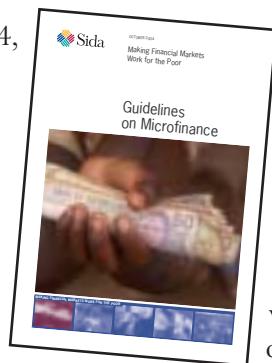


Launch of new reports and a project portfolio presentation

Launch of Sida's Guidelines on Microfinance

During the spring of 2004, the Financial Systems Team completed Sida's Guidelines on Microfinance. The goal has been to formulate guidelines which can assist Sida programme managers to ask the right questions and gain a deeper understanding of the issues involved when supporting the development of financial services for the poor, i.e. microfinance.

Access to safe savings services, affordable credit, reliable money transfer services and adequate insurance services, are important to



"Making Financial Services Work for the Poor; Sida's Guidelines on Microfinance" (October 2004).

the poor as it allows them to invest in education, improved housing and respond to business opportunities. Financial services are also used for smoothing income and reducing vulnerability in times of crises such as sickness, death and natural disasters.

Today, microfinance is increasingly seen as an integral part of the financial system. Improving long-term access to financial services for poor people requires viable financial institutions which operate without continuous

subsidies. Rather than depending on donor funds to finance the expansion of their loan portfolio, institutions should be able to mobilise funds on local or international capital markets, whether through deposits, loans, share capital or other instruments.

"Donors have learned a lot about what works and what does not work in supporting microfinance and pro-poor financial systems in recent years and it is our hope that these guidelines will help to improve the quality of Sida's microfinance portfolio", says Camilla Bengtsson at INEC, who has been the project leader for the development of the new guidelines.

Four background papers

In the process of developing the new microfinance guidelines, Sida commissioned four background papers on specific topics that will be published as separate reports.

Is Microfinance a Good Poverty Alleviation Strategy?: Evidence from Impact Assessment,

Ranjula Bali Swain, July 2004

This paper investigates the links between access to microfinance services and poverty alleviation. The report provides an overview of existing impact assessment literature and methodologies.

A Review of Sida's Experience in Micro and Rural Finance:

Sida's Experience in Microfinance,
Lars-Erik Birgegård, November 2002

This report is a review of Sida's approach to microfinance within the current understanding of

"sound donor practice". The report brings up the key policy issues arising from Sida's experience of supporting 15 microfinance projects. Pros and cons with alternative positions on these policy issues are given as a basis for discussion.

Policy Recommendations for Sida's Programs: Housing Microfinance,

Franck Daphnis and

Ingrid Faulhaber, June 2003

This background paper is based on an independent review of Sida's housing microfinance programs in Central America.

The document includes policy recommendations for Sida's work in developing and overseeing housing microfinance programs.

Policy Recommendations for Sida's Programs: Rural Microfinance,

Hans Dieter Seibel and

Gloria Almeyda, January 2003

This study is a contribution to the development of Sida's policy and practice in rural finance.

The objective of the report is to make Sida's support to rural microfinance more efficient in terms of both sustainable institution-building and sustainable outreach to Sida's target group.



The publications are available online at www.sida.se

Sida's Portfolio within Financial Systems Development

As of June 2004, Sida had an active portfolio of 622 MSEK supporting financial systems development, distributed over 57 interventions in Africa, Asia, Latin America and Europe¹. The average size of each intervention is 11 MSEK. The profile of the portfolio is further outlined below.

Sector distribution

The distribution between different sectors of Sida's support to financial sector development is outlined in Chart 1.

Most of Sida's support is channeled to **informal/semi-formal financial institutions (wholesale and retail)**. This category makes up 63% of the portfolio and contains all informal or semi-formal financial institutions that are not under public financial supervision. Examples of such institutions are NGO's, savings and credit cooperatives, village banks, self help groups, trust funds, apex funds etc. The total portfolio for this category is 389 MSEK. Chart 2 shows the distribution between support to wholesale organisations (57%) and retail organisations (43%) in this category.

Sida's support to wholesale organisations is mainly channeled to housing finance programs in South Africa (Ubytyebi and USN

Sri Lanka:

Central Bank Staff Exchange Program

A staff exchange program between the Central Bank of Sri Lanka and the Swedish Riksbank has been supported by Sida since 2000. The program focuses on monetary policy, exchange policy, inflation target, bank supervision and human resources development.

