

Sida's Financial Systems Project Portfolio

and news from the Financial Systems Team

To draw attention to microcredit and stimulate international action the UN designated 2005 the International Year of Microcredit. The objectives for the Year are designed to unite Member States, UN Agencies and Microfinance Partners in their shared interest to build sustainable and inclusive financial sectors and so contribute to achieving the Millennium

Development Goals (MDGs).

The Swedish response to the International Year of Microcredit is to create a platform to include all those with an interest in microcredit – NGOs, companies, organisations, universities, The purpose: to increase interest in microfinance within Sweden, develop the resource base, and deepen the knowledge regarding “best practice”

among Swedish NGOs. Several activities will take place during the year, such as workshops, research seminars and the publishing of a newspaper. For more information about the International Year of Microcredit please view:

www.yearofmicrocredit.org or
www.mikrofinans.nu



“Small means – big dreams” a touring photo exhibition 2005

As a part of the International Year of Microcredit, Sida commissioned the photographer Anders Gunnatz to capture ordinary people's daily life, mirrored through microfinance. The photos are from Bangladesh, Tanzania, Guatemala, and Bosnia-Herzegovina. Mr Staffan Herrström, Head of the Department for Policy

and Methodology, opened the exhibition in Stockholm on June 1st. After Stockholm it moves on to several Swedish embassies. The photo exhibition is also presented in a booklet containing commentary.



Sida's Financial Systems Project Portfolio

As of December 2004, Sida had an active portfolio of 720 million SEK¹ supporting financial systems development, distributed over 80 interventions. During 2004, Sida disbursed 125 million SEK to Africa, Asia, Latin America and Europe. The main change from the previous portfolio review is an increase to Eastern Europe, reflecting support to three new retail microfinance institutions.

Composition of the Portfolio

Sida's support to financial systems development is distributed between five main areas² as shown in chart 1.

Most of Sida's support is channelled to **informal/semi-formal financial institutions** (wholesale and retail). This category makes up 62% of the portfolio and contains all informal and semi-formal institutions not under public financial supervision. Examples of such institutions are NGO's, savings and credit cooperatives, village banks, self help groups, and trust funds. The total portfolio for this category is 440 million SEK divided equally between wholesale and retail. Sida's support to wholesale organisations is mainly channelled to housing finance programs in South Africa (Ubytyebi and USN Opportunity Fund), Nicaragua (Prodel) and Guatemala (FDLG). Examples of retail institutions supported directly by Sida are Marang in South Africa,

Pride Tanzania, and EKI in Bosnia-Herzegovina.

The **sector wide capacity** (17% of the portfolio) includes support to business development services for retail financial intermediaries; organisations working with training, industry dialogue, knowledge generation and dissemination; organisations working with the development of methodologies, tools and policies at a local, regional and international level; and International Training Programmes (ITP). Examples of organisations in this group are the Consultative Group to Assist the Poor (CGAP), ASOMIF in Nicaragua, and support to the Financial Sector Reform and Strengthening Initiative (FIRST).

Formal financial institutions (wholesale and retail) are those institutions under public financial supervision (such as central bank supervision, insurance inspection, or capital market authority). This category makes up 8% of the portfolio. Wholesale programmes supported by Sida are Afri-Cap, Latin America Challenge Invest-

ment Fund (LA-CIF), and Tanzania Development Finance Co. Ltd. (TDFL). Amhara Credit and Savings Institution (ACSI) in Ethiopia is an example of a retail organisation. ACSI serves over 250 000 clients mainly with increased access to lending and saving services. Its mission is to help the very poor to improve their lot.

Financial policy and administrative management accounts for 7% of the active portfolio. The group includes micro-, meso-, and macro-level programmes in the financial sector and institutions. Examples are the Financial Sector Deepening Programme in Zambia and the Financial System Development Programme in Uganda.

