- CGAP review team members prepare a first draft letter to management for each agency based on information gathered during the review and the briefing to high-level management and staff.

- The Secretariat circulates the draft letter among the review team members to solicit their feedback and then incorporates their comments in the letter.

- The letter to management is sent to the focal point to provide an opportunity for the correction of factual errors.

- On behalf of the review team, the CGAP reviewers submits the letter to management to the head of agency. In general, this letter should be sent within six to eight weeks of the reviews' completion.

Synthesis Reports

For the 2002 reviews, the CGAP Secretariat prepared a synthesis report on the first six reviews and a short paper on the policy implications of the reviews. Both are available on the CGAP website. http://www.cgap.org

The following synthesis reports are planned for 2003:

- Updated 2002 synthesis report, including specific examples from KfW and UNDP/UNCDF (the last two reviews of the year).

- Synthesis report for the 2003 reviews, including specific examples from the 12 reviews planned.

- Global paper highlighting the policy implications of the entire review process. This paper will likely be finalized in early 2004.

V. Meetings to Share Review Results

Meetings will be organized gathering ministers, agency heads, senior management and focal points at which the actions and results of the peer reviews recommendations can be exchanged amongst the participating agencies.

RESOURCES

I. Focal Point

The focal point will be the facilitator for the peer review at the agency being reviewed. The focal point will channel any modification/adaptation of the generic TOR to the CGAP Secretariat, identify key informants both at headquarters and in the field, coordinate the schedule, set the agenda, ensure the availability of high-level management for interviews and the debriefing, and compile background documents. The focal point will also serve as the liaison with the field offices of the countries selected for the field visits. In large agencies where the focal point does not have full visibility or access to management, it might be useful to create a small peer review task force comprised of people from key departments.

II. Peer Reviewers

Representatives from two donor agencies will participate on the review team. They will read documents disseminated prior to the actual review, participate actively and fully during the review, help shape the recommendations for high level management, and provide feedback on the draft letter to management. The criteria for reviewers are: broad experience in microfinance, understanding of the bigger picture of donor effectiveness and development cooperation, familiarity with technical issues, preferably both field and headquarter experience, and ability to make changes within their own agencies, i.e. relatively senior, and diplomatic skills.

III. CGAP Reviewers

Two CGAP staff participate in each review. The Paris based donor team is responsible for facilitating the exercise and the follow up support.. The donor team coordinates the schedule for the dates of the review, organize the review teams, and prepare the letters to management and synthesis reports.

IV. Key Documents

Following is an illustrative list of documents that may be included in the key document review:

- Donor profile
- Agency objectives
- Organizational chart
- Microfinance policy
- Private sector/ Financial sector policy
- Microfinance operational guidelines
- Microfinance strategy documents
- Overall evaluation/review of microfinance
- Portfolio reviews
- Strategic project documents and evaluations (6 projects is considered ideal, with two stellar projects, two average projects, and two poor projects)

DISCLOSURE POLICY

It is important that all agencies widely circulate the letter to management and other relevant follow up plans to their staff at head office and in the field. The circulation of the letter to a broader audience (e.g. CGAP member donors, the wider public) will be left to the discretion of each agency. With regard to the disclosure, there are four different options for the agency:

(i) disclose the letter of management as it is
(ii) disclose the letter of management with the response from the agency attached
(iii) disclose a version edited by the agency in agreement with the review team
(iv) in case the agency and the peer review team do not agree on the edits, the letter will not be disclosed.

ANNEXES

There are five annexes:

Annex A	Draft Peer Review Schedule 2003
Annex B	Menu of Questions for the Strategic Areas of Review
Annex C	Explanatory Note on Donor Peer Reviews
Annex D	Donor Microfinance Profile
Annex E	Incorporating the Field Dimension (including guidelines for field visits)

