

**UPDATE ON THE AID EFFECTIVENESS INITIATIVE:
MICROFINANCE DONOR PEER REVIEWS
October 2003**

Since the first Microfinance Donor Peer Review in May 2002, the aid effectiveness initiative launched by Development Ministers, agency heads, and CGAP has come a long way and is showing concrete results. A total of 17 bilateral and multilateral agencies are participating in the exercise, with 16 reviews and three field visits completed as of August 2003.¹

The ultimate success of the reviews depends on the extent to which individual agencies implement the peer review recommendations. In addition, aid effectiveness can only be achieved when the entire donor community works together to focus on comparative advantage, harmonize processes, and collaborate whenever possible. To discuss how to move forward on these joint issues, CGAP will organize a meeting with Ministers and agency heads in early 2004.

This note reviews the progress to date by nine donor agencies in implementing the peer review recommendations. The peer review process has revealed four factors that contribute to the success of individual agencies in improving their effectiveness:

Closer links between top management and staff. In most agencies, the reviews successfully engaged top management *and* operational staff in transparent discussions on aid effectiveness. Specific review recommendations compelled management and staff to concentrate together on taking action to overcome everyday constraints to effectiveness. Also, many agencies found that the reviews' lessons applied to other development sectors besides microfinance.

Better understanding of financial services for the poor. The reviews are helping to broaden donor staff and management's sometimes narrow views on microfinance and how it relates to the larger picture of financial and private sector development. Management better appreciates the link between access to financial services and poverty reduction, the Millennium Development Goals (MDGs) and pro-poor growth.

Increased learning and collaboration. Donor staff say that participating on reviews helps them better understand their own agencies, provides new ideas for their work, and creates contacts for greater donor collaboration. For instance, donors are sharing their microfinance, financial sector, and private sector policies. CGAP has also learned much about its member donors and is incorporating this new knowledge in all its activities.

Sharper focus on comparative advantage. With a critical mass of reviews completed, agencies are urging review teams to help them define their comparative advantage in microfinance so they can better position themselves *vis-à-vis* other agencies, including pulling out of some activities and delegating others.

Follow-up action at individual agencies

Individual agencies are implementing review recommendations. The more successful agencies generally have top management championing the peer review follow-up. Agencies that have drafted a peer review action plan or incorporated the recommendations into their work plans are also better able to keep up the peer review momentum.

¹ A list of all reviews is attached to the end of this note. The letters with findings and recommendations submitted to agencies are available at http://www.cgap.org/html/p_other_documents.html. A synthesis report and brief note on the policy implications emerging from the reviews can be downloaded from the same site.

The actions taken by peer review participants range from developing new **vision statements** for financial sector deepening; shaping and strengthening the staffing and business plans of their **microfinance focal units**; implementing a system of project **performance indicators**; drafting operational “**how to**” **notes** for non-specialists; developing and facilitating **staff training**; and instituting **incentives** for technical specialists to provide advice. Below are examples of follow-up actions by seven agencies (review dates are also noted).

African Development Bank (AfDB)

6–10 May, 2002

Sample Recommendations

Follow-up Actions

<ul style="list-style-type: none"> • Decide whether AfDB wants to support a new vision for microfinance that seeks to build permanent financial systems for the poor and, if yes, make a strategic shift. • Expose AfDB staff to broad vision of microfinance. 	<ul style="list-style-type: none"> • AfDB, especially the Board of Directors, is using the peer review recommendations to re-shape the mandate, staffing and business plan of a new Central Microfinance Unit. • The focal point is organizing sessions for CGAP and board members, management and staff on microfinance, and circulated a memo on microfinance and the MDGs.
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Agence Française de Développement (AFD)

10-14 March, 2003

Sample Recommendations

Follow-up Actions

<ul style="list-style-type: none"> • Identify a high level microfinance champion who can re-affirm top management commitment to MF • Build and animate a network of AFD specialists who can disseminate the strategy, capitalize experience, help in project identification, and train other staff on microfinance. • Utilize the full scope of instruments in the context of a sector approach in 2-3 pilot countries, and seek to co-finance projects with partners that have complementary instruments. 	<ul style="list-style-type: none"> • Jean Michel Severino, Director General, chose microfinance as a concentration area for the agency’s recent Financial Sector Strategy review. Mr. Severino will also co-chair the 13 February 2004 meeting of Ministers and agency heads of the 17 agencies that participated in the donor peer review exercise. • AFD has created an internal network with all staff who have expertise and/or interest in microfinance. The network is working on issues such as new project design and rural finance (e.g., Mali and Burkina Faso). • AFD has started to use the full scope of its instruments in South Africa and Mali, and has plans to do the same in programs in the Dominican Republic and Kenya. In Kenya, AFD has also decided to search co-financing partners.
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Asian Development Bank (AsDB)

