

Inventory of Microfinance Activities Supported by Norway



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LIST OF ABBREVIATIONS

| | |
|-------|---|
| BDS | Business Development Services |
| BRAC | Bangladesh Rehabilitation Assistance Committee |
| CGAP | Consultative Group to Assist the Poor |
| DAC | Development Assistance Committee |
| DFI | Development Finance Institution |
| IFU | Industrialization Fund for Developing Countries |
| MFA | Ministry of Foreign Affairs |
| MF | Microfinance |
| MFI | Microfinance Institution |
| MIV | Microfinance Investment Vehicles |
| NCA | Norwegian Church Aid |
| NDN | The Norwegian Development Network (Bistandstorget) |
| NGO | Non-Governmental Organisation |
| NMA | Norwegian Mission Alliance |
| NMI | Norwegian Microfinance Initiative |
| NoK | Norwegian kroner |
| NPA | Norwegian People's Aid |
| NGO | Non-government organisation |
| Norad | Norwegian Agency for Development Cooperation |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Cooperation and Development |
| OOF | Other Official Flows |
| PRIDE | Promotion of Rural Initiatives and Development Enterprise |
| PYM | The Pentecostal Foreign Mission of Norway |
| ROSCA | Rotating Savings and Credit Association |
| TA | Technical Assistance |
| ToR | Terms of Reference |
| USD | United States Dollar |
| WWB | Women's World Banking |

1 EXECUTIVE SUMMARY WITH RECOMMENDATIONS

1.1 INTRODUCTION

This report presents the results from a survey among Norwegian organisations/institutions providing support to microfinance (MF) projects and programmes. The main purpose of the survey was to provide an overview of the Norwegian involvement in MF, and how the different organisations approach the theme. An additional intention was to try to compare survey data from Norway with data from a very recent Danish study, done by the Danish Forum for Microfinance.

This survey is the fourth of its kind during the last decade. Similar surveys/studies were done in 1999, 2002 and 2006. Although they have had a slightly different scope and approach each time, we have included some data from previous surveys to illustrate changes over time.

1.2 MAIN FINDINGS

The survey confirms the observed trend from previous surveys:

There has been

- an increased private participation in MF,
- increased specialization among promoters with regard to methodology,
- increased professionalism among the core group of promoters,
- but, there is still a great diversity of promoters, projects and methodologies.

Comparing the survey data from 1998 with the current survey data for 2008 – 2010, it shows that the number of promoters and projects has not changed over time; however, the amount invested in Microfinance has increased by 78% due to the entry of the Norwegian Microfinance Initiative (NMI) and Norfund as major promoters. While the total volume of support has increased, NGO support for MF has declined by 57% due to a shift in Norwegian government funding from NGOs to Norfund and NMI. While the aid budget has grown significantly during the period, the Norwegian Official Development Assistance (ODA) to MF projects from the aid budget has declined from 0.82% to 0.12%.

The types of interventions supported are highly diversified. Typically NGOs support smaller interventions in financial terms while NMI and Norfund make fewer but significantly larger investments in venture funds targeting microfinance. Among the MF promoters some provide direct equity/debt investments in MF and some provide equity/debt investments via regional or global funds targeting MFI investments. Some promote investments in new and immature markets for MFIs while others focus on investments in highly competitive markets where MFIs have been operating for decades. Some focus on promoting client needs and education through training and counselling while some projects are directed at supporting development of a legal and regulatory framework for MFIs or information, education and communication to promote good practices.

While previous surveys indicated that many of the NGOs promoted MF activities as a component in a wider programme, the current survey suggests that most of them support MFIs directly or through a programme where promotion of MF is the main objective. Only 18% of the portfolio consists of MF projects being a component in a

wider programme with multiple or a different main objective. It suggests a change in approach under the recognition that MF is a specialized form of service delivery which requires specialized programmes and institutions promoting the service.

The majority of microfinance projects supported are in Africa. Some of these are quite small however, and a geographic distribution based on funds shows that Asia and to some degree Latin America remain the main destinations as measured by amount of funds invested/spent, as the scale of microfinance in those regions are larger than in Africa. Recent developments indicate a global trend with higher growth of MF in Africa which is a trend also appearing in the Norwegian MF portfolio.

According to the survey data most of the organisations/institutions promote MF primarily as an “investment” with a social objective. None considered MF as regular profitable financial services and “Investment to generate income for your institution/organisation” was as the least relevant objective to all organisations. “To give the target group access to cash to level out cash-flow requirements” was also rated of low relevance to most organisations. This stands in contrast to empirical evidence from client surveys, which suggest that this is the most important feature of MF for the clients.

The survey included several open ended question where participants were invited to offer specific comments and suggestions to various issues related to MF. A general observation from review of these comments is that compared to previous surveys, they reflect a higher degree of professional knowledge and experience with MF.

The comments from the respondents related to lessons learned suggest that MF is recognised as promoting a broad range of financial services and for different purposes beyond what was traditionally the main focus; providing credit to promote income generation of the poor. It also shows recognition for the fact that MF requires specific forms of expertise and that the services are delivered by an institution specialized in financial intermediation.

The comments suggest that MF is also being perceived as a market oriented approach that enables financial services to also reach low income groups rather than merely as one among many “aid instruments” for poverty alleviation which was more the view reflected in previous surveys. Among others, MF is seen more as development of financial services in developing countries and as part of private sector development rather than as a government driven social service. However, it is seen by many that getting acceptance for this view in the “aid community “and the general public as means of promoting development is a challenge.

Some observations also reflect the changing environment for MF in Norway. While most comments show recognition for the role Norad, and the Norwegian Development Network (NDN), play in facilitation of information exchange many comments reflect that MFA/Norad focuses less on MF and with less resources available (both human and funding) for promoting MF than what was the case five–ten years ago. The main government “driver” for MF is today Norfund, not MFA/Norad with the MF portfolio of MFA/Norad diminishing over the years. The only major government contribution to MF in recent years was the investment in the Norwegian Microfinance Initiative (NMI), a public private partnership established in the aftermath of the Nobel Price award to Grameen Bank, but this focused on only one group of commercial partners, not the wider MF community in Norway.

Some comments also suggest utilising more systematically the wealth of knowledge and experience on MF and MF markets around the world among Norwegian stakeholders which could be used for training and sensitisation in a more systematic manner. They suggest that MFA/Norad and NDN could play a more proactive role to create venues for training and information exchange with inputs from Norwegian promoters of MF.

This survey was designed also to compare results with a recent survey of Danish MF promoters.¹ Comparing the results of the two surveys shows that there are several similarities between the Danish and the Norwegian microfinance sectors but there are also key differences. NGOs are important actors in Denmark as in Norway, but they appear smaller and the majority work with savings and credit groups. There are very few that specialize in MF in terms of size, capital base and depth of involvement and there is no investment fund like the Norwegian Microfinance Initiative (NMI).

However, as stated by the report from the Danish survey of MF, Danish organisations are becoming more focused and are developing specialized skills within microfinance. Several players have discontinued their support for microfinance, resulting in what is a more committed number of more specialized promoters. In contrast, the Norwegian portfolio of MF promoters went through such a change already at the start of the millennium by a higher concentration of organisations/institutions specializing in MF and with a gradual entry also of private/institutional investors.

The total budget allocated to microfinance by Danish organisations in 2010 amounted to 85 million DKK, excluding the 400 million DKK committed in the Danish Microfinance Partners fund. In contrast the Norwegian expenditure for MF was 477 million NoK in 2010 of which Norfund, NMI and Kolibri Kapital alone invested more than 350 million NoK in various MFIs and venture funds. However, while the allocation to MF from the Danish aid budget has increased it has declined in Norway.

The years of experience among Norwegian promoters are also significantly longer than that of Danish MF promoters. A higher number of Norwegian organisations/institutions have more than 10 years of experience with MF; and five of them started more than 20 years ago, this in contrast to the Danish promoters of MF of which the majority have less than five years of experience.

1.3 RECOMMENDATIONS

Changes in the Norwegian MF portfolio warrant new information and change in scope of MF surveys

Today's approach to microfinance is different from what it was when the first survey was conducted 10 years ago. This is also reflected by the change in the Norwegian microfinance portfolio with the increasing participation of commercial investors. The entry of commercial investors has leveraged substantially more resources for micro-financial services in a market of micro financial intermediaries maturing into regular financial service delivery entities. The challenge is that many may not be sufficiently sensitive to the market they operate in and to the need for adequate regulatory environments for client protection.

As with conventional financial markets, there are debates about over-indebtedness, actual impact on clients, and excessive profits for some MFIs. One consequence of this is increased focus on clients, and whether MF is really offering products that make a difference. Financial analysis is increasingly complemented by client surveys in evaluations of MFIs and microfinance policies.

¹ "Microfinance in Denmark - State of the sector 2010", Lone Søndergaard and Lotte Lund, Danish forum for microfinance, December, 2010.

Generate evidence of client impact

The Norwegian microfinance community has "always" stressed poverty alleviation and social responsibility as key objectives for their MF activity as confirmed also by this survey. However, there is limited systematic evidence available to suggest that the objectives are met. The above suggests that more evidence based information is required to assess to what extent the above sensitivities are actually considered in the approaches to MF supported by evidence from client surveys.

Some study themes could be introduced to assess how MF promoters monitor client performance and what they are doing to improve their own practices as responsible investors. It could include efforts to standardize indicators and compare social performance across the different contexts.

The "real value" of the Norwegian MF portfolio

This survey has focused on transfers of funds and technical assistance to MF programmes and institutions. However, it has not captured value of the investments made in previous years that are assets which continue to generate financial services and eventually have led several MFIs into sustainable and even profitable Micro-financial service institutions. Many of the survey respondents have made such investments and just recording their current annual contributions underestimates the value of their total MF portfolio.

Furthermore, limited information was obtained by this survey on actual characteristics and performance of the portfolio of MF projects. This is because the current survey was to be compatible with a similar Danish survey to make a comparison between the two countries. Accordingly, as with previous surveys, it is suggested to make a follow up survey focussing on portfolio data. The resulting data from a follow up survey could also serve as a point of departure for selecting a stratified sample to undertake client performance assessment.

