



Canadian International
Development Agency

Agence canadienne de
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SYNTHESIS REPORT ☐



MICROFINANCE DEVELOPMENT ☐



AND MICROENTERPRISE DEVELOPMENT

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Canada 

Summary

SYNTHESIS REPORT MICROFINANCE DEVELOPMENT AND MICROENTERPRISE DEVELOPMENT

Introduction

Why an Emphasis on MFD/MED?

Microfinance Development and Microenterprise Development (MFD/MED) represent a significant programming initiative within CIDA. While projects in this area have been funded since 1968, the portfolio has been increasing rapidly in the last decade. It currently represents 5% of CIDA's Official Development Assistance.

The increasing interest is attributable to two factors. First, evidence is emerging that MFD/MED has enormous potential to contribute to CIDA's objective of poverty reduction. If done effectively, it can reach a wide range of the poor, in many differing contexts. Second, CIDA has become actively involved in international fora which are promoting MFD/MED. As part of its work with the Consultative Group to Assist the Poorest (CGAP) and the Microcredit Summit, CIDA has committed to increasing its programming in MFD/MED.

With this increasing profile within the Agency has come an interest in analyzing the experience with MFD/MED. Many groups within CIDA have been reviewing their programming and developing strategies for making it more effective. As part of this process, this review provides assistance in identifying the key areas which are hindering more effective programming and providing some guidance in terms of priorities to tackle. It outlines the strengths and weaknesses of MFD/MED and identifies the issues which need to be addressed by CIDA to make even more progress in terms of international calibre programming.

Overview of Findings

It is the success of MFD/MED to date that has attracted interest within CIDA. The programming has taken a wide variety of forms from community development projects aimed at building the economic potential of the poorest to supporting new alternative financial institutions. The breadth of programming has demonstrated the corresponding breadth of results which can be seen from MFD/MED. Increases in income, decreases in the economic vulnerability of the poor, empowerment of women, improved job creation, greater community development, and stronger microenterprises are examples of the results which are possible.

To achieve these results requires appropriate designs of projects and realistic expectations for different interventions. This review presents an initial framework for matching interventions and expectations, and summarizes the experience to date.

Unlike other specific areas of Private Sector Development (PSD), CIDA has also developed a number of policy documents which directly deal with MFD/MED. These documents are highly complementary and outline the framework for CIDA's MFD/MED programming. The documents are:

- CIDA's *MFD/MED Institutional Action Plan*;
- The *Strategy for Participation in CGAP*;
- *Microfinance Workplan* ; and
- *Report on CIDA's Programming in Microfinance and Microenterprise Development (1997-1998)*.

These MFD/MED policy documents consistently outline an approach to be taken within CIDA which builds on international best practices. The policies outline a shift in programming in a number of important areas including:

- increasing the emphasis on sustainability of initiatives;
- adopting best practices throughout the MFD/MED portfolio;
- taking a business like approach to financial and non-financial service delivery;
- focusing more on institutional and policy support than targeted programming; and
- enhancing the internal operations within CIDA to ensure that strong performances and results are obtained.

CIDA is now at a stage where the basic policies and strategies are in place and the operations must catch up with these policies. This is where constraints are currently being seen. Some of these are highlighted in this review and recommendations are made to help solve them. Some key issues include:

- CIDA has agreed to track and report on MFD/MED programming to domestic and international stakeholders but the current coding system makes this undertaking very labour intensive and inconsistent.
- The MFD/MED policies provide a good basic framework for MFD/MED but do not provide specific guidelines for staff on how to implement them. Which best practices are key to implement? What should happen to the portions of the MFD/MED portfolio which do not conform to the new approach? How do CIDA staff members obtain the skills needed to effectively monitor their portfolios?
- A lack of clarity exists in terms of where the leadership within CIDA should rest on important questions. Which Branch should be responsible for tracking the best practices internationally and ensuring that CIDA staff are made aware of them? How should multilateral initiatives be organized to ensure both policy level issues and technical questions are addressed? How should relationships with partners be handled to allow a more integrated management?
- The emphasis on increasing overall programming is also being constrained by a limited pool of Canadian expertise available to execute projects.

- Many of the results being targeted by projects are unrealistic. Inadequate mechanisms are in place to monitor even simple indicators.