8–12 July, 2002

*Sample Recommendations**Follow-Up Actions*

<ul style="list-style-type: none"> • Adopt simple performance-based indicators for reporting on all microfinance projects. • Develop a system to identify and track credit components in multi-sector projects. • Build strong partnerships with regional departments by providing pro-active, hands-on support, especially early in project cycle. • Increase and enhance microfinance technical capacity. 	<ul style="list-style-type: none"> • AsDB implemented a system of project performance indicators, drawing on international standards. • The technical specialist is working with social sector staff to provide informal and formal training on credit components. • The technical specialist is now more involved in helping regional department staff in the very early stages of project design. • AsDB has hired new staff with a track record in microfinance for the regional departments. The agency is also hiring a financial sector specialist for its technical advisory department.
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Department for International Development (DFID)

13–17 May, 2002

*Sample Recommendations**Follow-Up Actions*

<ul style="list-style-type: none"> • Develop concrete operational “how to” guidance to incorporate good practices in all programmes with finance components. • Commission practical action research in the field to support evidence-based learning on strategic issues related to pro-poor finance. • To fulfill its mainstreaming, service center, knowledge management, and international leadership roles, the focal point should be extended to 3 full time people. 	<ul style="list-style-type: none"> • DFID has developed operational “how to” notes that have been disseminated widely throughout DFID and other donor agencies. • DFID has defined a research agenda including the depth of financial sector services and remittances; it disseminates lessons learned from its financial sector deepening work. • DFID has strengthened its financial sector team to the equivalent of 4 full time staff with a mandate to disseminate lessons learned.
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International Fund for Agricultural Development (IFAD)

17–21 June, 2002

*Sample Recommendations**Follow-Up Actions*

<ul style="list-style-type: none"> • Introduce simple performance based monitoring system for rural finance projects. • Strengthen technical monitoring capacity in the field. • Enhance technical capacity internally and across all partners that work on IFAD-supported projects. 	<ul style="list-style-type: none"> • IFAD will use the Microfinance Information Exchange Market (MIX)¹ for reporting from its projects. MIX Market staff will train IFAD staff and help design a pilot test. • IFAD is now contracting specialists based in East and West Africa and Central America to provide technical support to its projects in the field. • IFAD is hosting a CGAP/UNCDF multi-donor training course in Rome so that many of its project officers can attend. IFAD is also developing rural finance-specific training content with CGAP and others.
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¹ <http://www.themix.org>. The Mix is a web-based reporting center for MFIs and funders. It was created and built by CGAP and spun off into a separate organization in 2002.

Kreditanstalt für Wiederaufbau (KfW)

14–18 October, 2002

*Sample Recommendations**Follow-Up Actions*

<ul style="list-style-type: none"> • Provide inputs into BMZ's planned revision of the 1994 FSD policy and strategy paper. • Work more closely with GTZ in countries where both agencies are present. Determine the type and sequencing of activities best suited to each agency based on their instruments, staff and other strengths in microfinance. • To work successfully in Africa where capacity building is often the primary need, KfW must sequence its support to institutions accordingly, depending on whether they need or have received the technical support from GTZ or other donors. • Match incentives for financial sector competency. Center coaches based in Europe and Caucasus regional department to reflect global role. 	<ul style="list-style-type: none"> • KfW worked with BMZ and GTZ to craft an operational definition of financial systems development within the German development cooperation system. • KfW has organized regular meetings between the KfW and GTZ financial sector focal points to enhance the collaboration. • KfW is leveraging its investments in Africa through partnerships with donors and NGOs (e.g., ACCION) that have technical assistance funds to reduce transaction cost and build on comparative advantage. • KfW has re-aligned staff incentives for technical specialists to reflect their global roles.
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Netherlands (Netherlands)