The role of MFA/Norad and NDN in promoting MF

The comments made by respondents in this survey suggest that MFA/Norad and NDN could jointly facilitate more exchange of knowledge and experience on MF and MF markets around the world among Norwegian stakeholders. While it is recognised that the organisations promoting MF and their approaches to MF are highly diverse and more so today than a decade ago, there are still common denominators of which the above suggested areas for generating more evidenced based information are some.

To also meet the difference in requirements of Norwegian MF promoters considering the difference in their approaches, it is also suggested to introduce more specialized forms of training and sensitisation related to MF. Issues such as regulatory environments and credit rating systems are among some that could feature on the agenda.

Furthermore, this survey is the fourth of its kind during the last decade. With the first survey as the exception, none of the other surveys have covered the entire population of MF promoters. There are neither systematic records and updated register of MF promoters in Norway nor any systematic compilation of data on their portfolios or approaches. Rather than making surveys at irregular intervals a website for MF should be established which encourages MF promoters to register and provide some basic information on their operations. Such a website could also include links to "best practice" and recommended tools.

2 BACKGROUND

2.1 SCOPE AND PURPOSE

In the following we present the results from a survey among Norwegian organisations/institutions providing support to microfinance (MF) projects and programmes. It has been commissioned by the Norwegian Agency for Development Cooperation (Norad) and implemented by Nordic Consulting Group. The main purpose of the survey is to provide an overview of the Norwegian involvement in MF, and how the different organisations approach the theme. An additional purpose has been to compare survey data from Norway with data from a recent Danish study implemented by the Danish Forum for Microfinance.² However, differences in questions and in definitions of terms complicate a full comparison. We will, however, refer to Danish data where applicable and where it serves to illustrate important issues.

This survey is the fourth of its kind during the last decade. Similar surveys/studies were done in 1999, 2002 and 2006. Although each of them has had a slightly different scope and approach, we have included some data from previous surveys to illustrate changes over time.

2.2 PREVIOUS SURVEYS

In 1999, two studies were undertaken:

- Firstly, a mapping study (Phase I) of Norwegian organisations/institutions supporting MF. This study focused, among others, on the approach to microfinance, and collected basic data on the portfolio of activities. The organisations and institutions invited to undertake the survey were selected from the Norad database of total Norwegian Development Assistance for the years 1997 and 1998. It included 131 organisations/institutions of which 20 confirmed that they provided support to MF, either as a component in a wider programme, as support to specialized Micro Finance Institutions (MFIs), or themselves providing services as a MFI.
- Subsequently, a phase II of the study was implemented to assess performance in more detail. It was conducted as a stratified sample survey to reflect the diversity of MF projects and country environments, with detailed analysis of their performance. The studies were disseminated through a number of workshops for mutual learning and exchange of information among MF promoters in Norway and subsequently led to the development of a set of MF guidelines which in particular focused on MF programme management and performance monitoring.

In 2002, the above 20 Norwegian organisations/institutions identified in 1999 were invited to provide updated information on their portfolio. A major observation from this inventory was the decline among the number of organisations/institutions supporting MF compared to the years earlier (declining from 20 to 15) with the number of MF projects receiving support declining from 165 to 160. However, the NGOs that specialized in MF had continued to expand their portfolio both in volume of funding and number of projects.

² "State of the Sector 2010"; Danish Forum for Microfinance; Draft December 2010

In 2006 a new survey was conducted as a part of a peer review for the Consultative Group to Assist the Poor (CGAP) covering the years 2004 – 2006. Norad initiated the survey to collect information for reporting to CGAP about their MF activities. The survey targeted the same organisations/institutions supporting MF as in 2002, supplemented by data from the Norwegian aid budget. The main findings from this survey were a further decline in the number of organisations/institutions supporting MF (from 15 to 11 organisations/ institutions) as well as in the number of projects being promoted (from 160 to 123 projects/programmes).

Table 1 – Number of organisations participating in previous MF surveys³.

| | Number of organisations participating in the survey | Number of organisations promoting MF | Number of MF projects |
|---|---|--------------------------------------|-----------------------|
| 2000 survey – data for 1998 | 133 | 20 | 165 |
| 2002 update – data for 2002 | 20 | 15 | 160 |
| 2006 CGAP survey – data for 2004 - 2006 | 15 | 11 | 123 |
| Current survey - data for 2008 - 2010 | 45 | 21 | 158 |

The declining trend in number of organisations/institutions supporting MF as well as the number of projects may not necessarily represent a *real decline*. For the surveys after 1999, the observed trend is likely a result of the scope of these surveys which were limited to inviting only the organisations/institutions identified in the survey preceding them, i.e. no new MF promoters were invited. In addition, they were limited to only those organisations receiving support from the Norwegian aid budget.

In this current survey, a different approach has been followed. In total 45 organisations/institutions have been invited of which 21 organisations have responded that they provided support to MF projects during 2008 – 2010. In total they supported 158 MF projects in 2010. The increasing number of respondents and projects is likely due to the inclusion of other organisations/institutions compared to two previous surveys. Most of the respondents in the current survey have provided support to MF projects for more than five years but several of them were not included in the 2002 and 2006 surveys.

2.3 APPROACH AND METHODOLOGY

The key sources for identification of institutions supporting MF projects were the Norwegian Development Network (NDN) and Norad. The information from NDN contained lists of participants from NDN seminars of MF. It was supplemented by data on organisations/institutions receiving support for MF projects from Norad⁴. Based on this information, 70 representatives of 45 Norwegian organisations/institutions were invited to provide information by responding to a questionnaire. Of these, 21 responded that they had provided support to/invested in MF during 2008 – 2010 (ref. annex I for a list of respondents).

³ The Ministry of Foreign Affairs and Norwegian Embassies are reported as one institution since they all are directly funded from the same budget and the latter are subordinated organisational units under the same ministry. In previous surveys they have been reported as separate entities.

⁴ Norad does not have a registry with records of names and addresses of organisations actually receiving support. The contact details were obtained from NDN and respective web page of each organisation.

As mentioned above, there are organisations/institutions that promote MF which do not feature in the records of NDN and Norad, especially those who take deposits/mobilise investments entirely from private sector. In addition, some organisations receiving funds from the Norwegian aid budget are promoting MF as a component in a wider programme. These programmes are not captured in the aid statistics as MF, but rather classified under another sector or as multi-sector programmes. Since we have only selected organisations registered with programmes classified as “Informal/semi-formal financial intermediaries” in the Norad records, we have likely excluded many organisations promoting MF through integrated programmes with MF only as one component⁵.

The last 10 years have seen an increase in private flows to microfinance, outside of the traditional public aid sphere. In their funding survey for 2009, CGAP estimates that 31% of all commitments to microfinance now come from private sources – about USD 6.7 billion out of a total of USD 21.3 billion⁶. The global trend during the last decade of an increasing number of MFIs becoming regulated under banking laws in their respective countries, has made direct investments in MFIs more attractive to investors of all types. This trend is also visible when comparing results from the above surveys among Norwegian MFI promoters.

The Nobel Peace Prize in 2006 awarded to Grameen Bank and Dr. Yunus resulted in a new Norwegian public/private partnership for microfinance. A brand new fund was set up with participation from private as well as public stakeholders, namely the Norwegian Microfinance Initiative (NMI). Telenor, for instance, bought 51% of Tameer Bank in Pakistan in 2008, an MFI with more than 100,000 borrowers.

There are also other private investment groups, volunteer organisations and Norwegian community groups supporting MF which do not feature in the NDN/Norad network. Many of them have their own website inviting contributions and participation by investors/sponsors/others. Several of them are a combination of commercial banks as fund managers and community groups as promoters which attract “socially responsible” saving/investment opportunities both in Norway and other countries which attract deposits/investments from the wider Norwegian public. These have yet to be captured in the surveys.

A more comprehensive survey could have been conducted if there had been a registry of all organisations/institutions receiving aid from Norad/MFA with records of names, addresses, contact persons and email addresses as well as time allocated to identify those who are not part of the NDN network or receiving aid from Norad/MFA. This could have been supplemented with web based data on other organisations/institutions supporting MF but using other sources of funding than the aid budget. It would then have been possible to generate a comprehensive list of organisations/institutions.

Two participants that did not complete the survey reported that they are considering support for MF in the future. Four participants that have previously provided support to MF reported that they have phased out their MF portfolio.

⁵ E.g. for organisations that received funding from the aid budget for programmes with MF components, four of them were classified as “Informal/semi-formal financial intermediaries”, the remaining four as something else. Accordingly, the aid statistics produced by Norad do not fully capture the amount of support actually used for MF projects/components.

⁶ “2010 Cross-border Funding for Microfinance” CGAP, 2010. CGAP defines commitments as the total amount of all currently active investments and projects, whether the funds have been disbursed or are yet to be disbursed during the remaining lifetime of a project. As such, total commitments describe the stock of funds set aside for microfinance at a given time.

2.4 DATA COLLECTION AND ANALYSIS

The survey was conducted as a web based survey. The data from the web survey were combined with data from Norad on Norwegian development assistance to MF projects to generate a database for analysis. In addition, the information was crosschecked with annual reports and financial statements from various respondents for quality assurance.

The survey tool (questionnaire) was designed to enable comparison with a similar survey conducted some weeks before by the Danish forum for Microfinance⁷. This survey covered Danish organisations supporting MF projects and programmes. However, when reviewing their survey tool it became apparent that there are notable differences between the types of organisations/institutions supporting MF in the two countries. The Danish survey appears to target non-governmental organisations (NGOs) which provide more conventional development assistance, and that promote MF more as social movements rather than as financial intermediaries.

Accordingly, while retaining most of the questions in the Danish survey to enable comparison, some questions were reformulated and some new added to better reflect the diversity of Norwegian MF promoters. As will be shown later, a major change in the Norwegian “market” of MF promoters is the entry of venture capital funds and private investors in addition to conventional aid funds and other state budget allocations.