These issues are reviewed here in an attempt to assist CIDA in understanding how these important programming initiatives can be more effectively implemented.

Defining MFD/MED

CIDA has adopted specific definitions of MFD/MED which are used throughout its policy documents.

- *Microfinance* is defined as very small deposits and loans and includes: credit; insurance; savings facilities; and related training and other financial based transactions. Microfinance institutions can assume a number of forms including microbanks, financial cooperatives, revolving loan funds, and credit unions.
- *Microenterprises* are generally very small income generating businesses owned, managed and operated by entrepreneurs who derive most of their livelihood from the business. They usually have fewer than five employees. CIDA's definition covers both formal and informal sector micro-enterprises. Microenterprise services include: financial services such as credit, access to savings facilities, and investment capital; and non-financial services such as skills development, training, and technology.

2.0 Dimensions of MFD/MED Support ¹

A general estimation of funding for MFD/MED over the past ten years shows that CIDA has undertaken 540 Bilateral and Partnership projects in 92 countries with approved budgets of over \$1.8 billion. Over 200 Canadian and international partners have been involved in the implementation of these projects.

Some trends of this portfolio include:

- The number of MFD/MED projects has been accelerating in recent years.
- Traditional MFD/MED projects focusing on broad based initiatives targeting the poorest communities are being replaced by more specialized financial and non-financial service delivery programs. These focus on building sustainable institutions to reach greater numbers of the poor.
- The majority of projects funded over the ten years have been through responsive mechanisms. This concentration is higher than in the PSD portfolio as a whole and shows the influence which Canadian partners have had on the design and development of programming.
- Non-governmental organizations (NGOs) and cooperatives dominate the Canadian delivery agents (currently over 75% of the projects).

¹ Section numbers correspond to the Sections of the report. The recommendations listed here may be shortened from those contained in the full text.

- Eight groups currently deliver 50% of the portfolio.

Formulating the list of MFD/MED projects proved extremely difficult. This is the same problem facing CIDA staff in their yearly reporting on MFD/MED. The difficulty in identifying and tracking MFD/MED has led to two recommendations.

Recommendation #1: CIDA should establish an inventory of MFD/MED projects and develop a mechanism to have centralized tracking of information. This will ensure that future analyses are more consistent and trends can be tracked over time.

Recommendation #2: A consistent policy should be developed on how CIDA will report its programming. Guidance should be provided to CIDA staff in identifying projects to be included in MFD/MED and the basis for reporting yearly funding.

3.0 Proposed Typology

At the beginning of the review, it was assumed that MFD/MED projects would be found within category 504 (Local Enterprises) of the PSD coding system. After an initial review of the database, however, it was clear that 504 did not adequately reflect MFD/MED projects. Only 46% of current MFD/MED projects are coded to 504.

To address this issue, an alternative typology has been developed which builds on the current structure but redefines the 504 category. The goal of 504 would shift away from the current definition of "generation of sustained income for the poor through the establishment of local enterprises" towards one which captures: *support to microenterprise and microfinance initiatives*.

Four groupings of projects are proposed.

- *Economic community development* focuses on promoting enterprise development within a more integrated community development context. The development of income generating activities are supported along with other elements such as literacy, health, or water access.
- *Microenterprise and network formation and development* represents projects which are directly assisting microenterprises and cooperatives in starting up or expanding their businesses. These projects provide an infusion of technical assistance during the project life aimed at specific groups of enterprises.
- *Business development services*, on the other hand, focus at the meso level, working to strengthen institutions providing on-going services to enterprises. The intention is to strengthen groups or institutions to provide longer term, sustainable assistance to micro and small firms.
- *Microfinance services* focus on improving financial service delivery by groups such as credit unions, financial cooperatives, non- bank financial institutions, NGOs, apex organizations, or commercial banks with special lending windows.

The largest group of current projects is found within the microfinance services category, representing 38% of the current MFD/MED portfolio. An additional 31% is in the microenterprise formation category.

To implement this typology requires a better definition of how to separate projects being coded to other areas such as capacity development (502).

Recommendation #3: A new approach to coding MFD/MED should be adopted which brings all of MFD/MED within category 504 and has the following parameters.