19–23 May, 2003

*Sample Recommendations**Follow-up Actions*

<ul style="list-style-type: none"> • The Ministry and the Dutch Microfinance Platform should articulate a joint vision on the role of financial services in poverty reduction. 	<ul style="list-style-type: none"> • The Ministry and all members of the Platform have launched a process to define a shared vision statement for microfinance.
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Norwegian Agency for Development Cooperation(NORAD)

4–7 June, 2002

*Sample Recommendations**Follow-up Actions*

<ul style="list-style-type: none"> • Develop a Position Paper that outlines what microfinance is, how it relates to NORAD's larger development agenda, and how it fits into NORAD's various policy-level instruments. 	<ul style="list-style-type: none"> • NORAD developed a short paper that provides vision and guidance for all staff working on microfinance.
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**United Nations Development Programme and United Nations Capital Development Fund
(UNDP and UNCDF)**

21–25 October, 2002

Sample Recommendations

- Conduct UNDP -wide microfinance portfolio review.
- Develop short, operational notes on subjects related to financial services for the poor, paying particular attention to areas which UNDP prioritizes.
- Continue to refine and offer staff training.

Follow-up Actions

- UNDP is organizing a portfolio review of its field level operations with extensive consultation throughout UNDP and the questionnaire for field offices is being tested.
- UNDP is writing short, “how to” briefs on microfinance topics of relevance to project staff, i.e., HIV/AIDs, gender, post-conflict.
- UNCDF has joined with CGAP to develop and offer a new donor training course for UNDP and other donor staff.

List of Agencies Participating in the Peer Review Exercise

Donor Agency	Date	Donor Reviewers	CGAP Reviewers
Bilateral Agencies			
Agence Française de Développement	10-14 March 2003	Camilla Bengtsson, Sida Roland Siller, KfW	Brigit Helms Eric Duflos
Canadian International Development Agency	9-13 June 2003	Ross Croulet, AfDB Kate McKee, USAID	Jennifer Isern Eric Duflos
DANIDA	28 April-1 May 2003	Doris Wong, CIDA Kathy van Daeniken, SDC	Xavier Reille Eric Duflos
Department for International Development	13-17 May 2002	Kate McKee, USAID Leila Webster, World Bank Group	Brigit Helms Alexia Latortue
Gesellschaft für Technische Zusammenarbeit	14– 18 July 2003	Nimal Fernando, ADB Craig Churchill, ILO	Alexia Latortue Eric Duflos
Kreditanstalt für Wiederaufbau	14-18 Oct 2002	Anne Clerc, AFD David Ferrand, DFID	Syed Hashemi Alexia Latortue
Netherlands	19-23 May 2003	Bernd Balkenhol, ILO Mavis Owusu-Gyamfi, DFID Sanjay Sinha, EDA Rural Systems	Syed Hashemi Alexia Latortue
Norwegian Agency for Development Cooperation	4-7 June 2002	Gabriela Braun, GTZ Stav Zotalis, AusAID	Brigit Helms Alexia Latortue
Swedish International Development Agency	20-24 May 2002	Richard Roberts, FAO David Stanton, DFID	Brigit Helms Alexia Latortue
Swiss Development Corporation	18-22 Aug 2003	Dirk Steinwand, GTZ Johan de Waard, Netherlands	Brigit Helms Eric Duflos
Multilateral Agencies			
African Development Bank	6-10 May 2002	Camilla Bengtsson, Sida Stephan Boven, EBRD	Elizabeth Littlefield Alexia Latortue
Asian Development Bank	8-12 July 2002	Henri Dommel, IFAD David Stanton, DFID	Syed Hashemi Alexia Latortue
European Community	24-28 March 2003	Henri Dommel, IFAD Gisela Strand, Sida	Brigit Helms Eric Duflos
International Fund for Agricultural Development	17-21 June 2002	Heather Clark, UNCDF/UNDP Hege Gulli, NORAD	Douglas Pearce Alexia Latortue
International Labor Organization	10-14 Feb 2003	Hege Gulli, NORAD Peter Kooi, UNCDF/UNDP	Brigit Helms Alexia Latortue
UN Development Programme and UN Capital Development Fund	21-25 Oct 2002	Nimal Fernando, ADB Arlina Tarigan-Sibero, KfW	Brigit Helms Alexia Latortue
To be completed			
US Agency for International Development	November 2003	TBD, DFID Henri Dommel, IFAD	Brigit Helms Eric Duflos