It was decided to focus on organisational features and approach to MF, i.e. like the Danish survey, rather than details on the performance of MF projects being supported. Accordingly, contrary to what was done in previous surveys, no detailed data were collected for individual projects. Whether this will be done at a later stage remains to be decided on.

The data present “contributions” to MF and number of “MF projects”. The data on contributions follow, as in previous surveys, the OECD/DAC definitions on “official development assistance” (ODA), “other official flows” (OOF) and “private flows”, i.e. the value of monetary and other resource flows from an organisation in Norway to an MF project or entity in another country. It includes the value of technical assistance and other non-financial contributions. Some invest in so-called Microfinance Investment Vehicles (MIVs), and some act as an MIV themselves. NMI is a typical example of an MIV⁸. As of December 2009, there were 91 active MIVs globally, according to CGAP data, with total assets under management of 6.2 billion USD.

In our survey we only count the annual outflow of contributions from Norway. At this stage no data on individual projects/investments have been collected data to among others assess "assets under management", or any other data that represent values from the balance sheet of the Norwegian microfinance organisations.

⁷ “Microfinance in Denmark - State of the sector 2010”, Lone Søndergaard and Lotte Lund, Danish forum for microfinance, December, 2010.

⁸ MIV as defined by CGAP is an independent investment entity specialised in microfinance with at least 50% of its portfolio invested in microfinance. It intermediates capital from private and public investors to microfinance providers operating in emerging markets and/or to other MIVs.

For some of the Norwegian MF promoters, microfinance is an investment. Accordingly, for them expenditure figures may underestimate the true extent of the microfinance engagement. The fact that an organisation transfers money or provide TA to a MF programme or MFI does not necessarily mean that its engagement in MF has ceased. It may well mean that the MFI is a sustainable operation and the Norwegian organisation's engagement is visible in its balance sheet rather than as a financial transfer or cost of non-financial services in the profit and loss accounts.

In many cases this is a question of maturity and where an MFI is in its "life cycle". New entrants to the business will often need sustained capital support for several years, before it at some stage reaches a level where it attracts additional funding from the regular financial market, and cover its operational costs from income.

In the Norwegian microfinance market, organisations like the Strømme Foundation and The Norwegian Mission Alliance have built a portfolio of MIVs and MFIs that no longer require recurrent capital support. Many of the previous "projects" have by now built a substantial asset base that they "revolve" and manage themselves. Other organisations are in the investment phase, as NMI. Within a few years all the money of NMI will be invested, which will then likely result in a reduction of the total Norwegian expenditure for microfinance.

Accordingly, to capture the total value of the MF engagement, as with previous surveys, this survey would have needed to include portfolio data.

The term "project" can be given a wide definition as also presented in sections below. Some support an MF intervention as a component in a wider programme, some invest in venture funds/companies who in turn invest in MFIs and some provide direct support to a specialized MFI. Each of these different definitions counts as one project, even though some of them may indirectly be supporting many MFIs.

3 TRENDS IN NORWEGIAN SUPPORT FOR MICROFINANCE

Data from previous surveys give some information related to changes in who promotes MF in Norway. In the table below, they have been grouped into Non-governmental organisations (NGO), Venture funds/commercial investors and Government entities. The latter group includes the Ministry of Foreign Affairs (MFA), Norad and Norwegian Embassies that are counted as one entity since they all are directly funded from the same budget and the latter two are subordinated units under MFA. It also includes Norfund being a state owned quasi commercial entity funded from the state budget.

MFA/Norad serve as sources of Norwegian government funding for NGOs and Norfund together with MFA/Norad also for some are also sources of funding for venture funds/commercial investors, i.e. large amounts of their support are given to the other MF promoters, who in turn invest or support MF projects and MFIs.

The following presents data from the previous and current surveys. Table 2 shows the number of projects supported by the different types of institutions. Projects funded by more than one organisation/institution are counted as one even if reported separately by each of them. This is the case for Norfund and Norad/MFA who transfer a significant share of their funding to intermediaries in Norway who in turn finance MF activities located in Africa, Asia and Latin America.

Table 2 – Number of projects by type of organisation/institution

| Type | 1998 | 2002 | 2006 | 2009 | 2010 |
|---|------|------|------|------|------|
| Government | 15 | 15 | 7 | 9 | 9 |
| NGOs | 150 | 145 | 116 | 118 | 131 |
| Venture funds/commercial investors | - | | - | 9 | 18 |
| Grand Total | 165 | 160 | 123 | 136 | 158 |

As previously mentioned the trend reflects to a large extent the survey approaches by previous surveys in which the surveys from 2002 and 2006 only included organisations participating in the preceding survey. Accordingly, they do not fully capture the real trend in terms of number of organisations and projects from one year to another. While the numbers indicate a reduced number of organisations engaged in MF in 2002 and 2006 (table 1), the actual number of which would have been shown if a wider range of organisations had been invited to participate in the survey (ref. section 2.2).

The table illustrates the entry of new venture funds/commercial financial intermediaries with the Norwegian Micro Finance Initiative (NMI) as a major entity entering the MF market in 2009.

This observation is confirmed by table 3 showing the amount of money invested/supporting MF activities. If the same venture funds/commercial investors had been included in the previous surveys, the table would have

displayed larger amounts also for the 2002 and 2006 survey. Both Norfund and Kolibri Kapital also made substantial investments in MF during these years⁹.

The significant increase from 2009 to 2010 can be attributed first and foremost to the investments made by NMI with part of the funds from private Norwegian commercial entities, partially with funds from Norfund and some funds from the regular Norwegian aid budget.

Table 3 – Amount of funding for MF activities by type of organisations/institutions (in million Nok)¹⁰

| Type | 1998 | 2004 | 2005 | 2006 | 2008 | 2009 | 2010 |
|------------------------------------|-------|------|-------|-------|-------|-------|-------|
| Government | 29.0 | 16.3 | 95.9 | 65.0 | 189.7 | 40.0 | 104.5 |
| NGOs | 237.8 | 83.2 | 92.6 | 100.2 | 102.8 | 91.9 | 101.1 |
| Venture funds/commercial investors | NA | NA | NA | NA | 26.0 | 62.0 | 271.0 |
| Grand Total | 266.8 | 99.5 | 188.5 | 165.1 | 318.5 | 193.9 | 476.6 |

Even if the figures in the above tables stem from surveys using different approaches in data collection, they clearly show that the type of organisations promoting MF has become more diverse over time with an increasing amount of funds generated from private sources as opposed to previous years with entirely government funding.

Another observation is the change in how funding is provided to promote MF activities from the state budget. While MFA and Norad were supporting directly several MF programmes and MFIs, a major share of the funding for MF activities has changed towards indirect funding. Of MFA/Norad's funding for MF projects in 1998, 67% was provided as direct funding for 15 MF projects in Asia, Africa and Latin America (like Grameen Bank in Bangladesh and PRIDE in Tanzania and Uganda¹¹) with the balance (33%) disbursed to Norwegian NGOs and their MF activities.

In 2010 only two MFIs (Women's World Banking and BRAC Southern Sudan¹²) received direct support. In addition, MFA/Norad continued to support CGAP. This accounts for 59% of the aid budget to MF while the remaining balance of 41% was allocated to Norwegian NGOs and NMI. The Norwegian Official Development assistance to MF projects from the aid budget has declined from 0.82% to 0.12%.

⁹ Norfund started funding MF projects already in 2001 and, another venture fund Kolibri Kapital in 2000; however none of them were included in the previous surveys.

¹⁰ Source: Data from the survey in 2000, 2002, 2006 and the current survey. Figures are net of transfers from Norfund to NMI and MFA/Norad to Norwegian NGOs. In previous surveys private investors and Norfund were not included. Both Norfund and Kolibri Kapital have been investing in MIFs the last 8-10 years.

¹¹ Promotion of Rural Initiatives and Development Enterprise (PRIDE), initially established as one of the first African MFIs in Kenya.

¹² Bangladesh Rehabilitation Assistance Committee (BRAC) is a multipurpose entity which has several subordinated units and operations, among others BRAC Bank through which the BRAC Africa Loan Fund has been established. The BRAC Africa Loan Fund provides loans in local currency to microfinance institutions in Africa such as BRAC Southern Sudan.

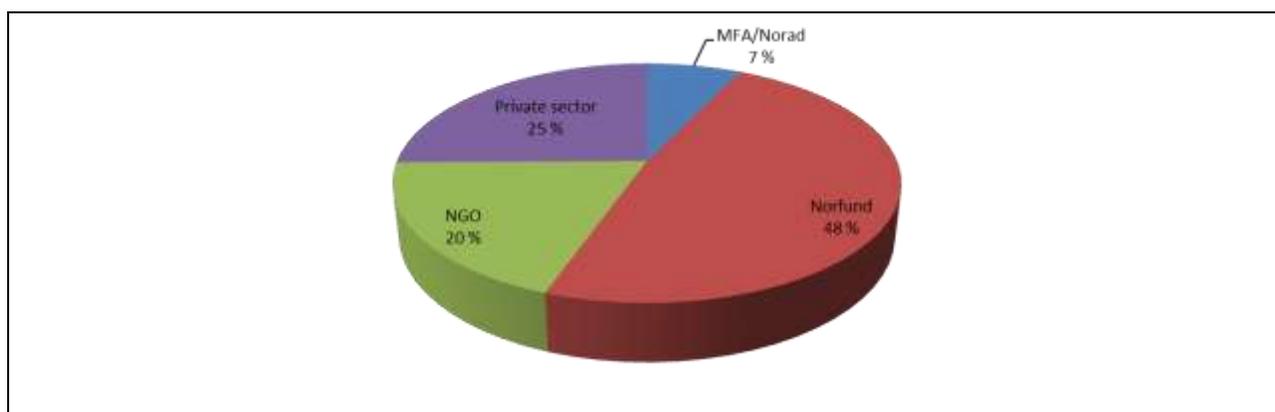
Comparing the survey data from 1998 with the current data for 2008 – 2010, it clearly shows an increasing amount of resources for investment stemming from venture funds/commercial investors and a shift in Norwegian government funding from NGOs to Norfund and NMI.