- All microfinance projects, regardless of the size of enterprise targeted, would be 504.
- Non-financial services projects which have a clear focus on microenterprises (both formal and informal) and the bottom half of the small category would also be coded to 504. Those targeting small and medium enterprises would be 502.
- All policy and enabling environment work related to MFD/MED would be coded under 504 not 501.

4.0 Policy Congruence

The CIDA policies on MFD/MED provide a basic framework for MFD/MED programming. The consistency between the documents allows a clear approach to emerge in terms of CIDA's general priorities in the area.

The documents conform well to the overall policy framework of CIDA including: *Canada in the World; Shaping the 21st Century; Sustainable Development Strategy for CIDA; Policy on Poverty Reduction; Draft Policy on Private Sector Development; and Policy on Gender Equality.*

Both the *Institutional Action Plan* and the *CGAP Strategy* emphasize the importance in ensuring that best practices are integrated at the project level within the Agency. The question addressed in this review is whether this is taking place.

A review of the current MFD/MED projects being undertaken shows that, in some cases, there is conformity and in others, limited congruence or consistency with MFD/MED policies. Even some projects which began by implementing best practices have become derailed during the course of implementation. The reasons for the lack of conformity at the project level include:

- External factors occasionally cause difficulties such as sudden changes in the enabling environment.
- The Canadian partners, which have designed and are implementing the projects, have dictated the conformity to best practices to date. This has meant varying degrees of compliance.
- The increasing specialization of MFD/MED projects--particularly in the area of financial services--has meant that CIDA staff are less comfortable reviewing items such as financial statements or portfolio reports.
- Finally, difficulties are also seen when consultants hired by CIDA have limited background in MFD/MED and make recommendations which contradict best practices.

The thrust of the MFD/MED policies is to move CIDA programming towards international standards. The reality is that the current policies in place provide only certain aspects of the picture needed to make this move and limited guidance for many of the choices facing CIDA staff members. Many of the principles are implicit and the conditions under which they are applied are not fully stated. Two recommendations are put forward.

Recommendation #4: The current Draft *Policy for Private Sector Development* is an extremely broad outline of programming possibilities. To bring more congruence to the overall PSD picture it would be useful if the policy could explicitly deal with two issues: provide guidance to CIDA staff in terms of assessing PSD options and realistically matching those options with various types of results which can be obtained; and explicitly state the best practice principles which are being promoted within the Agency in terms of areas such as focusing on sustainability of efforts and taking a business like approach to program delivery.

Recommendation #5: The current MFD/MED policies need to be made more explicit in terms of the priorities, approaches, and tradeoffs inherent in adopting a best practices approach. The framework needs to be clarified in terms of the types of programming included, methods for adopting a best practices approach, and the ramifications on the existing portfolio.

5.0 Poverty Reduction and Sustainability

CIDA's Context

Both CIDA's *Policy on Poverty Reduction* and CIDA's *Institutional Action Plan* emphasize two points:

- The focus is on a sustained decrease in the number of *poor*. The poor are the target group, which includes the poorest but is not limited to this group. This is important since many current debates in CIDA revolve around whether the poorest should be the only beneficiaries of MFD/MED. Within CIDA's policy framework, the answer is no
- The emphasis is on changing the *root causes and structural factors* of poverty. Key aspects of this are: recognizing and developing the potential of the poor; increasing their productive capacity; reducing barriers limiting their participation in society; and ensuring access to sustainable services.

Assessing the Link to Poverty Reduction

Assessing the actual link between MFD/MED and poverty reduction is difficult. Few impact assessments have been done. Those which have, sometimes have conflicting results.

In addition, CIDA staff tend to treat different MFD/MED projects by different standards which makes comparability impossible. The difficulty appears to be based on a broader issue of the acceptance of a spectrum of MFD/MED projects within CIDA. If a project is dealing directly with the poor (such as supporting a subsistence female microentrepreneur) then it is considered acceptable and a link is assumed to poverty reduction, but not monitored or proven. If the project is supporting a focused or meso level intervention, then questions are raised about the link to poverty. More information is demanded in terms of the evidence of the programs benefitting the poorest.