Opportunity Fund), Nicaragua (Prodel) and Guatemala (FDLG). Examples of retail institutions that are supported by Sida are Marang in South Africa, Pride Zambia, Pride Tanzania, Fusai in El Salvador and EKI in Bosnia-Herzegovina.

It can be noted that the average intervention size is larger for this category (16 MEK) than for the whole portfolio. This is mainly due to the larger amounts channeled to the wholesale housing funds. At the same time, the average size of interventions for capacity building is smaller (4 MSEK) than for the rest of the portfolio.

About 11% of Sida's support to financial sector development is directed to the development of **financial sector policies, legal and regulatory frameworks, supervisory capacity and sector programs**. Examples of Sida interventions in this category are support to the Namibia

Stock Exchange, the Uganda Capital Market Authority Institutional Support, the World Bank Institute Anti Money Laundering program and the Financial Sector Reform and Strengthening Initiative (FIRST).

Support to **monetary institutions** for the development of monetary policies and money markets makes up 10% of the portfolio. Examples of programs in this category are support to the central banks in Sri Lanka and Vietnam.

About 10% of the portfolio is directed to **sector-wide capacity building**, such as business development services for retail financial intermediaries, organisations working with training, industry dialogue, knowledge generation and dissemination. This category also includes organisations working with the development of methodologies and tools at both local, regional and international level. Examples of Sida interventions in this category includes support to the Consultative Group to Assist the Poor (CGAP), International Training Programs and Pride Management Services in East Africa.

Formal sector financial institutions (wholesale and retail) are defined as financial institutions under public financial supervision.

Chart 1: The percentage of total agreed amount (622 MSEK) per sector

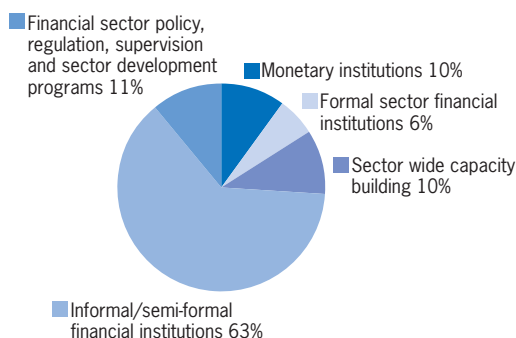


Chart 2: Wholesale and retail informal/semi-formal institutions (389 Million SEK)

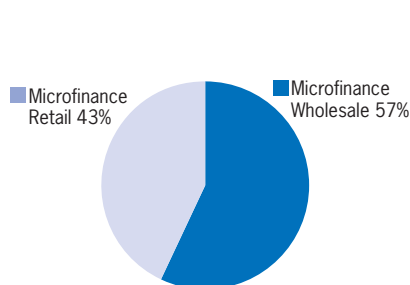
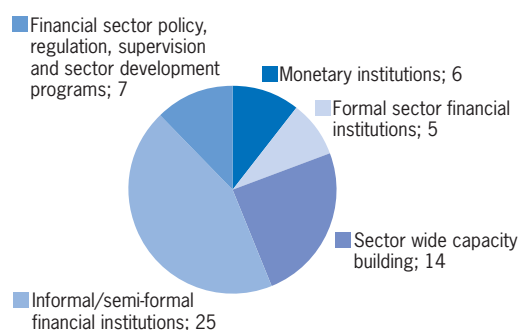


Chart 3: The number of interventions (total 57) per sector



¹ The statistics are based on projects with ongoing contracts of more than 1 MSEK and includes the contracted agreed amount for the total project period.

This category makes up 6% of the portfolio. Examples of institutions are banks (commercial, state owned, cooperative, regional savings banks, regulated microfinance institutions, etc.) and other capital market actors, such as pension funds, credit funds and venture capital investment funds. Programs supported by Sida in this category are AfriCap, Amhara Credit and Savings Institution (ACSI) in Ethiopia, Latin America Challenge Investment Fund (LA-CIF) and Tanzania Development Finance Co. Ltd. (TDFL).

Geographical Distribution

In volume, most of Sida's support to financial sector development is channeled to Latin America (39%), followed by Africa (32%), Europe (11%) and Asia (6%). Global programs make up 12% of the portfolio.

Chart 6 shows the eight countries that receive most support for financial sector development. The largest support is channeled to Nicaragua (133 MSEK), followed by South Africa, Guatemala, El Salvador, Uganda, Bosnia-Herzegovina, Zambia and Sri Lanka.