Annex A Draft Peer Review Schedule 2003

DONOR PEER REVIEWS

PROPOSED SCHEDULE AND TEAM COMPOSITION

Bold + italic means confirmed

DATE	REVIEWS	TEAM	CGAP
February			
February 10-14	***ILO***	***UNDP/UNCDF, NORAD***	***Brigit, Alexia***
February 18-28	***Field Visit India***		***Hashemi, Alexia***
March			
March 10-14	***AFD***	***Sida, KfW***	***Brigit, Eric***
March 24-28	***EC***	***IFAD,*** EBRD?, Sida?	***Brigit, Eric***
April			
April 14-18	***Field Visit Mali***		***Brigit, Eric***
April 27-May 1	***DANIDA***	***SDC, CIDA***	***Xavier, Eric***
May			
May 4-23	***Netherlands***	AFDB?, DFID?, KFW?	***Hashemi, Alexia***
June			
June 8-13	***CIDA***	USAID?,	***Jennifer, Eric***
End June	EBRD	WB?	***Elizabeth, Eric***
July			
July 14-18	***GTZ***	***ADB, ILO***	***Alexia, Eric***
August			
August 18-22	***SDC***	***GTZ***, Netherlands?	***Brigit, Eric***
September			
October			
October 13-17	USAID	ILO?, EBRD?, SDC?, DFID?, WB?	
November			
December			

Annex B Menu of Questions for the Strategic Areas of Review

This annex presents a menu of possible questions for the six strategic areas for analysis during the review process**.** The menu is meant to serve as a guide through the different sections of the review. All questions are not equally important—or indeed relevant—for all staff. Questions may also need be slightly modified or re-formulated depending on the intended audience. Finally, review team members should meet prior to each review to develop a strategy on the main areas of focus based on agency-specific priorities as defined by the focal point.

As a reminder, the six areas of review are:

- Strategic clarity and organizational culture
- Technical expertise and resources
- Organizational structure, information and decision flows
- Instruments and incentive structures
- The project cycle
- Future microfinance operations

Following the six strategic areas for analysis, a set of questions targeted to the review of projects that have been selected as sample cases is presented. These questions are in addition to the questions included in each strategic area.

I. Strategic Clarity and Organizational Culture

Strategic Clarity

- ❑ In your ideal world, what would the microfinance sector look like in 2010?
- ❑ What is the main objective of microfinance?
- ❑ What are three key principles of microfinance?
- ❑ When is microfinance an appropriate development response?
- ❑ What is the relation of microfinance to larger agency goals such as poverty alleviation, rural development or employment generation, the Millennium Development Goals?
- ❑ How do you rank the value and importance of microfinance relative to other sectors of your agency's interventions such as health, education, gender, infrastructure and environmental protection/management?
- ❑ What is your agency's prime motivation/underlying development reasons for entering microfinance? Satisfaction of target group needs or building markets or systems?
- ❑ What is the appropriate role of subsidies?
- ❑ What is or should be your agency's comparative advantage to other donors in microfinance?
- ❑ How does private sector development and financial sector development fit in the culture of your organization?
- ❑ How does staff accept the (relatively) high interest rates that are charged in the microfinance sector.

- ❑ Does your agency have a specific microfinance policy?
- ❑ Are there operational guidelines for the microfinance policy?
- ❑ Does your agency have a policy to mainstream microfinance?

- If yes, how effective has the policy to mainstream microfinance been?
- Where (in what departments) should microfinance projects originate?
- To what extent should individual country policy environments be taken into consideration when designing microfinance interventions?
- To what degree do political considerations influence microfinance and act as a constraint to the implementation of good practices?
- Do you think microfinance specialists should review all projects with a microfinance component?

Organizational Culture

- To what extent does a culture of openness and flexibility to change exist within your agency? Please demonstrate your response with examples.
- To what extent is advice welcomed and sought out among your peers in the agency?
- What are the formal and informal mechanisms for professional exchange among various cross-sections of staff? Specialist and non-specialist. Headquarter and field. Technical unit and geographical department.
- Please describe your agency's willingness/ability to work effectively with other stakeholders (donors, NGOs, financial institutions, etc.) to leverage resources and reduce transaction costs.
- How risk adverse is your agency? Does the organizational culture enable staff to take risks?
- How would you describe your agency's ability to recognize faults, limitations and failures?