Drawing the link between MFD/MED and poverty reduction is also made difficult by four other factors:

- A mismatch frequently occurs between the results anticipated and the methods used to reach those results. To fairly assess the linkage, it is important to ensure that the anticipated results are realistic. The assumption that MFD/MED is a panacea is unfounded.
- Evidence also indicates that the poorest of the poor clients can benefit less from MFD/MED than the poor or non-poor. For the very poor, first time borrowers, only modest increases in income can be expected. The gains for the poorest are seen in subsequent rounds of borrowing.
- The level of information within CIDA's projects is not sufficient to allow definitive statements of causality.
- The target of increasing incomes is often used as a proxy for poverty reduction. Poverty is more complicated than income alone, however.

Recommendation #6 - More realistic results should be developed at the project design stage. This can be accomplished with assistance from two groups. The projects should be reviewed by CIDA MFD/MED specialists from a technical point of view. Advice should also be provided by peer reviews which can provide practical input on both the application to geographic regions as well as the lessons learned from similar projects.

Nature of Links to Poverty Reduction

The links vary by different types of interventions. They are presented here according to the proposed typology.

Some initiatives which focus on the "Economic Community Development" approach have shown links to: increased incomes and consumption of households; decreased vulnerability to outside shocks (such as illness and natural disasters); and increased empowerment, particularly for women. The projects are resource intensive, however, and have elements which can never be self- supporting.

Links for the "Microenterprise and Network Formation and Development" projects fall into three groups.

- The development of informal sector enterprises has seen some results in terms of increases in household income of the entrepreneur, greater ability to use time saving techniques (particularly for women) which improve working conditions, and some productivity improvements.
- Programs supporting cooperatives have been an important part of CIDA's portfolio but little information is available on the profile of the members. It would appear that cooperatives have limited participation by the poorest. The contributions to poverty reduction relate more to overall economic development of the community, providing opportunities for the poor to participate in economic activities, and providing methods for community mobilization.
- Support to more formal sector enterprises (startup and existing) have results at an enterprise level in terms of greater profits for the poor entrepreneur. More importantly, however, they generate jobs in poor communities. It should be noted that the bias towards manufacturing firms and against trading enterprises in many programs is not warranted on a poverty reduction basis.

For the "Business Development Services" projects the linkage is primarily seen through the creation of jobs by the formal enterprises. Evidence shows that the poor do not necessarily choose to be entrepreneurs but take this route as a short term vehicle to increase income. Their first choice would be to have permanent employment that was on a fair and non-exploitative basis.

For "Microfinance Services", different products and target groups can provide different types of links to poverty reduction. Working capital loans to a business oriented microentrepreneur can create jobs. A combination of consumption and production loans to a subsistence entrepreneur can result in increased household income or decreased vulnerability.

Recommendation #7: To begin the process of identifying links with poverty reduction, it is important that projects begin to focus on basics such as clearly understanding who the potential target groups are, what their needs are, how these needs can be served with various interventions, and what simple methods can be used to track progress in developing the linkages. This should help to manage expectations of MFD/MED projects more effectively as well as begin to develop lessons which can be used for future policy and program development.

Recommendation #8: In addition, a clarification of the legitimacy of various types of programming vis a vis poverty reduction should be made within the PSD and MFD/MED policies. Subsistence microenterprises are not the only route to the poor. Other types of interventions are also legitimate in terms of CIDA's *Policy on Poverty Reduction*. This clarification would help CIDA staff better understand the spectrum of links that are possible.

Poverty Reduction and Sustainability

The focus on sustainability issues within microfinance projects is a relatively new development within CIDA's projects. The current project documentation within CIDA has a very strong emphasis on sustainability of services. However, little information is actually collected within CIDA projects to be able to assess whether the institutions are moving in this direction.

Recommendation #9: CIDA's MFD/MED policies clearly state the need for financial sustainability to be built into financial service delivery. This should be reiterated, including the relevance to areas such as revolving loan funds.

The financial sustainability of non-financial services geared to micro and small enterprises is a more complex question. Only with the emergence of the new breed of programming seen under the Business Development Services category is sustainability beginning to be addressed. All of the current projects in this category have sustainability as one of their objectives. None are fully sustainable at this point.

CIDA currently supports three types of non- financial service delivery: support to business development service providers; direct support to groups of microenterprises; and support in privatizing state owned service providers. Each of these has a different series of issues in terms of sustainability.