4 SURVEY RESULTS

4.1 WHO ARE THE MAIN PROMOTERS OF MF ACTIVITIES?

NGOs, venture funds and private investors receive funding from the state budget and Norfund for their MF activities (investments, technical assistance and management/administrative expenses). In addition, NGOs raise their own income and receive contributions from other sources. As presented in the previous section, the main change in who promotes MF in Norway is the entry of private sector using a combination of private and public funds for investment in MF.

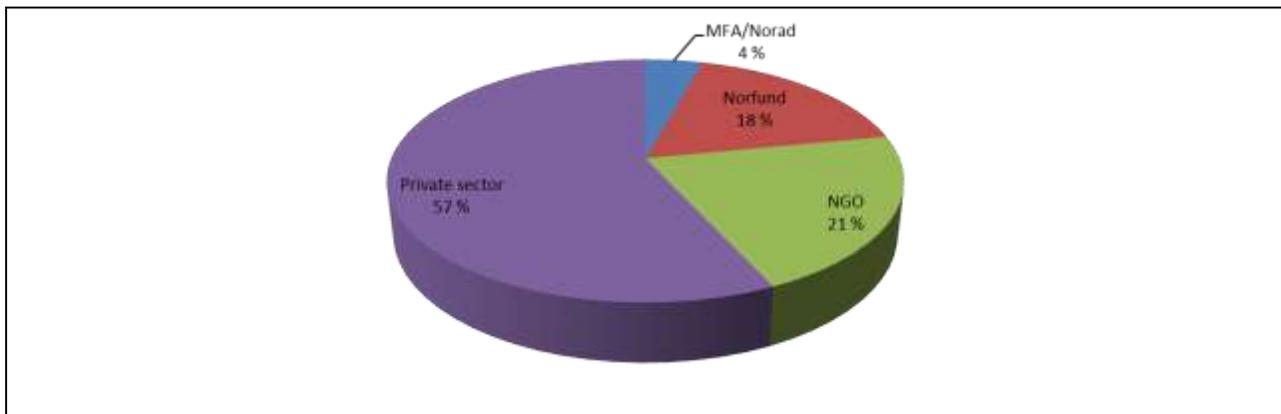
Figure 1 – Sources of funds for MF activities 2010¹³



While the main source of funding for MF activities according to previous surveys has been the state budget, the entry of semi-private venture funds like NMI and a significant scaling up by Norfund of its MF activities have altered this picture significantly. As presented below, the main investor using public and private funds for MF activities today is the Norwegian private sector in addition to Norfund which in total account for approximately 75% of total funding for MF activities.

¹³ Source: Survey data and annual reports/financial statements. NGO and private sector represent net of contributions from MFA/Norad and Norfund. NGO funds may include funding from the aid budget which is classified under other sectors by MFA/Norad ref. discussion on classifications used in the aid budget for “integrated programmes” in previous sections of the report.

Figure 2 – Use of funds for MF activities 2010¹⁴



When comparing sources of funding (figure 1) to uses of funding (figure 2) the main difference is Norfund investments and support to NMI, and MFA/Norad transfer of funds to NMI, Norfund and NGOs in support of their MF activities.

An assessment of who are the main promoters of MF activities, may be made from both demand and supply perspectives;

- by measuring financial contributions/investments in loan/equity/guarantees to fund portfolio growth and outreach for an MFI or MF programme,
- by resources allocated to MFI/MF programmes as technical assistance/counselling services for improving operations,
- by resources allocated to supporting clients in their relationship with MFIs to make informed decisions,
- by resources allocated to the general legal and regulatory framework for MF in different countries, and
- by promoting information, education and communication in general to promote good practices in promotion and development of MF.

All the above may improve performance and outreach of MF services, and their potential impact depends on the country context and environment for MF operations in a particular area. While investments in MFIs may directly promote outreach, smaller allocations in the form of technical assistance/counselling services to improve MFI operations or the general legal and regulatory framework may equally have a significant positive impact on MF developments in a country.

All types of interventions mentioned above feature in the portfolio of MF activities in this survey. Some provide direct equity/debt investments in MFs; some provide equity/debt investments via regional or global funds targeting MFI investments. Some promote investments in new and immature markets for MFIs while others focus on investments in highly competitive markets where MFIs have been operating for decades. Some focus on promoting client needs and education through training and counselling while some projects are directed at supporting

¹⁴ Source: Survey data and annual reports/financial statements.

development of a legal and regulatory framework for MFIs or information, education and communication to promote good practices.

Table 4 – Use of funds for MF activities – average 2009/2010¹⁵

| Organisation/institution | Average in million NoK | Average number of projects | % of total |
|--------------------------------|------------------------|----------------------------|------------|
| Norfund | 144.5 | 6 | 43 |
| NMI | 60.7 | 7 | 18 |
| Strømme Foundation | 50.6 | 10 | 15 |
| CARE Norway | 23.0 | 88 | 7 |
| Kolibri Kapital | 22.0 | 8 | 7 |
| The Norwegian Mission Alliance | 11.6 | 3 | 3 |
| Norad | 11.5 | 3 | 3 |
| Others | 11.4 | 30 | 3 |
| Grand total | 335.3 | 153 | 100 |

Some of the organisations/institutions specialize in MF activities, while it for others is a small share of their total programme. When assessing the main MF organisations in financial terms Norfund, NMI, Kolibri Kapital and three NGOs feature as the main promoters. In table 4 the average amounts for 2009 and 2010 spent on MF activities (both investments and recurrent costs) are displayed. Average amounts have been used to level out fluctuations in investments for some for the individual organisations/institutions.

While the above confirms the dominating position in financial terms by two institutions; Norfund and NMI, it also shows that among the NGOs there are three who account for the major share of the NGO portfolio, namely Strømme Foundation, CARE Norway and The Norwegian Mission Alliance who in total account for 88% of total NGO contributions to MF. The table also suggests that the portfolio of projects is highly diversified. While Norfund and NMI concentrate large investments on fewer projects, NGOs have significantly smaller allocations per project.

If no new funds are raised when NMI has invested all its 600 million NoK by 2012, the annual contributions to MF are likely to fall substantially. Furthermore, organisations like Strømme Foundation and The Norwegian Mission Alliance are in the process of developing mature overseas MFIs and MIVs with sustainable operations, with less need for additional support from Norway to sustain their operations. However, in terms of the latter new funding arrangements to mobilise participation from private investors and the general public are under formation which may attract additional funding for MF.

¹⁵ Source: Survey data and annual reports/financial statements.

4.2 SPECIALIZED PROGRAMME OR COMPONENT IN A WIDER PROGRAMME?

Table 5 shows a significant variation in allocation per project. This diversity is related to the type of projects these different organisations promote.

Table 5 – Number of MF projects by type of organisation and average amount per project 2010 (in million NoK)¹⁶

| Type | Number of projects 2010 | Per project |
|----------------|-------------------------|-------------|
| Government | 9 | 11.6 |
| NGO | 131 | 0.8 |
| Private sector | 18 | 15.1 |
| Grand Total | 158 | 3.0 |

While Norfund and NMI typically invest in wholesale financial intermediaries and spread their risks by investing in a diverse portfolio of MFIs, NGOs typically spend money as direct support and/or investment in a MF programme or MFI. Some of them have developed new MFIs with continued long term support to the same MFI, in some cases MFIs are established by seed money from the same NGOs.

Another characteristic of who promotes MF is the degree of specialisation and focus on MF as a specialized service. While previous surveys indicated that many of the NGOs promoted MF activities as a component in a wider programme, the current survey suggests that most of them support MFIs directly, or a programme where promotion of MF is the main objective. Only 18% of the portfolio consists of MF projects being a component in a wider programme with multiple or a different main objective. This stands in contrast to previous surveys where it was much more common that the MF activity was only a component in a wider programme.

Table 6 – Percent distribution by type of project 2010¹⁷

| | MFI | MF programme | MF component in a wider programme | Total |
|----------------|-----|--------------|-----------------------------------|-------|
| Government | 14 | 86 | 0 | 100 |
| NGO | 41 | 18 | 41 | 100 |
| Private sector | 100 | 0 | 0 | 100 |
| All projects | 44 | 38 | 18 | 100 |

The change in the composition of the MF portfolio mentioned above can primarily be attributed to the entry of new private sector funding which is directed entirely at MF investments, and the concentration among a fewer larger NGOs that specializes in MF.

4.3 SHARE OF MF TO TOTAL OPERATIONS

The degree of “specialisation” can also be measured by the share of MF activities to their total programme expenditures. While table 7 suggests that a majority of organisations only has MF as a minor share of their total

¹⁶ Source: Survey data and annual reports/financial statements.

¹⁷ Source: Survey data and annual reports/financial statements.

programme¹⁸, it also shows that some organisations have MF as a significant share of their total activity, most prominently private sector entities like Kolibri Kapital and NMI, who focus entirely on MF as their “business area”.

Table 7 – Number of organisations by share of MF activities to total programme expenditure 2010¹⁹

| Percent MFI | Government | NGO | Private sector | Grand Total |
|-------------|------------|-----|----------------|-------------|
| >10% | 1 | 9 | | 10 |
| 10-25% | | 1 | | 1 |
| 25-50% | 1 | 3 | | 4 |
| 50-75% | | 1 | | 1 |
| 100% | | 2 | 2 | 4 |
| Grand Total | 2 | 16 | 2 | 20 |

Strømme Foundation has MF as a significant part of their portfolio and so do CARE Norway and the Norwegian Mission Alliance. Some smaller NGOs are also devoting their entire funding for MF but they only have 1-2 smaller projects in their total portfolio.

4.4 STAFF ALLOCATIONS FOR MF ACTIVITIES

Degree of specialisation can also be assessed by looking at number of staff in the organisation devoted to MF management, appraisal, monitoring and/or evaluation of MF projects as compared to total staff. In terms of manpower allocation, the survey results indicate that 2% of the total staff of all organisations participating in the survey is working on MF with an average of 1.5 persons per project per year.