Monetary institutions receive the smallest share – 6%. This is support to the development of monetary policies and money markets, legal and regulatory frameworks, and supervisory capacity. Examples are national Ministries of Finance, parliaments, central banks, bank supervisors and capital market regulators. Sida pro-

Donor Good Practice in Microfinance

CGAP's case study in donor good practices, No. 16 2004, describes how Sida's country office in Nicaragua initiated the creation of one of the first national microfinance networks in Latin America, Asociación Nicaraguense de Instituciones de Microfinanzas (ASOMIF). After six years of operation, ASOMIF had doubled its membership, established an effective members' credit bureau and become an active national organization independent of donor funding.

For more information: www.cgap.org, or www.asomif.org

Chart 1: The percentage of total agreed amount (720 million SEK) per sector

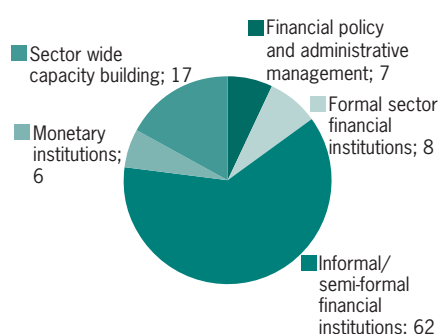


Chart 2: Geographical distribution



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

² The main areas are coherent with OECD/DACs statistics

vides support to central banks in Sri Lanka, Afghanistan, Vietnam, and Uganda through a staff exchange program. The focus is on monetary policy, exchange rate policy, inflation target, bank supervision, and human resources development.

Geographical Distribution

Chart 2 shows the regional distribution of the total agreed amount year 2003 and 2004 for Africa, Asia, Latin America, Eastern Europe, and Global support. The distribution is about the same as earlier except for Eastern Europe – where it has doubled, and for Asia – where central banks in Irak and Sri Lanka have received support.

Organisational Distribution

The organisational distribution is outlined in table 1 below. The Department for Infrastructure and Economic Cooperation (INEC) manages 35% of the portfolio – mostly global and housing finance programmes. The Europe department has increased its portfolio since last year and most regional programmes are still managed from Sida's Stockholm office. Field offices in Latin America, Asia and Africa together manage 42% of the total. Compared to earlier reviews the percentage of the portfolio managed by field offices has decreased slightly.

Minimum Performance Indicators for Retail Financial Institutions

Financial sustainability is essential if one is to reach significant numbers of

poor people and realise long-term social benefits. To enhance financial sustainability Sida has introduced performance based agreements. Sida gives direct support to eight retail microfinance institutions and indirect support to 20 institutions through wholesale organisations. Half of the microfinance institutions that Sida supports, either directly and indirectly, provide statistical information to Mixmarket³, a global information exchange for the microfinance industry, which collect statistics from retail MFIs. Here are some performance indicators:

1. *Outreach*: How many clients are being served? The average outreach calculated as number of clients served is 20 000. ACSI in Ethiopia has an outreach of more than 250 000 clients. All institutions report an increase in number of clients.
2. *Depth of outreach*: How poor are the clients? This is assessed as average loan balance per borrower. The average indicator for the portfolio is 380 US\$, with exceptions of two MFIs in Nicaragua with loan balances per client of over 1000 US\$ and 1500 US\$.
3. *Portfolio quality*: How well is the financial institution collecting its loans? The value of all loans outstanding that have instalments of principal more than 30 days overdue divided by gross loan portfolio. The average ratio is 1,3%. For most MFIs the repayment rate has improved.

4. *Financial sustainability*: Is the financial institution sufficiently profitable to maintain and expand its services without continued injections of donor funds? The average operational self sufficiency⁴ index is around 100%, which means that revenue covers the expenses.
5. *Efficiency*: Is the financial institution providing services at the lowest possible cost to borrower? This indicator is operating expense divided by number of active borrowers. The average cost per borrower is 122 US\$, with the exception of ACSI in Ethiopia which maintains a cost per borrower of 6 US\$.

Above has been a first attempt to analyse our portfolio on a qualitative basis rather than merely on quantitative figures. A set methodology for a qualitative analysis needs to be developed in order to enhance our understanding of the portfolio and the figures themselves. A more thorough undertaking of this will be accomplished in time for the next portfolio analysis.

