

MICROFINANCE AS AN INSTRUMENT OF AUSTRIAN DEVELOPMENT COOPERATION

Synopsis of the Country Studies in Zimbabwe, Mozambique, Namibia and Uganda SUMMARY

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Subject description:

The Austrian Development Cooperation's (ADC) sector policy for the development of micro, small and medium enterprises (MSME) guides the promotion of MSMEs, the preparation, evaluation and approval of country-specific MSME programmes, and serves as a basis of coordination within the sector.

Microfinance, together with technology promotion, support to associations, and consulting, education and training, are policy instruments for the development of MSMEs. The evaluation of microfinance as an instrument of ADC is expected to provide input into the revised MSME sector policy.

Evaluation methodology:

The evaluation of microfinance as an instrument of ADC was done in three different phases, in four countries, and with three different foci (institutional, structural and contextual). The institutional information presented derives from country visits in 1999 and 2000, during which the following organisations were assessed: Zambuko Trust and ZWFT in Zimbabwe, CRESCE, MICRED in Mozambique, COSEDA in Namibia, and FINCA, PRIDE and FOCCAS in Uganda.

Major findings:

The major findings of the evaluation report on microfinance as an instrument of ADC, can be summarized as follows:

- ADC's MSME policy, as well as the two microfinance handbooks, is in line with recent research findings and established guidelines. However, the application of the key success factors responsible for the success of microfinance institutions, as outlined in international research and policy documents, is less consistent. The evaluation found that those microfinance institutions (MIs) that have made use of the learning process all around the world were more successful than others that haven't. One of the main findings of the evaluation is that the selection of operators with a strong organisational base of support and know how is key to the success of a microfinance programme.
- The success of a microfinance programme depends both on design and management of the programme itself, as well as on the context in which the programme is implemented. Factors such as macroeconomic stability, economic growth, a relatively low inflation rate, social cohesion and high population density favour microfinance success. Responsible financial sector policies and government commitment to microfinance, donor commitment and practices, stakeholder coordination, and

competition among microfinance providers, all have a significant impact on the performance of MFIs.

- For MFIs capacity building and access to technical assistance and knowledge is essential, not only during the process of MFI building, but also to ensure continuous learning from experiences gained worldwide.
- The excellent performers among the MFIs followed an institution building approach aimed at full financial sustainability and transformation into commercial providers.
- Donors' roles with respect to microfinance are manifold. They act as donors and supporters of individual microfinance projects, and they coordinate and cooperate with the host government. Their approach can greatly influence the performance of MFIs and sometimes the development of the entire industry. Donors should monitor MFI performance and hold the organisation accountable for the results agreed upon in project targets. The identification of a competent technical implementer is therefore one of the major task a donor has to undertake. Donors should not be involved in day-to-day programme decisions.

It was found that the ADC as a supporter of microfinance activities has acted in a very inconsistent way. In Uganda, for example, the Austrian Regional Bureau (ARB) actively engaged in the creation of an enabling environment for microfinance institutions, and put strong emphasis on institution building. In the case of Mozambique, on the other hand, ADC acted in a less beneficial way. MICRED clearly lacked capacity building and technical support and efforts to turn it into a sustainable institution.

It was furthermore revealed that consistent and regular reporting from microfinance programmes and effective monitoring were weak in most Austrian microfinance initiatives. Reporting requirements were unclear, and reporting standards differed from institution to institution.

In general, ADC as a supporter of microfinance activities is in most cases perceived as a reliable and committed donor. Nevertheless, the length of project cycles of one year has been identified as a constraint by many MFIs. It was also pointed out that ADC's 1999 budget crisis affected Austria's relations to microfinance institutions and other stakeholders negatively.

- Donor coordination at all levels is useful to increase the performance of individual MFIs, to foster the development of national microfinance institutions, and to ensure the advancement of the entire field. At the programme and national level Austria's engagement in donor coordination has been strong in some countries, and weak in others.

Especially in countries like Namibia and Zimbabwe, where ADC has no Regional Bureaux at the country level, it has been difficult to keep up with national developments and to coordinate with other stakeholders. At the international level, donor coordination mainly takes place through the Austrian MSME sector consultant. Donor and stakeholder coordination and cooperation allow a small country like Austria to contribute to the advancement of the field and guarantee visibility.

- ADCs insight into policy issues affecting microfinance and its engagement in advocacy is stronger in countries where it has sector consultants on the ground, such as in Uganda, than in others where this is not the case. In all countries visited, ADC has tried to involve government in the formulation of country sector programmes, which ensured ownership of the programme by the local and national administration, and allowed Austria to voice its opinion about policy issues in the process. On the other hand, it was found that government involvement in the design and provision of microfinance programmes was not advisable.

- Although the performance of some of the microfinance programmes supported by ADC was far from optimal, Austria has also been at the forefront of microfinance development in Uganda and contributed to the establishment of some of the best performing MFIs in Uganda and Mozambique. In order for ADC to be able to maintain or increase its impact and visibility it is recommended that: Austrian microfinance policy papers are distributed and discussed on a broad and more regular basis and that the application of the guidelines should be monitored more stringently; ADC focuses on the identification of competent technical implementers, and not on the design or implementation of the programme; innovative MFIs are supported; ADC actively engages in stakeholder cooperation and coordination and builds strategic alliances with international microfinance institutions; ensure an enabling environment for microfinance interventions.
- It is recommended that the structural make-up of the ADC as it applies to the area of microfinance, to the MSME Sector and to all the institutional executive bodies relevant within the context, is improved in light of the following structural and communicative principles: clear definition of the roles and responsibilities of the donor as well as of the developer of microfinance programmes; establishment of a technical information exchange system; the introduction of more systematic reporting and the formalisation of information flows between the executive bodies of the ADC; the necessity of engaging in systematic policy and programme discussion to promote coherence between sector policy and country sector policies, to develop and secure new intervention strategies within the field of microfinance, and to define the role of the implementing agency; establishment of a structured decision-making mechanism to ensure that MSME sector interventions correspond to Austrian sector policies and guidelines, and that experiences on the ground are fed back into the sector policy.