Norfund and Norad (Government) execute large programmes where MF projects are only one type of projects in their portfolio. While for Norfund MF projects have on average constituted 23% of their total portfolio during the last years, they have only been 0.12 % of the MFA/Norad aid budget. Both institutions serve as providers of finance rather than directly engaging in implementation of projects.

Table 8 – Number of persons of the organisations relative to total staff assigned to the MF projects 2010²⁰

| Type | Total staff | Total MFI staff | MF staff % of total staff | Project per MF staff |
|----------------|-------------|-----------------|---------------------------|----------------------|
| Government | 275 | 6 | 2 | 1.50 |
| NGO | 1,037 | 74 | 7 | 1.65 |
| Private sector | 18 | 18 | 100 | 1.00 |
| Total | 1,330 | 98 | 7 | 1.52 |

For NGOs, 7% of their total staff is allocated to MF projects. They have on average a higher share of their portfolio allocated to MF but there are significant variations between them. The variation in staff allocation among NGOs is

¹⁸ This is obviously the case for MFA/Norad with a budget of 28 billion NoK spending 34 million on MF projects equivalent to 0.12% of the aid budget.

¹⁹ Source: Survey data and annual reports/financial statements. For one NGO data was not available.

²⁰ Source: Survey data and annual reports/financial statements. For one NGO data was not available.

correlated with the share of their total programme funding allocated to MF. While their average staff effort per project per year is almost the same as for MFA/Norad/Norfund (1.65 projects per MF staff), in most cases the actual engagement in each project is far more significant, among others by providing technical assistance and counselling services, and sometimes executing specific activities within the programme.

For the two private sector financial intermediaries, NMI and Kolibri Kapital, the staff allocation per project is even more generous than the others but then the entire organisation focuses on MF only, including regular management and administrative services of the organisation. The table may serve to reflect the substantial differences in approach to supporting MF by the different organisations.

4.5 WHAT IS THE OBJECTIVE FOR FUNDING MF?

The survey included a question on what are the main objectives for the organisation/institution in promoting MF. This was presented by a series of questions of which the level of importance had to be ranked on a scale from 1-10 with 1 as the least important and 10 as of highest importance.

Table 9 – Total score per objective

| Objective | Score |
|--|-------|
| To give the target group opportunities to continue and/or expand own business | 148 |
| To give the target group opportunities to invest in own business | 143 |
| To give the target group opportunities to organize/increase savings | 130 |
| To promote empowerment of women | 129 |
| To promote organisation and development for low income groups | 127 |
| To promote income generating activities in general | 124 |
| To promote income generating activities/business for a specific target group (ref. specific target groups mentioned below) | 120 |
| To give the target group access to cash to level out cash-flow requirements (like overdraft facilities) | 66 |
| To assist in establishing a new aid instrument for your partner organisation to achieve its objective | 66 |
| Investment to generate income for your institution/organisation | 21 |

The objectives presented in the questionnaires are the most common objectives featuring in most MF projects and in the vision/mission statements of MFIs. MF is primarily promoted as an “Investment” with a “social objective” rather than considering MF as profitable form of regular financial service (commercial bank)... “Investment to generate income for your institution/organisation” has been rated of least relevance to all organisations which indicate that none of the participants in the survey promote MF mainly as a profitable form of investment similar to investments in other financial services i.e. MF has yet to be considered as a regular financial service.

“To give the target group access to cash to level out cash-flow requirements (like overdraft facilities)” was rated of low relevance to most organisations. This low score stands in contrast to empirical evidence from client surveys, which suggest that this is the most important feature of MF for many clients. Several surveys indicate that financial services to protect savings and/or give access to cash due to unforeseen expenses is one of the most important aspect of gaining access to MF for low income households. Poor people live in an environment of extreme uncertainty and unpredictability as concerns their income and expenditures. MF contributes to reducing their vulnerability.

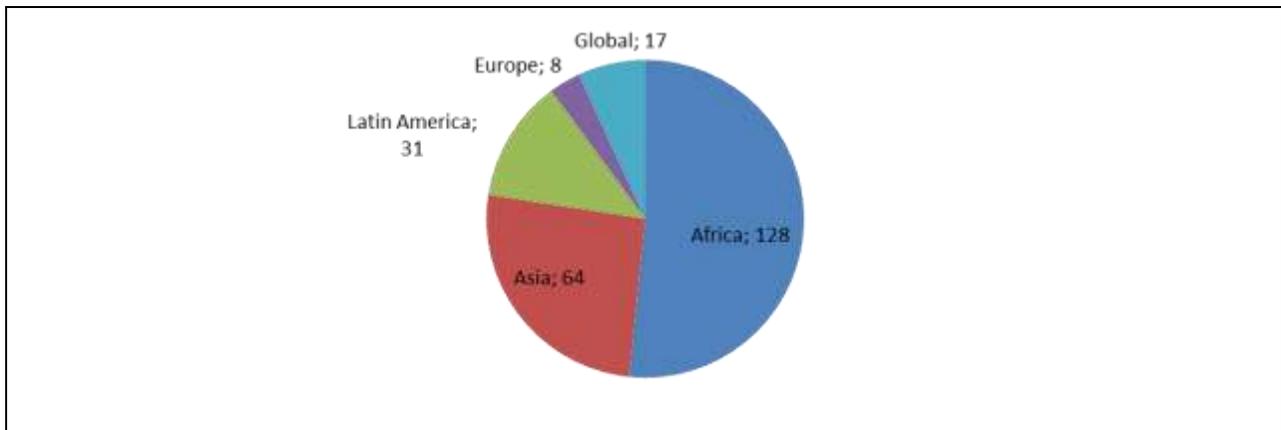
As the study "Portfolios of the Poor"²¹ points out, while it is bad enough to live on an average of USD 2 a day, the fact that this USD 2 in real life comes in lumps and heaps - and not as a steady income - compounds the difficulties of being poor. One may earn USD 20 one day - and then go without anything the next 10 days. Having a place to save, and to borrow money, to even out the volatile streams of income is the main factor behind demand for microfinance services. Despite this, most of the participants in the survey give a higher score to more targeted objectives like promoting enterprise/business, savings or specific target groups.

4.6 WHAT IS THE GEOGRAPHICAL DISTRIBUTION OF THE PORTFOLIO?

The majority of microfinance projects supported are in Africa. Some of these are quite small however, and a geographic distribution based on funds show that Asia and to some degree Latin America remain the main destinations as measured by amount of funds invested/spent, as the scale of microfinance in general is larger there than in Africa. The largest institutions measured by number of clients are mostly found in Asia and Latin America. Thus, institutions in the two regions require larger amounts and have better capacity to handle larger investments in MF.

Recent developments indicate a higher growth of MF in Africa. Countries like Uganda, Kenya and South Africa have for long developed into mature markets of MF and several other countries are maturing into investment locations for MF²². Further, the increased focus on Rotating Savings and Credit Associations (ROSCAs) and savings groups has benefited Africa, as this type of microfinance is the only realistic alternative in many rural locations on the continent.

Figure 3 – Number of projects by region 2008 – 2010 (annual average)

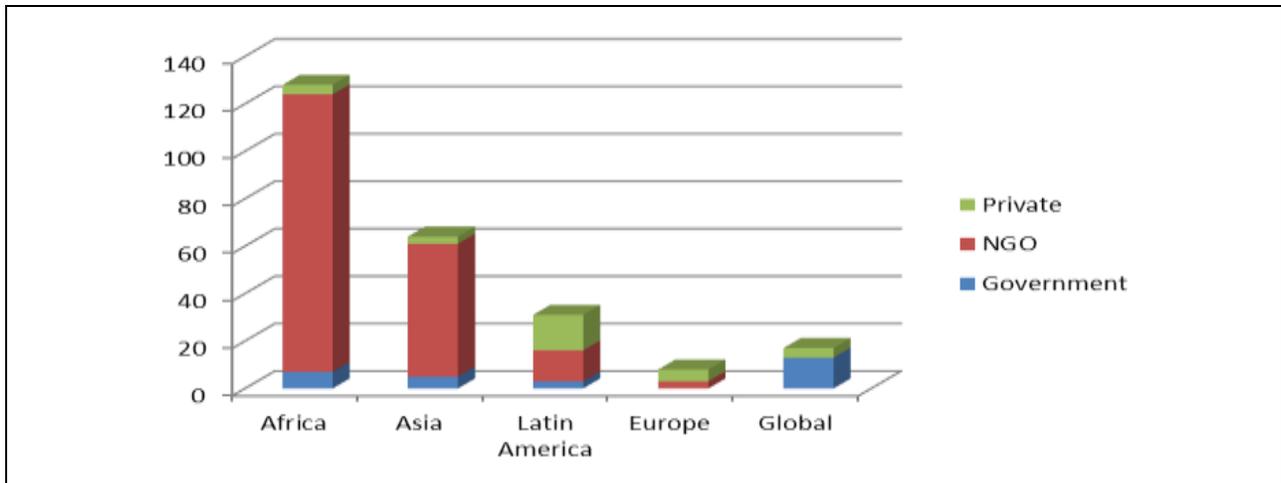


²¹ Ref. among others "Portfolios of the Poor"; Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven, 2009.

²² "Financial Access 2010", September 16, 2010, CGAP. The survey shows that countries such as Niger, Madagascar, Nigeria, Ethiopia, The Ivory Coast, Senegal, Burkina Faso, Togo, Mali, Gambia and Benin as fast growing markets for MF in Africa.