New Contributions 2004

There are 17 new contributions for 2004 with a total agreed amount of 159 million SEK. In the monetary institution sector, a new central bank cooperation was started with Iraq. Regarding the financial policy and administrative management, a Financial Sector Deepening Programme started in Zambia. In Europe, a couple of new microfinance programmes were supported – for example, the Loan Initiative for the Development of Economic Regions (LIDER) in Bosnia-Herzegovina and the Micro-business Opportunities for Poor Families in Tajikistan.

Table 1: Responsible Unit

Department	% of total agreed amount
Headquarters:	
Department for Infrastructure and Economic Cooperation (INEC)	35
Dpt. for Europe	20
Field Offices:	
Africa	17
Asia	5
Latin America	20

³ www.mixmarket.org

⁴ The ratio operational self sufficiency is calculated as financial revenue (total)/(financial expense + loan loss provision expense + operating expense).

Planned Contributions 2005

Regarding planned contributions, a main focus for 2005 is the Financial Sector Deepening Programme (FSDP) in Eastern Africa (Tanzania, Zambia, Uganda, and Kenya). The FSDPs are based on a DFID⁵ (except for Uganda) initiative to support microfinance. The FSDP will be a major source of funding for pro-poor financial market development and will include activities at the micro-, meso- and macro-levels. The FSDPs reflect best practice in financial sector and microfinance development. They provide important advantages – such as improved coordination between donors and reduced transaction costs.

Sida is also planning another round of support to the Central Bank for the West Africa Monetary and Economic Union, BCEAO. The BCEAO's long-term vision is to increase access to financial services through legally-recognised MFIs that provide secure and well-managed services to their members and clients. Several regional priorities will be addressed:

- Improve the regulatory framework to strengthen MFI governance and management and refine the region's approach to supervision.
- Strengthen the effectiveness of supervision, including licensing new entrants, supervising ongoing operations, and imposing sanctions.
- Improve understanding of the sector, institutional risks, and overall performance of MFIs in the region.

For more information about the Financial Systems Team and the project portfolio, please contact: jan.grafstrom@sida.se

The Financial Systems Team at INEC/Market



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

Ola Sahlén covers Central Asia, Europe, Ethiopia and Somalia and focuses on micro insurance.
E-mail: ola.sahlen@sida.se

Roger Garman covers Sri Lanka, Bangladesh and India and focuses on monetary policy, and capital markets.
E-mail: roger.garman@sida.se

Jan Grafström, Team Coordinator, covers Kenya, Tanzania, Zambia, Uganda and global interventions and focuses on commercial banking, credits, and guarantees.
E-mail: jan.grafstrom@sida.se

Henrik Riby covers Latin America, West Africa, Mozambique, South Africa and Regional Southern Africa, and focuses on housing microfinance.
E-mail: henrik.riby@sida.se

Contacts in the field:

Ethiopia	Mr Aklog Laike	aklog.laike@sida.se
South Africa	Ms Vanessa Van Heerden	vanessa.van.heerden@sida.se
Tanzania	Ms Ewa Hagwall	ewa.hagwall@sida.se
Uganda	Ms Maria Selin	maria.selin@sida.se
Zambia	Ms Annlouise Olofsson	annlouise.olofsson@sida.se
India	Ms Sunita Chakravarty	sunita.chakravarty@foreign.ministry.se
Sri Lanka	Ms Åsa Heijne	asa.heijne@sida.se
El Salvador	Ms Eva-Lotta Gustavsson	eva-lotta.gustavsson@sida.se
Guatemala	Ms Ulla-Britt Hedvall	ulla.britt.hedvall@foreign.ministry.se
Nicaragua	Ms Sara Martinez Bergström	sara.martinez.bergstrom@sida.se
Bolivia	Ms Emelie Göransson	emelie.goransson@sida.se
Europe	Ms Zoric-Petrovic, Jasmina	jasmina.zoric-petrovic@sida.se

⁵ The Department for International Development (DFID) is the UK Government department responsible for promoting development and the reduction of poverty.