

**Draft, for discussion 12 April 2006**

## **Terms of Reference, Regional Microfinance Technical Manager (RMTM), UNDP and UNCDF**

### **Background:**

UNDP has committed, together with many of its leading stakeholders, to improve its work in the area of microfinance. In February 2004, UNDP co-hosted a High Level Meeting of Development Ministers whose agencies had also participated in the Peer Review process. The Ministers agreed that “accountability and transparency on performance of the portfolio are more important than looking good.” It was also agreed that transparency is critical to creating sustainable access to financial services for poor and low-income people. UNDP thus asked the Consultative Group to Assist the Poor (CGAP) for an independent review of UNDP’s microfinance portfolio.<sup>1</sup>

CGAP’s Portfolio Review confirms many of the issues indicated in the initial UNDP Peer Review.<sup>2</sup> The recommendations of the reviews provided the basis for UNDP’s policy (annex I).

UNDP Regional Bureaus will be responsible for the quality of microfinance programming within their respective regions. Together with UNCDF they will select well-qualified regional microfinance experts to support country programming. These experts will report jointly to the Regional Bureau and UNCDF.<sup>3</sup>

### **Roles and responsibilities of RMTM:**

Initially, with support from the Regional Bureau, they should establish a baseline of UNDP Country Office activity in the region, including US\$ amounts, and the quality of performance of this programming. Based on this baseline, the RMTMs will make recommendations to the Country Offices and Regional Bureau on steps needed to bring existing programmes into compliance with UNDP policy. Options could include redesign; minor adjustments; or closing down a programme. UNCDF will be copied on this inception report that will serve as a baseline of evaluating the RMTM’s performance.

For new programming, RMTM should collaborate closely with the Country Office in design, implementation, and monitoring of the project. Given that these experts are responsible for clearing each new programme and certifying its compliance with UNDP policy prior to approval, UNDP Country Offices should engage the RMTM before initiating programme design. The RMTM will document its technical clearance of each programme. Based on policy guidance from UNCDF, the RMTM will have the authority to provide waivers to specific elements of UNDP policy as it relates to particular country programming. Each waiver, with the rationale, will be documented by the RMTM.

The expert should also assure and track quarterly reporting and inform management (Regional Bureau, UNCDF policy advisor) on a quarterly basis where inadequacies are found. Each UNDP-supported microfinance institution will report key performance indicators every quarter to the MIX Market.<sup>4</sup>

The RMTM will develop a list of Technical Service Providers (TSPs) including individuals and institutions that could be contracted on a long-term basis to provide technical assistance to Country Office programmes. These TSPs could also provide support for design, and technical backstopping in the region.

The RMTM will be the primary resource for knowledge management in their region through active participation in the UNDP knowledge networks (Semfin). The RMTM will ensure that country offices posting queries on semfin receive a reply within four (4) working days that assists them on established good practice and useful global and regional experiences.

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<sup>1</sup> See [http://www.cgap.org/docs/UNDP\\_MFProjEvaluation.pdf](http://www.cgap.org/docs/UNDP_MFProjEvaluation.pdf)

<sup>2</sup> See [http://www.cgap.org/projects/donor\\_peer\\_reviews.html](http://www.cgap.org/projects/donor_peer_reviews.html)

<sup>3</sup> UNDP Africa and UNCDF have a pre-existing regional programme with special circumstances.

<sup>4</sup> <http://www.themix.org/en/index.html> . We have negotiated with the MIX to expand its database to capture quarterly reporting by end 2006.

In the Least Developed Countries (LDCs), UNCDF should be actively involved in the design and implementation of any microfinance programme. UNCDF should also co-invest with Regional Bureaus and Country Offices in microfinance activities in the LDCs to the greatest extent possible.

The evaluation of annual performance of the RMTM will be done by the Regional Bureau and the UNCDF Policy Advisor.

From: Zephirin Diabre [zephirin.diabre@undp.org]

To: UNDP Global Staff

Subject: UNDP Microfinance Policy: Improving UNDP's Performance in Microfinance

Dear Colleagues,

UNDP has committed, together with many of our leading stakeholders, to improve our work in the area of microfinance. In February 2004, UNDP co-hosted a High Level Meeting of Development Ministers whose agencies had also participated in the Peer Review process. These agencies committed to reconvene in 2006 to review progress. The Ministers agreed that "accountability and transparency on performance of the portfolio are more important than looking good." We also noted that transparency is critical to reaching our shared vision of creating sustainable access to financial services for poor and low-income people. In that spirit UNDP asked the Consultative Group to Assist the Poor (CGAP) for an independent review of UNDP's microfinance portfolio and committed to publish the results.<sup>5</sup>

CGAP's Portfolio Review confirms many of the issues indicated in our initial Peer Review.<sup>6</sup> These recommendations provide a solid basis to improve our performance. The good news is that we do have models that have proven successful. To assure that we utilize these models and their associated best practices, all new microfinance related programming in UNDP will be done within the following framework:

1. UNDP will use the principles of UNCDF's MicroStart model whenever it funds, or administers the funding of others for, microcredit operations. The key elements are:
  - Project implementation should be done, or very closely guided by, a technical service provider (TSP) that has a proven track record to produce sustainable microfinance.<sup>7</sup> These should come from a list of providers screened by UNCDF. Other TSPs who meet requirements may be used only with the approval of the responsible regional microfinance specialist. Many of these TSPs are practitioners from the South. This presents an excellent opportunity for TCDC.
  - Each UNDP-supported microfinance institution should report key performance indicators every quarter to the MIX Market.<sup>8</sup> Costs of reporting should be included in programme budgets. The indicators should include at a minimum the number of active clients, average loan size, portfolio quality, and cost recovery.<sup>9</sup> Calculation of these indicators should follow accepted guidelines.<sup>10</sup>