Recommendation #10: It is important that CIDA develop a stronger policy framework for support to non-financial services which sets out the parameters for approaching these interventions and outlines the best practices which should be applied within the Agency. The framework for non-financial services is currently weak and provides CIDA staff with little or no guidance in terms of how to approach this type of programming.

Recommendation #11: Direct support to enterprises can produce sustainable gains at the enterprise and community level. To better assess the conformity of these projects to CIDA's policies will require a review of the factors leading to success in these initiatives and ones which hinder growth. The policies also need to specify the circumstances under which these projects should or should not be undertaken.

Recommendation #12: Efforts supported by CIDA to assist in privatizing non-financial service delivery should ensure that: realistic plans are developed on how to make the service more business like; realistic calculations are undertaken of what will be required for financial sustainability (including the potential continued support by government); and demand for the new services is effectively assessed.

6.0 Canadian Agenda

A shift has taken place internationally in terms of how donors are approaching the delivery of MFD/MED. Its increasing complexity has meant that donors are turning to groups with strong technical skills and track records. CIDA, in its approach, has been following this route over the last ten years as seen by the high proportion of responsive projects in the portfolio and the presence of a group of strong Canadian partners.

The increased emphasis on expanding the MFD/MED portfolio will increase the demand for Canadian partners to execute projects. Certain trends in contracting over the last decade have begun to change the manner in which groups are competing for these initiatives. Direct contracts with local partners have become more difficult. The cutbacks in Partnership funding have forced many NGOs to turn to Bilateral Branches for funding, resulting in increased volumes of Bilateral MFD/MED projects through responsive mechanisms. In addition, CIDA's new contracting strategy promotes competition between profit and not for profit groups.

All of these trends have shifted the basis of competition within CIDA and could result in increased concentration of partners delivering projects.

Recommendation #13: If a level playing field is to be established, where Partnership funding recipients are to compete openly with the Canadian private sector for bilateral MFD/MED contracts, Partnership will have to review the basis upon which it allocates its funding. Without this, the pool of experienced groups will continue to shrink as other suppliers are forced out of the market -- something which will prevent the implementation of the MFD/MED agenda.

CIDA staff are also facing problems in terms of gathering information to assess the responsive mechanism proposals which they are increasingly receiving. No central point for information exists within the Agency on Canadian partners. No overall reviews are being undertaken of the success of the models being promoted by these groups. No integrated approach is being taken to partner management.

Recommendation #14: CIDA needs to clarify how it can more effectively manage its relationships with key partners to allow CIDA staff members access to information needed to move CIDA towards a best practices model. In the short term, a matrix system for information collection and assessment would begin to provide the information needed. This system would assign various responsibilities for collecting and disseminating information on MFD/MED partners within the Agency to various Branches.

The importance of monitoring the MFD/MED portfolio has been stressed in international reviews. The problems seen with the current portfolio of projects show some of the pitfalls possible with this kind of programming. These include:

- Absorptive capacity appears to be an important issue with a number of partners.

- Problems can occur with the willingness or capacity to adapt MFD/MED models to a new context.
- Some of the partners have developed excellent models for the initial aspects of MFD/MED but have less success once these models are put in place in terms of sustaining the gains. Subsequent phases of projects begin to encounter difficulties.
- Another difficulty is in the lack of clarity of actual results being targeted by the partners and their monitoring methods.

CIDA currently faces a dilemma regarding future programming.

- The MFD/MED programming initiatives are targeting an ever increasing portfolio of projects.
- When taking into account the various expertise of different groups, the pool in Canada for MFD/MED is extremely limited.

This dilemma is becoming widely recognized within CIDA and a number of strategies are being informally developed to begin to deal with the issue. While these strategies will begin to mitigate the problem, they will not totally solve it.

Recommendation #15: CIDA needs to more systematically integrate the issue of potential partners into its approach to programming MFD/MED. The new approaches being taken to increase the pool of partners should be shared across the Agency through the Microfinance Knowledge Network. The limited number of expert organizations may require a decrease in the number of new projects being planned or different ways of programming funding (e.g., through multilateral initiatives).

7.0 Other Issues

Strategic Partnerships

CIDA has been playing an important role in international initiatives in MFD/MED with other donors. Clear benefits have been seen in influencing the international agenda in terms of priorities such as a greater focus on poverty reduction.

Some initial lessons have emerged, however.