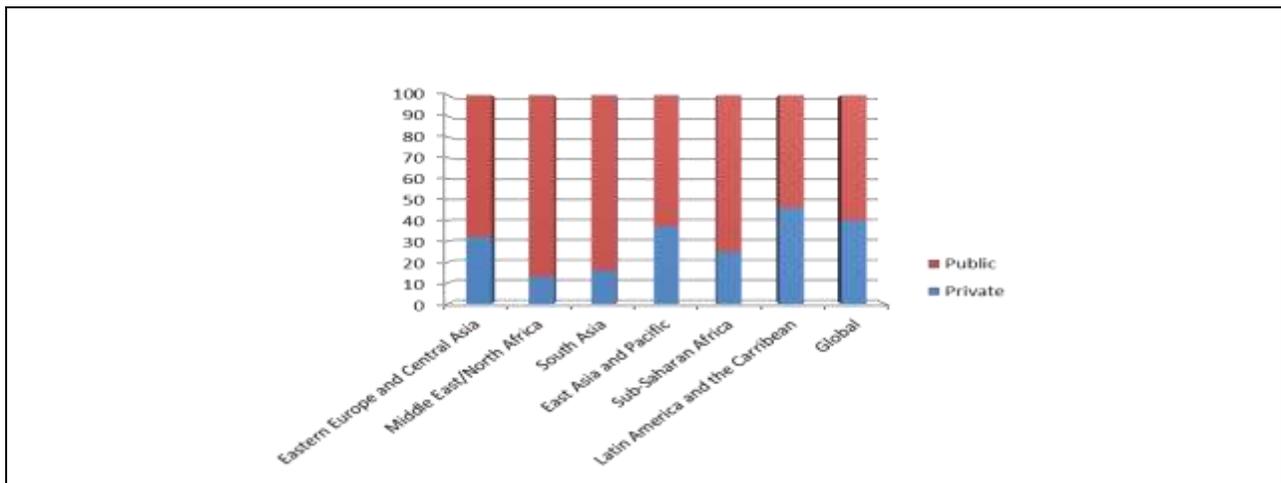
When looking at the three main groups of Norwegian microfinance promoters – Government, NGOs and Private sector – support projects in which region, the following picture emerges.

Figure 4 – Geographic distribution per type of promoter, 2008 – 2010 (annual average by number of projects)



Only Government and financial promoters support global programmes/projects, which are global funds and international networks like Women's World Banking and organisations like CGAP. Most NGOs direct their contributions to more geographically targeted support and closer contact with end users than what global programme tend to offer. Two other noteworthy aspects are the concentration of NGOs in Africa, and the large share of private sector investors in Latin America. The last is a reflection of the maturity of the markets with significant number of commercial wholesale financial intermediaries investing in MF.

Figure 5 - Commitments to Microfinance 2009, according to CGAP.



These trends are in line with observations at the global level. Global commitments to microfinance increased by 17% in 2009, according to CGAP. However, Africa received an increasing share of funds, albeit from a lower level. A key difference compared to the Norwegian portfolio is apparently that Norway has relatively less commitments to

MF in Europe and Central Asia. The figure also shows that public funding remains a key source in all regions, but those private flows (in the CGAP definition including NGOs) are markedly higher in Latin America.

Unlike previous surveys, this survey has not collected detailed portfolio information about the individual MF operations. Thus, we cannot say anything about the actual financial flows to regions and countries, or of the commitment to the same. Collecting portfolio information would have enhanced the depth of understanding of funding and support trends better, and we would have been able to make time series comparisons with earlier studies. However, this would have required a substantial amount of work by the organisations, and given the time frame for our survey, portfolio data were not asked for.

4.7 USE OF GUIDELINES/ TOOLS FOR MF PORTFOLIO/PROGRAMME MANAGEMENT

MF is a thematic area where a number of guidelines and best practice documents have been developed over the last decade. They present different approaches and methodologies also reflecting the diversity of conventional financial intermediation in general. The guidelines developed by CGAP are still by many considered “best practice” for traditional microfinance and these provide a structure and an approach to analyse issues that most promoters of microfinance use.

Observations from earlier studies suggest that to be an effective microfinance promoter the knowledge and use of such guidelines serve as important tools for management and monitoring. The survey thus asked whether organisations applied guidelines in their operation, and more specifically, if they used CGAP's.

Table 10 - Use of Guidelines – number of respondents

| | MF guidelines | CGAP guidelines |
|-----------|---------------|-----------------|
| Yes | 11 | 5 |
| Partly | | 5 |
| No | 7 | 8 |
| No answer | 3 | 3 |
| Total | 21 | 21 |

The survey result shows that 11 out of 21 apply specific guidelines for the management and monitoring of their microfinance portfolio. This is surprisingly low considering the emphasis that has been placed on using such guidelines from previous surveys and the efforts placed on training and sensitisation on “best practice approaches” to microfinance. Furthermore, one of the key requests from Norwegian promoters in the survey 10 years ago was precisely the development of common guidelines, especially based on the recognition that MF are specialized financial services as opposed to conventional aid and social service delivery. Given the large library of guidelines for all sorts of microfinance now available through the Internet, it is possible for anyone to download and adapt any type of guidelines for their operation. As guidelines are normally the synthesis of substantial experience, it should for most promoters be of interest to consult these.

4.8 PARTICIPATION IN ASSOCIATIONS/ORGANISATIONS PROMOTING MF

Another source for sharing of knowledge and practical experience are specialized microfinance organisations and associations. In Norway, the only such network of some size is NDN's Microfinance group. Out of the 21 respondents, 14 say they are members of the NDN Microfinance group. However, some non-members report that

they participate in the meetings/venues on MF organised by NDN because it gives them a venue for meeting other organisations in Norway promoting MF. For many the NDN seminars/meetings also provide information of direct relevance to the organisation/institution. The table below summarises the responses to the question of what the outcome for the organisation has been by participating in an association.

Table 11 - What has been the outcome of participating in associations promoting MF?

| Outcome of participation | Number of respondents | Percent of respondents |
|--|-----------------------|------------------------|
| Has expanded our understanding of microfinance activities | 10 | 48 |
| As a forum for general information exchange | 10 | 48 |
| Has led to more innovation in our engagement in microfinance activities | 9 | 43 |
| Has improved our monitoring of microfinance activities | 9 | 43 |
| Has assisted us in establishing partnerships with organisations implementing microfinance activities | 7 | 33 |
| Has made our organisation engage in microfinance activities | 4 | 19 |
| Has assisted in training and/or sensitisation of staff of our organisation | 4 | 19 |

About half of all the participants found that participation had expanded understanding, and that it had been useful as a forum for information exchange. This is perhaps what could be expected. Further, it is encouraging that as many as nine say that participation has led to more innovation, and to improvements in monitoring of their own portfolio of projects. Fewer have benefited from training of staff and this is reflected by comments from several that offer of professional training in management and monitoring of financial services that it would be an additional benefit.

5 COMMENTS/SUGGESTIONS MADE BY SURVEY PARTICIPANTS

5.1 EXPERIENCE WITH MICROFINANCE

The survey included several open ended questions where participants were invited to offer specific comments and suggestions to various issues related to MF. It generated a substantial number of comments. A general observation is that the comments and issues presented compared to the similar comments presented in previous surveys reflect a higher degree of professional knowledge and experience with MF. They are more rooted in practical experience and more evidence based as to the benefits of MF.

The comments from the respondents related to lessons learned suggest that MF is recognised as promoting a broad range of financial services and for different purposes beyond what was traditionally the main focus; providing credit to promote income generation of the poor. It also shows recognition for the fact that MF requires specific forms of expertise and that the services are delivered by an institution specialized in financial intermediation. Effective microfinance requires specific expertise with adequate tools for management and monitoring. Furthermore, client surveys are recognised as an instrument not merely to assess impact according to a “social objective” but rather as means of designing products that better meet the needs of the clients and hence give an opportunity to expand in a competitive market.

Box 1 – Selected comments on experiences with Microfinance

"Microfinance is an effective way to enhance the living conditions for economically poor people. It is not a “miracle cure” that can end poverty alone. Microfinance is one tool among others, and it works best when combined with other programmes, such as education, health, promotion of rights, advocacy, etc."

"Good microfinance requires an organisation with a strong vision of responding to its client’s needs. Microfinance is not about selling products, but rather about making good analysis of the client’s situation in order to provide a product that better their situation."

"The demand for a broader scope of financial services is significant, and to be able to respond to this demand, the organisations have to undergo regulations and take greater risks."

"The ability of the institution to report financial data is an important indication of its ability to run the business and assist its customers."

"We have learnt a lesson that if clients are not followed up closely, there's going to be losses and a poor pay-back ratio. Also; if the project is not closely followed up by expertise the first years, chances are great that the project is going to fail."

The comments suggest that MF is gradually being perceived more as a market oriented approach that enables financial services to also reach low income groups rather than merely as one among many “aid instruments” for poverty alleviation.

5.2 MAIN CHALLENGES

The main challenges commented upon relate to “one size fits all” approaches rather than fully understanding that also “Banking for the poor” requires a range of products and services similar to those of conventional financial markets. Challenges are also found with client level of understanding of the services provided when introducing MF in new “markets” i.e. that despite being promoted by public funds they come with “a price” which cannot compete with traditional aid and other “free social contributions”. To successfully introduce MF in new markets however,

they are often constrained since there is limited availability of public funds to open up new markets. Furthermore, as MF has matured with more competitiveness in many markets the requirement for an effective regulatory environment and credit bureaus to monitor clients is becoming an important issue for which public funding should be available.

MF is also constrained by the public perception that it should be an “aid instrument” rather than an approach to providing profitable financial services that benefit low income groups because they are deprived of the services from traditional commercial banking. Promoting the understanding among the public as well as donor agencies that MF represent “deepening” of financial services in developing countries and is part of private sector development rather than as a government driven social service, remains a challenge.

5.3 MAIN DESIRED CHANGES AND PLANS TO IMPROVE MICROFINANCE

Many of the comments under this heading reflect previous comments made related to MF as an approach to promoting financial services to low income groups. Several comments relate to plan of expanding products and services like introducing micro assurance, products directed at specific clients like young entrepreneurs and agriculture (requiring longer term credit/guarantees). Furthermore, some will focus more on establishing access to reliable MFI ratings and assessment tools as well as reliable credit rating systems for MFIs and clients. Some are also assisting their NGO based MFIs towards regulated microfinance banks.