II. Technical Expertise and Resources

Agency Staff

- What proportion of staff within the agency has some technical knowledge of microfinance and at what level of skill?
- What is the percentage of staff time allocated to microfinance?
- How many people work 70 percent or more of their time on microfinance?
- Where does the technical microfinance expertise reside (organizationally and geographically)?
- What is the background of the MF technical staff: finance, economics, social sciences or agriculture?
- How many microfinance technical staff had field microfinance experience prior to working with the agency?

- What are the key roles of technical staff?
- What difficulties have technical staff encountered in working on microfinance projects?

- Has microfinance experience been a criteria for any recruitment in the past three years?
- Who participates in the recruitment of microfinance technical staff? At headquarters? In the field?
- How is technical capacity evaluated?

Professional Development

- Does the agency send staff to microfinance trainings and conferences? Specialized staff? Non-specialized staff?

- What is the budget for microfinance training?
- Please comment on how CGAP has worked with technical units to build and strengthen units' positions within their own agencies. How should CGAP be working with the technical units?
- Which professional category is the most likely to be promoted and advanced to higher level positions in your agency—economist, engineer, program manager, microfinance specialist, accountant, etc.?

Outsourced Expertise

- Does your agency outsource technical expertise?
- What types of external partners does your agency work with (NGOs, consultants, financial institutions)?
- What is the process for selecting external partners?
- How is the work of external partners evaluated?
- How can an outside agency, for example CGAP positioned in the donor microfinance community, best promote good microfinance practices within your agency?

III. Organizational Structure, Information and Decision Flows

Organizational Structure

- Please describe the roles of headquarters and field offices in setting agency-wide internal policies (affecting all sectors) and in setting microfinance policy.
- What departments in your agency manage microfinance projects or components?
- On the continuum of fully centralized versus fully de-centralized, please situate your agency.
- Please explain the links between the technical and the geographical departments.
- Please describe how external stakeholders fit into your agency's organizational chart.

Microfinance Focal Unit/Point

- Is there a focal technical unit for microfinance?
- Is the microfinance focal point informed of all projects with a microfinance component and able to comment on them?
- Does the microfinace focal point have a say in the approval of microfinance projects or the microfinance components of broader projects.

Information and Decision Flows

- Using the organizational chart, please map out the key information and decision flows that influence microfinance.
- Please detail the internal stakeholder and influencing flows affecting decisions on the microfinance portfolio.
- What are the key decision points for managers (heads of divisions and departments) in regards to microfinance interventions?

- Where are the key entry points for mainstreaming good practices into the agency?
- Where are the key entry points for "bad" microfinance practices?
- What are the main channels for disseminating information (papers, courses) on microfinance?

Influence of Technical Staff

- To your knowledge, has there been a microfinance project in your agency that has been rejected or seriously modified based on feedback from technical staff? Please provide specific examples. Why? At what stage of the project cycle did this occur?
- Have you heard of instances in which technical staff were not able to influence the approval of a poorly designed microfinance project? Why was technical staff unable to exert influence?

Communications with Other Donors

- What are the formal mechanisms for information exchange with other donors?
- What are the informal mechanisms for information exchange with other donors?
- What are the priorities of in-country donor coordination? Please cite specific examples.
- Has your agency collaborated with another agency on a recent microfinance project? Please provide examples.

IV. Instruments and Incentive Systems

Instruments

- What instruments do you have (grants, TA, market loans, subsidized loans, equity investments, guarantees, scholarships, in-kind contributions)?
- What department controls the instruments (does it vary by instrument) and what are the procedural requirements to use them?
- Who structures the procedural requirements for the use of the instruments – technical units or support (contracts/finance) units?
- What instruments are most often used for microfinance? Why?
- With what instruments have you achieved the most successes?
- Does your agency have stand-alone microfinance projects or is microfinance incorporated into integrated projects? Do you have a mix of both?
- Who are the recipients of your agencies' instruments? MFIs? Apexes? Multi-sector projects? Technical assistance projects? Government?

Incentives

- What incentives exist to do microfinance within integrated/holistic approaches?
- What are the incentives within the agency to adhere to good practices?
- What are the incentives within the agency to bypass/ignore good practices?
- What disincentives exist to discourage "bad" practices.
- What incentives exist to insist on sustainability?
- Do disbursement pressures exist? Please explain.
- What incentives exist for disbursement by tranche based on performance?
- How do procurement rules affect adherence to good microfinance practices?

