

**Focus Note No. 1, Revised September 1998**

**The Consultative Group to Assist the Poorest  
A Micro-finance Program**

Micro-finance is defined as the provision of credit, savings, and other financial services to very poor people. Providing these services to very poor households creates opportunities for the poor to create, own, and accumulate assets and to smooth consumption. The field of micro-finance was pioneered by specialized NGOs and commercial banks such as BRI-Unit Desa (Indonesia), Grameen Bank (Bangladesh), K-Rep (Kenya), and Prodem/BancoSol (Bolivia) among others. They have demonstrated that populations traditionally excluded by the formal financial sector can, in fact, be a market niche for innovative banking services that are commercially sustainable. Micro-finance represents a significant departure from earlier exercises in providing credit to the poor through financial institutions (often public institutions) at subsidized rates with little or no recovery rates. Successful micro-finance institutions are primarily local organizations that are reaching a significant number of poor people and are commercially viable.

Despite the growing number of micro-finance institutions (MFIs), back-of-the-envelope calculations indicate that they have penetrated less than 2 percent of the total market for micro-finance services. The Consultative Group to Assist the Poorest (CGAP) is a multi-donor effort to broaden and deepen the success of the work done by pioneer institutions in this field. CGAP's mission is to expand poor people's access to high quality financial services from sustainable or potentially sustainable micro-finance institutions.

CGAP was formally constituted on June 27, 1995, for a three-year period, with the participation of 10 bilateral and multilateral member donors. In the initial three years (or first phase of CGAP) 16 donor agencies have joined with the original 10 member donors to support the CGAP initiative (see box).

**CGAP Member Donors, July 1998**

**Bilateral Donors**

Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, The Netherlands, Norway, Sweden, Switzerland, United Kingdom, and the United States of America

**Multilateral Donors**

African Development Bank, Asian Development Bank, European Commission, Inter-American Development Bank International Fund for Agricultural Development, International Labour Office, UN Development Programme, UN Capital Development Fund, UN Conference on Trade and Development, and the World Bank

In its first phase, CGAP's key objectives were to disseminate lessons learned by practitioners, foster and mainstream micro-finance best practice

into donor policies and operations – particularly in the World Bank, contribute to supportive policies for MFIs, and invest in eligible MFIs to broaden and deepen their outreach and achieve financial sustainability. The following paragraphs highlight some of the activities carried out during the first phase.

**Dissemination:** CGAP Publications (the Focus note series, a semi-annual newsletter and the Occasional Paper series) in English, Spanish, and French were distributed widely to over 6,000 readers. CGAP also entered into partnerships with 12 practitioner networks worldwide to promote learning and exchanges among practitioners, and launched regional capacity building initiatives in East, West, and Southern Africa. In response to industry needs, CGAP developed operational tools for practitioners and donors on topics such as management information systems, business planning and financial projections, and audit standards.

**Donor mainstreaming:** CGAP carried out a review of the World Bank's micro-finance portfolio to highlight areas of improvement in its micro-finance operations. CGAP also collaborated with other groups working within the World Bank (such as the Sustainable Banking for the Poor Initiative) to produce a micro-finance practical guide for donor staff, and to organize several training courses for staff from the World Bank and other donor agencies.

**Policy environment:** On a selective basis, CGAP has coordinated with other donors at regional or country-levels (nine countries in West Africa under the BCEAO, China, Peru, Tanzania, Vietnam) to draw the attention of policymakers to micro-finance on issues such as legal frameworks for MFIs, interest rate policies, and regulation and supervision guideline for MFIs.

**Investing in eligible MFIs:** During its first phase, CGAP also managed a small grant facility to support eligible MFIs with the objective of building a second generation of sustainable MFIs that serve the very poor. By June 1998, roughly 57 grants totaling US\$26 million had been approved by CGAP's Investment Committee. The distribution of these grants by purpose and region are as follows:

**Table: CGAP grants as of June 1998 (US Dollars)**

	Africa	Asia	LAC	MENA	ECA	Global	Total
Funding retail MFIs	4,705,000	5,522,625	9,050,000	250,000	50,000		19,527,625
Funding networks/ Capacity Building	2,228,000	1,151,000	98,600		378,000	751,125	4,606,725
Policy/Best Practices	250,000	347,647	65,000	15,000		300,000	977,647
Product Development						890,700	890,700
<b>Regional Total</b>	<b>7,183,000</b>	<b>7,021,272</b>	<b>9,213,600</b>	<b>265,000</b>	<b>428,000</b>	<b>1,941,825</b>	<b>26,052,697</b>
Number of Investments	14	16	10	2	2	13	57

## **CGAP2**

Based on its performance in the first phase, CGAP was renewed by its member donors for an additional five years, starting July 1, 1998. This second phase of CGAP, referred to as CGAP2, seeks to expand upon the achievements of the first phase.

### **CGAP2 Structure**

CGAP consists of five main bodies:

The Consultative Group

The Executive Committee

The Policy Advisory Group

The Investment Committee

The CGAP Secretariat

#### **The Consultative Group (CG)**

The CG is composed of the 26 member donors. Ismail Serageldin, Vice President of Special Programs, World Bank, is the elected Chair of the CG. The role of the CG is to mainstream lessons on micro-finance best practices into their respective agencies as a way to improve the quality of their micro-finance operations.

#### **The Executive Committee (EXCOM)**

The CG elected six members to an Executive Committee (EXCOM) to represent its interests and report to all member donors on a regular basis. The newly formed EXCOM includes representatives from the UK's Department for International Development (DFID), Norway, Germany, the International Labor Organization, the Inter-American Development Bank, and the Canadian International Development Agency, and is chaired by David Wright of DFID.

#### **The Policy Advisory Group (PAG)**

The PAG is comprised of 11 experts in the field of micro-finance. Elected by the CG, one-third of the members will be renewed every

year to allow for wide representation while maintaining continuity.

The main functions of the PAG are to:

- bring practitioner viewpoints and concerns to influence CGAP Secretariat and Member Donor policies, procedures, instruments, and knowledge;
- convey best practice messages to the MFI practitioner community and to governments;
- serve as the first tester and user of CGAP tools; and
- promote and encourage transparency in the industry through disclosure of financial and client poverty information from PAG member institutions.

#### **PAG Members**

- Kimanthi Mutua, Kenya Rural Enterprise Program (Chair)
- Renée Chao-Beroff, Centre International de Développement et de Recherche
- Vijaylakshmi Das, Friends of Women's World Banking
- Nabil El Shami, Alexandria Business Association
- Sukor Kasim, CASHPOR
- Maria Nowak, Association Pour Le Droit À L'Initiative Économique
- Maria Otero, Accion International
- Alpha Ouedraogo, Réseau des Caisses Populaires
- Pilar Ramirez, Fomento de Iniciativas Economicas
- Kerfalla Yansane, Banque Centrale de la République de Guinée
- Muhammad Yunus, Grameen Bank

#### **The Investment Committee**

The Investment Committee reviews, evaluates, and approves grants to be made from the CGAP fund facility. The Committee is made up of senior World Bank Group staff and chaired by Jean-François Rischard, Vice President for Europe, World Bank. Members of the EXCOM also participate at the Investment Committee meetings.

#### **The CGAP Secretariat**

The CGAP Secretariat, responsible for implementing CGAP's mandate, is housed within the Finance and Private Sector Development Vice-Presidency (FDPVP) of the World Bank. Ira Lieberman is Chief Executive Officer and Mohini Malhotra is the Manager.

#### **CGAP2 Functions**

CGAP2's strategy is anchored on building MFI retail capacity to achieve its mission of significantly expanding very poor people's access to quality financial services from sustainable or potentially sustainable micro-finance institutions. CGAP has selected five key themes to focus on in the next five years, all of which are in support of this core objective. These themes, listed in order of priority, are:

**Support the development of a critical mass of MFIs that provide financial services to the very poor on a sustainable basis.** The lack of strong retail institutions is a key constraint to the development of the industry. CGAP2 will pursue the following activities to address this constraint:

- *Develop and disseminate industry tools for MFIs and MFI trainers.* In its first phase, CGAP developed operationally oriented tools and

products in response to the industry's needs. These tools include the appraisal format, the management information systems handbook, the business planning and financial modeling tool, and the handbook on external audit for MFIs, among others. Dissemination of these tools will continue under CGAP2 through national, regional, global level practitioner networks, training institutes, capacity building initiatives and other points of outreach to practitioners and other audiences. Moreover, the Secretariat will also develop new tools and materials on topics such as managing delinquency, client poverty measurement tools, and other topics developed in response to demand largely from MFI practitioners.