All in all it suggests that the agenda for many of the MF promoters is far more “advanced” compared to previous surveys. It suggests that the agenda has shifted from how to provide MF in general to how to promote MF as regulated financial services through microfinance “banking” services.

5.4 OPINION ON FUNDING AND OTHER ASSISTANCE RELATED TO MICROFINANCE

In general Norad’s role in facilitating information exchange and participation in the community of MF promoters are well recognised and equally so also NDN’s role as a creator of venues for information exchange. However, several suggest, among others, that the following deserve more attention:

1. MFA/Norad appears to focus less on MF and with less resources available (both human and funding) in promoting MF than what was the case 5-10 years ago. The other data from this survey seem to confirm this observation. The main government “driver” for MF is today Norfund, not MFA/Norad and the MFA/Norad MF has diminished over the years. The only major effort in recent years was the investment in NMI as a public private partnership established in the aftermath of the Nobel Peace Prize awarded to Grameen Bank but that focused on only groups of commercial investors, not the wider MF community in Norway.
2. There is a wealth of knowledge and experience on MF and MF markets around the world among Norwegian stakeholders which could be used for training and sensitisation in a more systematic manner. MFA/Norad and NDN could play an even more proactive role to create venues for training and information exchange with inputs from Norwegian promoters of MF.

The diversity among Norwegian MF promoters has likely reached a level where there is no longer a common denominator that encourages coordination and cooperation as in the past. The only common denominator between giving TA to rural savings groups and the equity investment in a regional MIV worth USD 100 million is that both promote access to financial services for the same target group. However, the approach and the

challenges the two faces are very different. While one may find it interesting to learn about the other, sharing experiences has less common benefit than it had some 10 years ago. For organisations like NDN, to stay relevant, this may imply more segmentation of events tailored to specific issues. Further, a consequence of some of the largest promoters becoming more professional is that they need less external support, and they may then perhaps lose interest in participating in events proving “general knowledge” on MF.

6 THE SURVEY OF DANISH MICROFINANCE

6.1 DEVELOPMENT OF MF IN DENMARK AND NORWAY

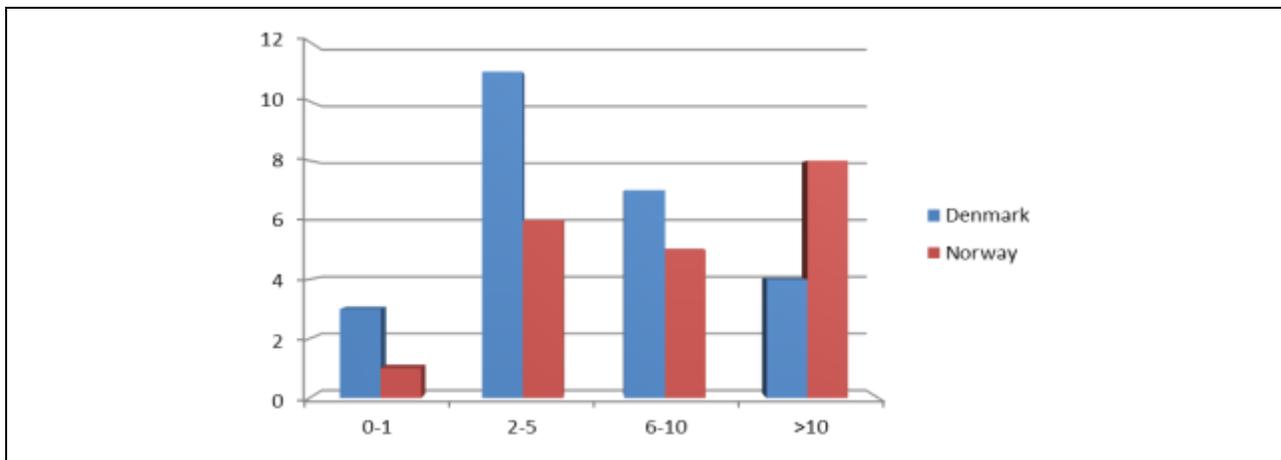
In the following we compare some key findings from the Danish survey of Microfinance with our survey.

There are several similarities between the Danish and the Norwegian microfinance sectors – but there are also key differences. NGOs are important actors in Denmark as in Norway, but they appear smaller and the majority work with savings and credit groups. It is very few like Care, Strømme Foundation or The Norwegian Mission Alliance in terms of size, capital base and depth of involvement. The Danish Industrialization Fund for Developing Countries (IFU) has recently ventured into MF, but there are otherwise comparatively less private and quasi-commercial actors in Denmark than in Norway. There is no major investment fund like the Norwegian Microfinance Initiative (NMI) in Denmark and the Danish sector is still dominated by NGOs.

As stated by the report from the Danish survey, Danish organisations are becoming more focused and are developing specialized skills within microfinance. Several players have quit microfinance, resulting in what is assumed to be a more committed number of more specialized promoters. The budget, the resource base, and the knowledge of microfinance all appear to have grown, and the survey concludes that the sector today seems better equipped to undertake microfinance activities than in 2007 (the last Danish survey).

In contrast, the Norwegian portfolio of MF promoters went through such a change already at the start of the millennium by a higher concentration of organisations/institutions specializing in MF (like Strømme Foundation, the Norwegian Mission Alliance and Care) and with a gradual entry also of private/institutional investors (like Kolibri Kapital and Norfund). A major recent shift has been the entry of the NMI attracting private sector investors. It is the latter that has also contributed to a major increase in the resource base while the total number of Norwegian organisations and number of projects have remained much the same. In contrast to Denmark, the Norwegian aid budget in support of MF has declined.

Figure 6 – Distribution of respondents in the Danish and Norwegian survey by years of experience with MF



This is reflected by for instance the difference in years of experience. As illustrated by figure 6 a significantly higher number of Norwegian organisations/institutions have more than 10 year of experience with MF; and five of them

started more than 20 years ago, this in contrast to the Danish promoters of MF of which the majority has less than five years of experience.

Norway has for the last 10 years had a core group of very committed microfinance promoters that have been able to raise capital and professionalize operations to the degree that they are now well known internationally as microfinance investors. Denmark appears to as yet lack this type of major promoters that act as focal points and drivers for microfinance experience and knowledge. This may change soon however, as a new 400 million DKK Danish Microfinance Partners Fund is planned to start operating soon. The next round of surveys may then show that the apparent difference in approach and type of promoters are closing.

The Danish survey had a slightly wider coverage of the organisations/institutions engaged in MF than our survey. On the other hand, the 29 organisations reporting in the Danish survey are in total engaged in 119 microfinance projects as compared to the 158 projects reported on by the 21 organisations/institutions participating in our survey. Of the 29 Danish organisations, 23 were NGOs.

The Danish survey collected data on the participant's budget for MF while our survey collected data on actual expenditures/transfers. The total budget allocated for microfinance by Danish organisations in 2010 amounted to 85 million DKK, excluding the 400 million DKK committed in the Danish Microfinance Partners fund. In contrast the Norwegian expenditure for MF was 477 million NoK in 2010 of which Norfund, NMI and Kolibri Kapital alone invested more than 350 million NoK in various MFIs and venture funds.

The majority of Danish NGOs primarily work with savings and credit groups. In this work, capacity building of groups is the prime focus, where the local partner of the Danish NGO tends to be specialized in setting-up groups rather than in the provision of financial services. Thus, in the survey, none of the NGOs involved in savings and credit groups regard their partners as specialized in microfinance. As much as 18 out of 25 respondents in the Danish survey say they work with non-specialized local microfinance institutions. In Norway, it is a much higher proportion of specialized institutions involved as local partners.

6.2 THE DANISH AND NORWEGIAN MF PROMOTERS

The distribution by type of organisations/institutions is however similar. In both countries the organisations engaged with microfinance are very diverse and range from small volunteer NGOs to large institutional investors. As in Norway, Danish NGOs support the majority of projects. 107 of these are managed by Danish NGO's while 12 are supported by the private companies or public funds. In Norway 131 of the 158 projects are supported by Norwegian NGOs while 27 are supported by private venture funds, Norfund and directly from the Norwegian aid budget.

The 29 Danish organisations working with microfinance span a broad geographical area and have activities in 42 countries in Asia, Latin America, Europe and Africa with focus on Africa where 72% of the organisations have activities. Of the 158 projects in Norway, 82% are located in Africa. Among the global funds supported, additional interventions/investments are also in Africa.

Today, a total of 123 people are working with microfinance in Danish organisations. Of these 61 are employed and 62 are volunteers; 19 of these are stationed out of the country. When comparing with the findings in the 2007 survey it can be seen that the number of employees has almost doubled, whereas the number of volunteers has decreased slightly. In 2007, 106 were working with microfinance in Danish organisations. Of these only 32 were

employed and 74 were volunteers. The average staff allocation to MF by the organisations is the same in Norway and Denmark.

The knowledge and use of CGAPs “Good Practice Guidelines for Funders of Microfinance” among Danish MF promoters has increased significantly since the 2007-survey was conducted. 19 organisations (66 %) responded that they are familiar with CGAPs guidelines compared to only 9 (31%) in 2007.

Most of the organisations familiar with the guidelines integrate them fully or partly in their work, and only two of the organisations familiar with the guidelines reply that they do not use them. However, 16 organisations are also following other guidelines, either promoted by experts within a particular method or developed by the organisation itself and based on their experience with microfinance.

Some organisations have commented that CGAPs guidelines are only to a limited degree relevant to their work, as CGAP is focused on commercialisation, formalisation, and central bank registration, which is not relevant for e.g. savings and credit groups that are focused at the community level. This is similar to responses from the Norwegian sector, where a majority use guidelines.

ANNEX I – QUESTIONNAIRE

The Norwegian Agency for Development Cooperation (Norad) has commissioned Nordic Consulting Group (NCG) to carry out a survey of microfinance activities supported by Norwegian institutions/organisations.

The survey covers the years 2008 - 2010. The survey consists of 30 questions.

Similar surveys were carried out in 2000 and in 2005.