- Having a clear champion within CIDA appears to be an important factor in building strategic partnerships where CIDA plays an important and influential international role.
- The ability to have champions in these multi-donor coordination groups is difficult within the current CIDA structure. It is unclear which group should take the lead and how the process can be inclusive.
- The reliance on individuals to actively ensure that CIDA is represented in these groups was critical for CIDA's success in CGAP to date and for the effectiveness of CGAP's current structure and priorities. However, this association with an individual also meant that, with the inevitable CIDA staff changes, the question arises regarding how to continue the involvement of CIDA within the organizations.

Recommendation #16: The current working groups within CIDA on MFD/MED should begin to rationalize the roles and responsibilities for participation in MFD/MED multi-donor initiatives. A case can be made that both technical and policy expertise is needed to ensure that Canada's influence in terms of the international agenda is felt on both levels. In addition, new methods need to be developed within CIDA to receive input from the Bilateral Branches into policy formulation.

Gender Equality

Reviewing CIDA's MFD/MED portfolio reveals that the projects are not uniform in their consideration and treatment of gender issues. In fact, most of the projects which have solid information on gender equality issues tend to be the ones specifically targeting women. The other MFD/MED projects tend to have limited, if any, information on gender equality.

Projects which do not have an exclusive focus on women tend to have three types of results being targeted.

- The primary results are quantitative indicators for women's participation in various activities within projects.
- Measures to monitor the participation of women as managers within various institutions have been seen in a few projects.
- Some of the larger, longer term projects are also monitoring more qualitative indicators.

This situation obviously changes when projects have an exclusive focus on women. The range of indicators is much greater.

Few projects are effectively tracking the impact of MFD/MED initiatives in areas such as the shifting role of women, the gender division of labour, or the double burden often caused by taking on employment as well as family responsibilities.

Some positive trends are being seen within the portfolio, however. Two include:

- Some of the local partner institutions receiving CIDA assistance have begun to realize that women can be an excellent client base for both financial *and* non-financial services.
- Groups are also moving away from directly providing women with inputs and markets, towards integrating them into the economic mainstream.

Recommendation #17: Overall, MFD/MED projects require greater analysis in terms of their impact on women and women's role in private sector development. In addition, new techniques being undertaken to deliver services to women, such as the increasing focus on market based interventions, need to be documented and shared across projects.

Leverage

While the concept of leveraging capital and ideas was not a high priority in older projects, recent ones have placed an increasing emphasis on this. This concept also underlies the *Institutional Action Plan* which focuses on undertaking meso level interventions to allow greater outreach, longer term impact, and financial leveraging.

Leveraging faces two difficulties currently.

- Financial performance of institutions appears to be a prerequisite for leveraging outside commercial funding into microfinance institutions. Given the high dependence by many groups on donor funding, this is difficult.
- CIDA regulations and policies block effective participation in alternative schemes such as guarantee funds and equity participation which could assist leveraging.

Performance Review Mechanisms

Reviewing results of MFD/MED projects is plagued by difficulties due to a number of reasons:

- Monitoring of results beyond the output level is not done effectively within the current MFD/MED portfolio.
- The results being targeted are often too ambitious or not appropriate given the intervention.
- Confusion also exists when the project is an institutional strengthening project but many of the indicators aim at measuring results within the client firms or individuals who are the ultimate beneficiaries.
- Few projects, including microfinance initiatives, provide adequate information on the financial performance of revolving loan funds, financial service delivery, or business development centre performance.

Results are being seen, however, within the portfolio and range from positive influences on income to the expansion of the availability of services for enterprises.

In terms of sustainability, the non-financial services projects appear to lag behind some international examples for similar services. This is partly due to the newness of some of the projects, and partly to the reluctance of implementing agencies to impose strict fee policies.

On the financial services side, the information available within CIDA does not allow adequate assessments of sustainability. International experience suggests that a number of factors contribute to financial sustainability including: repayment rates; scale of operations; interest rates which are set to cover costs not subsidize clients; salary costs; the existence of a savings program; and a clear focus on client needs.

Issues of geographic differences are also important to factor into project design and expected results. The enabling environment in different regions can either assist or hinder MFD/MED. This results in very different experiences between regions.