V. Project Cycle

- When and how is technical expertise brought into the cycle?
- What is the point of no return for a project in the project cycle (point at which influence is no longer possible)?

Origination/Identification

- Who identifies projects?
- How do projects enter the pipeline of assistance?
- From where do projects originate? Field versus headquarters? Technical unit or geographical departments?
- What, if any, is the government role in originating projects?
- Are external partners involved in the identification of projects?

- Do clear selection criteria exist for identifying competent retail capacity? Are the criteria respected?
- How much is site selection for microfinance projects driven by where other agency activities are present ?

Design

- Are projects designed in-house or by external partners?
- Are microfinance specialists involved in project design?
- What weight do projects put on institutional sustainability in their designs?

- To what extent is the financial sector and microfinance sector of a country analyzed in order to determine the prerequisites for a project intervention (macro-economic stability, degree of reform/liberalization, access to bank services, market size, degree of competition, etc.)?
- Are the project design consistent with realistic performance objectives, i.e. outreach and sustainability?
- If the project is directly with a MFI or APEX, what type of analysis/appraisal is done before the selection of the identified institution?
- How does the agency evaluate the technical capacity of potential technical implementers?

Approval

- Who approves projects? Is technical expertise involved in the approval process?
- What is the level of knowledge/sensitization to good microfinance practices among top management and board members involved in the approval process?

Implementation

- How does your agency implement? Agency staff? Consultants hired by the agency? Private contractors? Government? Project implementation units? Northern NGOs? Southern NGOs? Directly via MFIs? Apexes?
- In instances when implementation is directly through a MFI, what type of agreement exists between the agency and the recipient MFI? What is the design of the agreement?

Monitoring/Supervision

- Who supervises microfinance projects or components? Internal staff or external partners? What exposure do they have to microfinance?
- What is the budget/staff time allocated for supervision as a percentage of value of assistance (financial and technical) of the project?
- When do project assessments/evaluations occur? Mid-term or towards the end?
- Do you track the performance of the microfinance portfolio? How?

- How are results of project assessments/evaluations integrated in the design of new projects?
- Has there been instances when the course of a microfinance project was seriously modified based on feedback from the monitoring/supervision system? Please provide specific examples.
- Has there been instances when a microfinance project was cancelled due to feedback from the monitoring/supervision system?

VI. Future Microfinance Operations

- What will govern the future programming in microfinance within your agency? What factors/planning processes will influence future decisions regarding microfinance?
- What levels of future funding for microfinance?
- What types of instruments will you use in future microfinance programming?
- Where are your areas of geographic emphasis for future programming?
- What are the main two changes (if any) which should take place in your agency to improve its microfinance operations?

Project-Specific Questions

The following set of questions are for the desk study and interview based review at headquarters of sample projects chosen by the focal point.

  - Are the financial services offered (credit, savings, insurance, etc.) appropriate for the target clients?
  - Are retail-level financial service provided by specialized institutions?
  - Is the project supporting the development of sustainable retail-level microfinance institutions?
  - Does the project face disbursement pressure? Please explain.
  - Are there sustainability-related criteria for tracking the performance of retail MFIs, especially profitability and loan collection?
  - If the project involves a second-tier apex (wholesale) fund, has there been a solid demonstration that there are enough strong retail MFIs to justify the apex and the amount of its funding?
  - If the project involves an apex fund, has it been protected from political pressure and interference?
  - Is the Government's interest rate policy conducive to sustainable microfinance?
  - If the project involves a special licensing window for MFIs, does the banking authority have the capacity to supervise them?
- Has there ever been any signals that things are going wrong with the project? If yes, which measures were taken as a consequence?

Annex C   Explanatory Note on Donor Peer Reviews

"Tackling Aid Effectiveness from the Top: Microfinance as a Test Case"

Background

Aid effectiveness is indisputably a high priority for the international development community. In early 2002, the Consultative Group to Assist the Poor (CGAP) joined with Secretary of State for the UK Clare Short to launch a unique aid effectiveness initiative: Microfinance Donor Peer Reviews. Championed by Ministers and agency heads, 20 donor agencies have signed on to the review exercise. Eight reviews were completed in 2002 and to date, six agencies have agreed to disclose the results of their reviews. Twelve reviews are planned for 2003.