To enable analysis of trends many of the questions in this current survey are the same as in the two previous surveys. In addition, some questions are added from a similar survey recently completed by the Danish Forum for Microfinance. This to enable comparison of the portfolios of microfinance activities undertaken by Norwegian and Danish institutions/organisations.

The questionnaire consists of four sections;

- A. Background information related to your organisation.
- B. Data on your micro finance activities during 2008 - 2010
- C. Information on your participation in microfinance organisations/associations
- D. General comments you may have on past experiences and future plans as well as other comments you may have.

We kindly ask you to complete the questionnaire by 13 December 2010. If your organisation was not engaged in any microfinance activities during 2008 - 2010 you need only to complete the questions under section A. Please be advised that you only need to complete one questionnaire per institution/organisation. Should more than one person in your institution/organisation have received the invitation, we ask you kindly to select one among yourselves as the respondent to finalize the full questionnaire.

The result of the survey will be presented in a report for submission to Norad. Norad intends to invite all the participants in the survey for a dissemination workshop to present the results. All your answers will be treated in confidence and will not be disclosed to others. The report and results will not enable identification of any of the survey answers to a particular organisation or person(s).

For any questions you may have related to the survey please contact Jens Claussen (jens.claussen@nccg.no) or Erlend Sigvaldsen (erlend.sigvaldsen@nccg.no).

A. Background information

1. Name of organisation:
2. Name of primary contact person:
3. Email-address of contact person:
4. Mobile number of contact person:
5. Which of the following describes best your type of organisation?
 1. Non-Governmental Organisation (NGO)
 2. Commercial/financial institution
 3. Government agency/institution
 4. Other; please specify
6. Have you provided financial support, invested in or otherwise provided technical assistance to microfinance institutions/projects (including savings groups) during 2008-2010?
 1. Yes
 2. No, but is considering support/assistance
 3. No

4. Other; please explain

If yes to question 3 above, please proceed with the other questions by selecting continue. Otherwise, no additional information is requested and you may choose to close the survey.

1. Continue the survey
2. Close the survey

B. General information on your microfinance activities

In the following section we kindly ask you to provide information about your microfinance projects. For the purpose of this survey a project may be a financial contribution/investment in a microfinance institution or programme as well as non-financial services/technical assistance that your institution/organisation has provided and/or financed.

7. For how many years have your institution/organisation been involved in microfinance activities?

8. What is your primary purpose(s) for supporting/investing in microfinance?

1. Commercial Investment
2. As part of the organisation/company's Corporate Social Responsibility (CSR)
3. Development cooperation
4. Other; please explain

9. What was the total expenditure including investments of your organisation for all your activities including microfinance (in NoK, if not known please enter NA, if zero please enter 0)?

| | Total expenditure in NoK |
|------|--------------------------|
| 2008 | |
| 2009 | |
| 2010 | |

10. What was the total expenditure including investments of your organisation in microfinance activities only (in NoK, if not known please enter NA, if zero please enter 0)?

| | Total expenditure for microfinance activities only in NoK |
|------|---|
| 2008 | |
| 2009 | |
| 2010 | |

11. How much of your expenditure for microfinance was loan/grant/equity and how much was technical assistance and/or other non-financial services (in NoK, if not known please enter NA, if zero please enter 0)?

| | Loan/grant/equity | Technical assistance/non-financial services |
|------|-------------------|---|
| 2008 | | |
| 2009 | | |
| 2010 | | |

12. How many microfinance projects did you provide support to/invest in during 2008 - 2010? Please specify by regional location of the project/investment.

| | Africa | Asia | Latin America | Oceania | Europe | Global, not specific to a region |
|------|--------|------|---------------|---------|--------|----------------------------------|
| 2008 | | | | | | |
| 2009 | | | | | | |
| 2010 | | | | | | |

Of the above mentioned projects please list the five main countries by value of support/investments in NoK and number of projects in 2010

| | Name of country (if regional state name of region, if global state Global) | Value of assistance/investments in NoK | Number of projects |
|-----------|--|--|--------------------|
| Country 1 | | | |
| Country 2 | | | |
| Country 3 | | | |
| Country 4 | | | |
| Country 5 | | | |

13. What type of microfinance projects/programmes did you provide support to/invest in or otherwise provide technical assistance to (if not known please enter NA, if zero please enter 0)?

| | Specialized microfinance institutions | Other projects/programmes in which microfinance was the main objective/component | Projects/programmes in which microfinance was not the main objective/component |
|------|---------------------------------------|--|--|
| 2008 | | | |
| 2009 | | | |
| 2010 | | | |

14. Who manages the microfinance activities you have assisted/invested in? Provide number of projects by type of project executing agency. (If not known please enter NA, if zero please enter 0)

| | 2008 | 2009 | 2010 |
|--|------|------|------|
| Your own organisation | | | |
| Government agency/financial institution | | | |
| Private Commercial bank//financial institution | | | |
| Co-operative/credit society/union | | | |
| Local branch office of your organisation | | | |
| Local Partner NGO in project location | | | |
| Other NGO | | | |
| Other than the ones listed above, (please explain below) | | | |

Other managers of microfinance activities you assist/have invested in than the ones listed above:

15. How many clients in total were served by the microfinance investments/projects that you were involved in (an estimate is sufficient if exact records are not available, if not known please enter NA, if zero please enter 0)?

| | Number of savings clients only | Number of loan clients only | Number of both savings/loan clients | Others |
|------|--------------------------------|-----------------------------|-------------------------------------|--------|
| 2008 | | | | |
| 2009 | | | | |
| 2010 | | | | |

16. What are the most common objectives of the microfinance projects/programmes you provided support to/invested in? Rank the alternatives below by a scale from 1 to 10 of which 10 = most relevant and 1 = least relevant. If there are other key objectives not mentioned, please specify in the text box below.

| Objectives | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | N/A |
|---|---|---|---|---|---|---|---|---|---|----|-----|
| To give the target group opportunities to organize/increase savings | | | | | | | | | | | |
| To give the target group access to | | | | | | | | | | | |

| | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|
| cash to level out cash-flow requirements (like overdraft facilities) | | | | | | | | | | | |
| To give the target group opportunities to invest in own business | | | | | | | | | | | |
| To give the target group opportunities to continue and/or expand own business | | | | | | | | | | | |
| To promote income generating activities in general | | | | | | | | | | | |
| To promote income generating activities/business for a specific target group (ref. specific target groups mentioned below) | | | | | | | | | | | |
| To assist in establishing a new aid instrument for your partner organisation to achieve its objective | | | | | | | | | | | |
| To promote empowerment of women | | | | | | | | | | | |
| To promote organisation and development for low income groups | | | | | | | | | | | |
| Investment to generate income for your institution/organisation | | | | | | | | | | | |

Other key objectives not listed above?

17. What is typically the role of your organisation in the microfinance activities?

- 1.The only partner/investor supporting the microfinance activities
- 2.One among several partners/investors supporting the microfinance activities
- 3.Do not know
- 4.Other

18. How many in your organisation work with microfinance activities you provide support to?

| | Number of persons |
|---|-------------------|
| Total number of employees in your organisation | |
| - of which are working with microfinance | |
| - of which are working directly in the microfinance project/institution | |
| Total number of volunteers working in your organisation | |
| - of which are working with microfinance | |
| - of which are working directly in a microfinance project/institution | |

19. What are the typical tasks that your employees/volunteers do related to microfinance activities you assist/invest in? (more than one option can be chosen)

- 1.Appraisal of microfinance activities you consider supporting/investing in
- 2.Training/counselling of local partner organisation
- 3.Monitoring of microfinance activities you support/have invested in
- 4.Evaluation of microfinance activities you support/have invested in
- 5.Fundraising for microfinance activities
- 6.Other;

20. Do you apply specific guidelines/tools for your appraisal/monitoring and/or evaluation of microfinance activities?

- 1.Yes

- 2.No
- 3.Other; please explain

21. Do you apply CGAP's guidelines/tools for your work with microfinance activities?

- 1.Yes
- 2.Partly
- 3.No
- 4.Other; please explain

C. Participation in microfinance organisations/associations

22. Is your organisation a member of "Bistandstorget"?

- 1.Yes
- 2.No
- 3.Other; please explain

23. Is your organisation a member of other organisation/association promoting microfinance?

- 1.Yes
- 2.No
- 3.Other;

24. What have been the main benefits for your organisation of participating in the organisation(s)/association(s) promoting microfinance? (more than one option can be chosen)

- 1.Has made our organisation engage in microfinance activities
- 2.Has expanded our understanding of microfinance activities
- 3.Has led to more innovation in our engagement in microfinance activities
- 4.Has assisted in training and/or sensitization of staff of our organisation
- 5.Has assisted us in establishing partnerships with organisations implementing microfinance activities
- 6.Has assisted in training and/or sensitization of staff of our organisation
- 7.Has improved our monitoring of microfinance activities
- 8.As a forum for general information exchange
- 9.Has not offered us relevant services/no major benefits
- 10.Other

D. Lessons learned and future plans

25. Specify main lessons learned from your microfinance projects/activities:

26. Indicate main challenges encountered in your work with microfinance:

27. Indicate main desired changes to improve your microfinance activities/projects, including new products and interventions envisaged:

28. Indicate concrete plans for improvements of your microfinance activities:

29. Give your opinion on funding and other assistance related to microfinance (e.g. information sharing) given by the Ministry of Foreign Affairs and/or Norad:

30. Other comments:

ANNEX II – LIST OF ORGANISATIONS/INSTITUTIONS

CARE Norway

FORUT

Friends of Uganda

Kolibri Kapital

Microfinance Norway

NBBL

Norad

Norfund

Norges Kvinne og Familieforbund

Normisjon

Norsk Nødhjelp

Norwegian Church Aid

Norwegian Development Fund

Norwegian Microfinance Initiative

Norwegian Mission Alliance

Norwegian Association of Disabled

Norwegian Peoples Aid

SOS Barnebyer

Strømme Foundation

The Pentecostal Foreign Mission of Norway

Voxtra