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<sup>5</sup> See [http://www.cgap.org/docs/UNDP\\_MFProjEvaluation.pdf](http://www.cgap.org/docs/UNDP_MFProjEvaluation.pdf)

<sup>6</sup> See [http://www.cgap.org/projects/donor\\_peer\\_reviews.html](http://www.cgap.org/projects/donor_peer_reviews.html)

<sup>7</sup> See the MIX Market <http://www.themix.org/en/index.html> for institutions with a proven track record.

<sup>8</sup> <http://www.themix.org/en/index.html> . We have negotiated with the MIX to expand its database to capture quarterly reporting by end 2005.

<sup>9</sup> Country offices can implement this reporting immediately using Excel formats in the programme manual reference center (chapter 6.4.6.#4).

<sup>10</sup> See Review of the UNDP Microfinance Portfolio, CGAP, Annex 3: Core Performance Indicators for Microfinance, [http://www.cgap.org/priorities/donor\\_effectiveness.html](http://www.cgap.org/priorities/donor_effectiveness.html) and Consensus Guidelines: Definitions of Selected Financial Terms, Ratios and Adjustments for Microfinance, CGAP, 2003 [http://www.cgap.org/docs/Guideline\\_definitions.pdf](http://www.cgap.org/docs/Guideline_definitions.pdf)

- Performance based grant agreements should be utilized in all cases.<sup>11</sup> MFIs that do not meet performance standards should be dropped from the programme unless the technical service provider is confident that MFI managers will promptly correct the problems.
  - Grant Agreements should be prepared between UNDP and a private<sup>12</sup> financial services entity and approved by a steering committee with minority Government representation. Microfinance and financial services are essentially a private sector activity. Government efforts should focus primarily on removing constraints in the enabling environment.
  - Regional technical experts should collaborate closely with the Country Office in design, implementation, and monitoring of the project. These experts should clear each new programme and certify its compliance with UNDP policy prior to approval. These experts should also assure and track quarterly reporting and inform management where inadequacies are found.
2. UNDP Regional Bureaus will be responsible for the quality of microfinance programming within their respective regions. Together with UNCDF they will select well-qualified regional microfinance experts to support country programming. These experts will report jointly to the Regional Bureau and UNCDF.<sup>13</sup>
  3. In the Least Developed Countries (LDCs), UNCDF should be actively involved in the design and implementation of any microfinance programme. UNCDF should also co-invest with Regional Bureaus and Country Offices in microfinance activities in the LDCs to the greatest extent possible.
  4. All UNDP staff and their counterparts in Central Banks or partner ministries responsible for microfinance related programming will be trained with resources from country programme budgets at courses such as Turin ([www.itcilo.org/microfinance](http://www.itcilo.org/microfinance)) or the CGAP course <http://www.cgap.org/direct/special/training.php>.
  5. Country Offices must consult with government, all other donors, and stakeholders before approving any new microfinance support in a specific country or with specific institutions to ensure complementarity and avoid undermining others in the market.
  6. Microfinance programming will be done within stand-alone programmes whenever possible. Credit components in broader programmes tend not to get adequate management attention and have performed poorly.
  7. Microfinance programmes should generally exceed U.S.\$ 500,000 in the aggregate and should target programme budgets of more than U.S.\$1 million. This is to assure that the programmes have sufficient scale and resources to attract skilled technical experts and also to have sustainable impact.<sup>14</sup>

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<sup>11</sup> See chapters 4.3.5 and 6.4.6 of the programming manual for guidance on micro-capital grants.

<sup>12</sup> Private includes NGO-MFIs, Non-Bank Financial Institutions, Commercial Banks, Credit Unions, etc.

<sup>13</sup> UNDP Africa and UNCDF have a pre-existing regional programme with special circumstances.

<sup>14</sup> The limits on grants to individual institutions remain as per chapters 4.3.5 and 6.4.6 of the programming manual.

8. As a general rule, because their results to date have been very poor, UNDP will no longer fund Community-managed revolving loan Funds.<sup>15</sup> Community-managed revolving loan fund projects involve external funding of loans within community-based groups where a credit fund for members operates without substantial oversight and management from professional staff of a specialized financial institution.

The Office of Audit and Programme Review (OAPR) is requested to include compliance with this framework in its risk assessment. Where Country Offices have programmes that are in progress, we encourage you to bring them in line with these standards.

UNCDF will continue to serve as policy advisor to UNDP for all microfinance matters. In addition, UNCDF will continue to represent UNDP in CGAP and to provide policy support to the Office of the Administrator. UNCDF will be responsible for monitoring the implementation of this policy and advising on changes, as needed. Please contact John Tucker ([john.tucker@undp.org](mailto:john.tucker@undp.org)), Microfinance Advisor at UNCDF, for clarifications on implementing this policy.

With best regards.

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<sup>15</sup> This prohibition does not include revolving funds where the lending is financed by members' savings rather than injection of external funds, or Village Banking and Self Help Group/Bank Linkage models where a specialized financial institution's professional staff is involved.