Why microfinance as a test case?

Although microfinance comprises a small proportion of these agencies' portfolios, it is an appropriate focus for peer review. All participating donors have agreed in principle to standards of good practice in microfinance, but their performance on the ground does not uniformly reflect this commitment. As a consortium of 29 bilateral and multilateral donors dedicated to expanding financial services to the world's poor, CGAP is well-positioned to facilitate the reviews and provide follow-on technical assistance. Finally, microfinance is a rich entry point into understanding agencies' modus operandi because it cuts across many sectors.

What are donor peer reviews?

Donor peer reviews address aid effectiveness from a unique perspective. Rather than concentrate on constraints at the country level (governance, corruption, macroeconomic instability, etc.), the reviews focus on what donor agencies can most directly influence: their own procedures, practices, processes and systems. Reviews are thus not formal evaluations or detailed portfolio reviews, but rather collegial, supportive exercises that identify success factors and constraints to good practices in microfinance. Most agencies reviewed thus far have also found the reviews applicable to sectors beyond microfinance.

What specific areas of the agency's operations will the donor peer reviews cover?

Participating agencies have identified six strategic areas that relate donor practices to improved effectiveness, efficiency, and accountability of microfinance operations.

- Strategic clarity and organizational culture
- Technical expertise and resources
- Organizational structure, information and decision flows
- Instruments and incentive structures
- Project cycle
- Future microfinance programming

How are the reviews organized?

The short but intensive reviews last 4-5 days. The reviews take place at the headquarters of the agencies, where review team teams have discussions with 30–60 staff members holding a variety of technical, administrative, operational and managerial positions, based both at headquarters and in the field. The reviews culminate in briefings to top management and staff regarding the team's analysis and specific recommendations. These recommendations are then formally presented in a letter to management that is submitted some six to eight weeks after the actual reviews.

To capture the field dimension of agencies' work, key field informants will be contacted by telephone (during the review week) and two field visits are scheduled for 2003. A visit already took place in Uganda in 2002; the visits planned this year will be in India and Mali. Field-level donor staff and industry stakeholders such as retail institutions, apexes, and service providers will be interviewed during the multi-agency field visits.

The microfinance focal point for [insert agency name] is responsible for organizing the review and guiding the review team.

Who is involved in the donor peer reviews?
CGAP member donors' response to the peer review initiative has been enthusiastic. Eight agencies—AfDB, AsDB, DFID, IFAD, KFW NORAD, Sida, and UNDP/UNCDF were reviewed in 2002. Twelve reviews are planned in 2003 (AFD, AusAID, CIDA, DANIDA, EBRD, EC, GTZ, ILO, the Netherlands, SDC, USAID and WB).

Each review team is composed of two donor reviewers and two CGAP staff. CGAP serves as a facilitator and has primary responsibility for documenting the reviews on behalf of the donors. The review team for [insert agency name] includes [insert reviewer name and agency] and [insert reviewer name and agency].

What results and outputs are expected from the donor peer reviews?
Results are expected at two levels: the individual agency and all donor agencies. They are:

- ***Agency-Specific Recommendations.*** The review team will brief high level management on key preliminary findings and recommendations at the end of the reviews. The content of this briefing will be used to produce a letter to management with specific organizational and operational recommendations that address the key challenges in implementing sound microfinance practices identified during the review process. At a minimum, the letter will include: 1) a summary of key strengths and, when possible, comparative advantages; 2) a list of key challenges facing the agency in following good practices; and, 3) specific recommendations to address key constraints and build on strengths.

  The reviews will hopefully trigger a process (or build on existing initiatives) to obtain high level management commitment to specific changes that will improve the effectiveness of microfinance operations. Management will then prepare a response to the review recommendations, indicating to the review team which recommendations the agency chooses to adopt. Management is encouraged to widely disseminate the review recommendations to staff in headquarters and the field.