8.0 CIDA Management and Policy Issues

Reviewing the Current Portfolio

The decision to move towards a best practices model raises the issue of how to handle the current MFD/MED portfolio. While it is impossible to assess the degree of conformity currently, examples exist within the current portfolio of projects which have limited potential for meeting these criteria.

Recommendation #18: The current portfolio needs to be assessed for compliance with best practices and strategies developed to improve existing projects in the short term. To implement it, however, would require CIDA adopting a more specific policy on which items were of importance in MFD/MED, when those principles were appropriate, the process for assessing and developing strategies for projects, and methods to provide technical support to staff members to allow the assessments and adjustments to take place. It would also be relatively labour intensive but allow movement towards the MFD/MED policy over the next several years.

Performance Frameworks

Recommendation #19: CIDA needs to develop an Agency MFD/MED Performance Framework for what it expects out of MFD/MED projects. This is not clear currently from the Policies. It would be important for CIDA to develop such a performance framework to provide guidance to staff on how and when to apply the standards to existing projects. In addition, a framework can provide guidance on what organizations or initiatives should be funded in the future, and how to interpret the new priorities of CIDA in terms of MFD/MED.

Spreading Best Practices within CIDA

The dissemination of information regarding best practices within CIDA will be critical for the successful implementation of the MFD/MED policies. This faces a number of challenges including: a limited number of experts within CIDA; increasing complexity of some of the programming; contradictions between best practices and what many CIDA staff believe are important development issues; and the difficulty of tracking international best practices.

Recommendation #20: The roles and responsibilities of various Branches within the Agency need to be clarified regarding MFD/MED and better ways need to be developed to work together for a common objective. Currently, there is friction between groups based on differing priorities which detracts from the movement of the Agency towards its stated MFD/MED objectives.

CIDA's Criteria, Terms and Conditions

Some of the more innovative programming options which are emerging--such as provision of loans and equity to microfinance institutions--are not currently possible within CIDA's legal framework.

Recommendation #21: The legal framework for undertaking more innovative programming options needs to be reviewed and clarified. New approaches for working within the existing framework need to be developed which look at indirect mechanisms. These could include the option of using Canadian partners as channels for funding (as is done with revolving loan funds). In addition, consistent policies need to be developed on mechanisms such as revolving loan funds.

CIDA's Partners

Recommendation #22: Improving the innovativeness and effectiveness of programming may be as important as expanding the number and volume of projects. With increasing interest in MFD/MED, CIDA has begun to become more proactive in programming in the field-particularly microfinance. In several cases, this has produced innovative new programming with new partners. However, CIDA must also ensure that its responsive portfolio is effective. In many cases, CIDA has played a relatively passive role in reviewing concepts and monitoring results with these partners. There is a need to ensure that the partners do as effective a job as possible regardless of the contracting approach, and one which conforms to CIDA's priorities and policies.

9.0 Future PSD Review

Recommendations for Future

Recommendation #23: Three possible streams of investigation are suggested here for future review of MFD/MED. These include: undertaking reviews which assess the actual link between poverty reduction and various types of MFD/MED interventions; undertaking broader based institutional assessments which look at the models being developed and assess the effectiveness of the groups in translating them to a project context; and reviewing the experience with revolving loan funds and developing consistent methods for dealing with them within CIDA. All of this work should provide input into how MFD/MED initiatives can be better planned and implemented.

All three reviews would focus on practical issues and relate back to the implications of the work on project design, implementation, and results being targeted.

Problems Common to PSD

It should also be noted that a number of the issues seen with MFD/MED appear to be common across other categories of PSD programming. These include:

- All aspects of private sector development are faced by a double standard within CIDA. PSD is often not considered a legitimate activity for CIDA to undertake. Working with the poorest to develop subsistence level enterprise activities is considered appropriate; working with formal sector micro or small enterprises to create jobs for the poor is not. The result is that many of the debates focus less on actual results which can be achieved and more on preconceived notions.
- Private sector development within CIDA is plagued by a lack of clarity in concepts and definitions. PSD is also often quickly equated with Canadian private company interests, even though the majority of programs undertaken have limited connection to the Canadian private sector.
- Few of the PSD projects appear to have adequate information to assess results, and often have a lack of clarity in terms of the results being targeted. This was seen within MFD/MED which has one of the longest histories within CIDA. For the other sectors, it is even more apparent.