Organisational distribution

Table 1 shows the organisational distribution of the portfolio between departments within Sida HQ and the field offices. Almost

one third of the projects (and about 20% of the portfolio volume) are managed by the Financial Systems Team at INEC/Market.

Nicaragua: 21% of the portfolio

The largest support is channeled to Nicaragua, which accounts for 133 MSEK, or 21%, of the total portfolio. The most significant programs in Nicaragua are Prodel, a wholesale organisation for housing microfinance and FondeAgro, a development program that provides wholesale funding for rural microfinance.

These projects consists mainly of global and regional support.

The largest share of the portfolio is managed by field offices in Latin America (23%). These offices also have the largest interventions (average project size 35 MSEK). This could be compared to the field offices in Asia, where the average project size is 4 MSEK.

The field offices in Africa manage 19% of the total portfolio and have an average project size of 7.6 MSEK.

Table 1: Responsible Unit

Department	Number of interventions:	Contracted agreed amount (MSEK):	% of total contracted amount
Head Quarter:			
Dpt. for Democracy and Social Development (DESO)	2	32	5%
Dpt. for Europe	9	64	10%
Dpt. for Infrastructure and Economic Cooperation (INEC) – Urban Division	3	95	15%
Dpt. for Infrastructure and Economic Cooperation (INEC) – Market Division	16	125	20%
Dpt. for Cooperation with NGOs, Humanitarian Assistance & Conflict Management (SEKA)	1	27	4%
Dpt. of Employment (PEO) – International Training Programs	4	11	2%
Field Offices:			
Africa	15	115	19%
Asia	3	12	2%
Latin America	4	141	23%
Total:	57	622	100%

Chart 4: Percentages of total agreed amount per geographical area

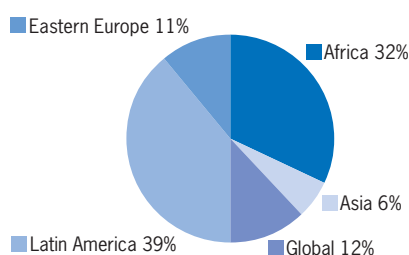


Chart 5: Number of interventions (total 57) per geographical area

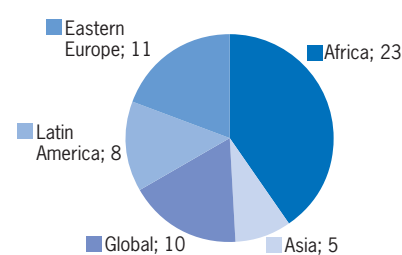
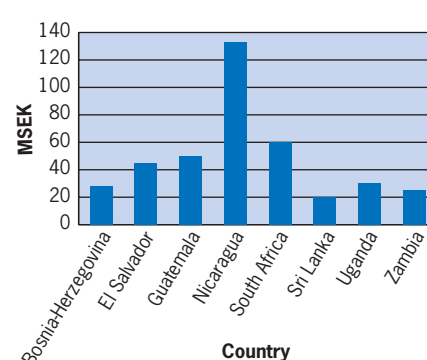


Chart 6: Main country distribution



The Financial Systems Team at INEC/Market



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Ola Sahlén covers Europe, Central Asia, Ethiopia and Somalia and his subject field is microinsurance. E-mail: ola.sahlen@sida.se



Karin Dahlström is working part time with microfinance policy issues. E-mail: karin.dahlstrom@sida.se

Microfinance in brief

- The Swedish Microfinance Network has launched its new website; www.mikrofinans.nu.
- The official launch of the UN International Year of Micro-credit 2005 is scheduled for 18 November 2004 in New York. A working group will be formed to prepare for activities in Sweden in observance of the Year.
- In an effort to bring the Aid Effectiveness Initiative (Micro-finance Donor Peer Reviews) closer to the field, CGAP is launching the Country Level Effectiveness and Accountability Reviews (CLEARs). Together with the other CGAP members, Sida is participating in the work to develop a framework and structure for these country reviews.
- Some staff changes have taken place within the FinSys Team. *Camilla Bengtsson* and *Eva Bursvik* have left for new posts in Mali and Namibia respectively. The new team members are *Ola Sahlén*, who used to work at the Division for Infrastructure and Finance at INEC and *Henrik Riby*, who is returning from a post at the Swedish embassy in Guatemala. *Karin Dahlström* will take a year off to study, but will work part-time in the FinSys Team.

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