- ***Recommendation for all Donors***

  - ***Updated donor guidelines for microfinance*** that includes the definition of good donor practices in microfinance and the presentation of a list of bad practices in microfinance that donors should not do or try to avoid. These guidelines could build on the most recent existing donor guidelines for microfinance ("Guiding Principles for Selecting and Supporting Intermediaries" or the "Pink Book") which were written in 1995. This output will flow from the synthesis and analysis of good practices that emerges after several rounds of reviews and discussion among participating agencies.

  - ***Opportunities for donors to jointly tackle common challenges*** emerging from the peer reviews will be catalogued and discussed in meetings involving the focal points. Examples of possible areas requiring joint donor action include determining the appropriate role of subsidies, rural finance, and field-level collaboration.

Annex D Donor Microfinance Profile

The profile is not intended to be a long report. It is rather intended to provide a snapshot of each agency's microfinance operations. The information below can be presented in list form, with bullet points.

Size of microfinance portfolio (amount and number of interventions)
- Total portfolio
    - Dollar/euro amount of the overall budget for microfinance operations
    - Dollar/euro amount of the outstanding portfolio
    - as a percentage of total agency budget
- Distribution among regions
- Distribution among departments

Types of supported microfinance projects
- Microfinance retail institutions (such as NGOs, banks, credit unions, financial companies etc.)
- Apex institutions (national/regional networks, wholesale funds, service providers)
- Component of integrated rural development or poverty alleviation program
- Component of a business services development program
- Technical assistance/capacity building project
- Enabling Environment (legal and regulatory framework) project
- Commercial capitalization project (social fund/venture capital)

Instruments available to support microfinance projects
- Grants for capital
- Grants for TA
- Loans for TA
- Loans for capital
- Equity

Trends in the microfinance portfolio (increase or decrease)
- Historical changes in type and size of portfolio
- Projected changes in type and size of portfolio

Annex E Guidelines for the Incorporating the Field Dimension in the Donor Peer Reviews

BACKGROUND AND OBJECTIVES

There is general consensus among participating peer review agencies that integrating the field perspective enriches the quality and depth of the reviews. Specifically, incorporating the field dimension in the peer reviews better enables the participating donor agencies to:

(1) Understand the field perspective on items discussed in the six strategic areas of review and learn more about the headquarters/field relationship;

(2) Assess the effectiveness of donor agencies as perceived by their peers in-country and other stakeholders such as MFI associations, apexes, clients and the government; and,

(3) Explore the individual and joint roles of donors in supporting the microfinance industry.

METHODOLOGY

Two major challenges characterize the incorporation of the field dimension in the peer reviews: serious resource and time constraints, and the fact that donor agencies prioritize first-hand field insights differently based on their level of decentralization.

The core peer review team has suggested a strategy that addresses these challenges by proposing three main avenues to capture field-level information. They are (i) consultations between peer donor reviewers and their field colleagues about the donor agencies they are reviewing; (ii) telephone interviews with key informants in the field, and, (iii) field visits. Donors can choose to use one, two or all of the avenues for their reviews.

Field Office Feedback. The donor reviewers will solicit feedback from their colleagues in the field about the donors they are reviewing. This should occur prior to the headquarters review so that the information can feed into the initial findings and recommendations of the review team. These consultations will contribute to reaching objective 1 above.

Telephone Interviews. The focal point will identify field-level informants (donor staff and other stakeholders) from any of the countries where the donor has operations. The focal point will then schedule telephone interviews to be held during the headquarters visit. The purpose of the telephone interviews is to achieve objectives 1 and 2 above.

Field Visits. The CGAP Secretariat takes primary responsibility in organizing the field visits. Three five-day visits are planned. The sites for the visits reflect the preferences of participating peer review donors. The first visit took place in Uganda on April 29-May 3, 2002. The next two visits will be in India in February19-28 2003, and in Mali in the first half of 2003. Providing they have a presence in the country, donor agencies are welcome to participate in both visits. The field visits are by definition the most comprehensive approach to incorporating the field dimension and will contribute to all three objectives above.

