

USAID Letter to Management, CGAP Peer Review: Executive Summary

A team comprising Richard Boulter of DFID, Henri Dommel of IFAD, and Brigit Helms and Eric Duflos of CGAP conducted a microfinance Donor Peer Review of the United States Agency for International Development (USAID) in Washington DC from 10 to 18 November 2003. The review is part of a 17-agency initiative launched by Development Ministers, heads of agencies, and CGAP to concretely tackle aid effectiveness by using microfinance as a test case.

The Peer Review team focused on the internal procedures, practices and processes of USAID to identify the success factors and constraints that influence the effectiveness of the Agency's microfinance operations. The Microenterprise Development (MD) team from the Economic Growth, Agriculture and Trade Bureau (EGAT) provided the peer review team with an orientation to USAID and organized meetings with 71 people throughout the Agency. The peer review team interviewed 21 people from the missions, mostly by phone, 20 staff from EGAT, 12 staff from other bureaus and 18 people from external partner organizations. The team briefed Assistant Administrator Emmy Simmons and staff on its initial findings on 18 November 2003.

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

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

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