SPECIFIC TASKS
For the Field Office Feedback

(1) Consultations with Colleagues in the Field

An illustrative example. DFID and IFAD are the peer reviewers for SIDA. Prior to traveling to Stockholm, the DFID and IFAD reviewers call their colleagues in countries where SIDA also has operations to gather information on how SIDA is perceived in the field. For example, the DFID reviewer calls his colleagues in Zimbabwe.

Prior to traveling to the headquarters of the donor agency they are reviewing, donor reviewers will contact their colleagues in the field to solicit feedback on that donor agency. The purpose of the consultations is to gather information on (i) the donor's operations and practices in the field regarding good donor practices for microfinance, and (ii) impact of the donor on the growth of the microfinance market. Donor reviewers should at minimum contact colleagues in one country in which the agency being reviewed has operations. If s/he so chooses, the reviewer may contact colleagues in additional countries. This feedback will help shape the reviewer's overall impression of the agency being reviewed, and initial findings and recommendations.

For the Telephone Interviews

(1) Interviews with Donor Staff

Continuing with the SIDA review example, the SIDA focal point schedules phone appointments with SIDA staff and other stakeholders in the field, say in Bangladesh and Nicaragua, for the DFID and IFAD reviewers to call during the headquarters visit in Stockholm.

The focal person will select and brief field-level donor staff from his/her agency for the review team to call during the headquarters visit. Staff selected should be working on/supervising projects from which the review team can learn the most about the agency's processes. Learning can occur both from successful and problematic projects. Good phone interviews can help the review team verify or challenge assumptions gleaned from headquarters staff. Telephone interviews are not restricted to staff in the countries of the field visits.

(2) Interviews with Stakeholders

The focal person can also schedule phone appointments for the review team with industry stakeholders in the field who have knowledge of and/or are partners of the agency's microfinance activities. Persons contacted may come from MFI associations, apex organizations, technical assistance service providers, and the government. The focal point will brief the selected stakeholders on the purpose of the key informant interviews. The interviews are not restricted to stakeholders in the countries selected for the field visits.

For the Field Visits

(1) Meetings with Field Donor Staff (agency-specific)

CGAP Secretariat will meet with technical specialists and administrators of the donor field office to discuss issues linked to the six strategic areas of review. Given the limited time available for meetings with individual donor staff, the focal point will identify the priority areas for the CGAP reviewer. Discussions should allow CGAP to better understand the relationship between headquarters, to examine the strength of communications within the agency, and to gage the level of consistency between how the field and headquarters view their agency.

Box 1 – Sample Questions about Donor Effectiveness

- Have donor operations been in line with good practices?
- What is the donors' impact on the growth of the microfinance market?
- What are the positive contributions of donors?
- What are the shortcomings of donors?
- What should donors be doing more of, or better?

During these meetings, the Secretariat reviewer will ask the donor staff for their perceptions of the behavior of the other participating agencies. Sample questions are included in Box 1.

(2) Meetings with Industry Stakeholders on Donor Effectiveness

The focal point and his/her colleagues in the field will organize meetings with a wide-cross section of stakeholders. An illustrative list of stakeholders includes MFI associations, clients, apex organizations, technical assistance service providers, and the government.

The purpose of these meetings is to understand how the donor agencies involved in the reviews are perceived as being effective or ineffective by industry stakeholders. The Secretariat reviewer will seek opinions on the impact of the various donor agencies and their contribution to the countries' microfinance market. The reviewer will also solicit recommendations on how donor effectiveness could be enhanced. Please refer to Box 1 for sample questions.

(3) Donor Group Discussion on the Role of Donors and Donor Coordination

The Secretariat reviewers will meet with a group of participating donors to discuss the individual and joint roles of donors supporting microfinance in the countries selected for field visits. The purpose of the discussion is to identify constraints to the microfinance market and donors' role in responding to these constraints. Specific strategies for improving donor contribution and collaboration may emerge from the meeting. Sample questions are included in Box 2.

Box 2 – Sample Questions about In-Country Donor Coordination

- What are the major constraints facing the microfinance sector from a donor perspective in country XXX? ?
- What strengths to the donors have to respond to these constraints?
- What can headquarters do to improve coordination?
- What are key issues/common interests around which donors need to come together to work more effectively?