- *Build local and regional training and technical assistance capacity for MFIs.* In its initial phase, the CGAP Secretariat launched the Africa Pilot Capacity Building Initiative that aimed at enhancing the human resource base (practitioners and technical assistance providers) in micro-finance. Under CGAP2, the Pilot African initiative will expand and become institutionalized. Moreover, similar initiatives will be launched in Asia and in Eastern Europe. The capacity building initiatives will be premised on the same underlying principles: quality technical courses and support offered to MFIs on a cost-recovery basis via locally or regionally based training and technical assistance providers.
- *Monitor grants (referred to as investments) made from the fund facility in the first phase and fund a small number of institutions.* Under CGAP2, there will be a greater emphasis on monitoring and extracting lessons from the partnerships entered into during the first phase, in addition to new investments. The Funding Application (available from the CGAP Secretariat or from the CGAP website at <http://www.worldbank.org/html/cgap/index.html>) lists the eligibility criteria and the application process for CGAP funding. The Secretariat anticipates to make five to seven investments a year.

**Support changes in donor practices to further improve the quality of their micro-finance operations.** The Secretariat, in conjunction with the member donors, will seek to improve donor micro-finance operations in the following manner:

- *Building CG member staff skills in micro-finance development* through training events, exposure visits, and other mechanisms, to improve staff capacity to make better programming decisions.
- *Reviewing donor micro-finance portfolios to identify improvements in policy, procedures, or instruments.*
- *Reporting periodically on active portfolios in micro-finance* to understand the amount and regional distribution of donor resource allocations for micro-finance.
- *Coordinating (selectively) efforts at the country level* to implement micro-finance best practices and policies at a country/operational level, and to establish a framework for consultation between government, donors, and practitioners.

**Increase understanding on poverty outreach to MFIs.** Very little is currently known about the poverty levels of clients of micro-finance services. The CGAP Secretariat will develop a set of tools that will increase understanding of client poverty levels to enhance transparency. Increased transparency will allow funders to invest in line with preferences for target populations and allow practitioners a better analysis and assessment of the costs, methodologies, and interventions to reach the very poor. It will also facilitate experimentation and innovation in developing effective financial instruments and services to potentially increase the depth of outreach.

**Improve the legal and regulatory frameworks for MFIs.** There is increasing demand from governments in all regions for guidelines and policy advice on establishing legal and regulatory frameworks for micro-finance, but currently no sound guidelines are available. The Secretariat will develop

and disseminate guidelines that will attempt to address issues such as: when and when not to regulate; what are appropriate mechanisms for regulating; what to do in the case of failures; and the need to develop the supervisory capacities of regulators. These guidelines will be developed through a consultative process with regulators and practitioners.

**Facilitate 'commercialization' of the micro-finance sector.** Current trends and expectations indicate that the micro-finance industry will gradually move towards increased reliance on commercial sources of capital. The CGAP Secretariat plans to document and disseminate lessons from institutions that have transformed or are transforming from NGOs to regulated financial intermediaries. Moreover, the Secretariat may support a few transformation initiatives to draw lessons on transformation issues.

## **Conclusion**

Based on an independent review, CGAP was found to be "...a successful innovation in supporting micro-finance development and improving donor activities in micro-finance.<sup>1</sup>" CGAP has achieved a few milestones in its first phase such as, establishing mechanisms for increased interaction and shared understanding among and between 26 donor agencies and practitioners on micro-finance, developing and disseminating best practice tools globally, and adopting a performance-based funding approach with MFIs through Partnership Agreements based on the MFI's own performance targets.

Having built a strong foundation in its first phase, CGAP2 will build on its initial achievements to meet its mission of expanding very poor people's access to financial services from sustainable institutions.

This note was prepared by Joyita Mukherjee, Microfinance Specialist, CGAP Secretariat. It is drawn from, "A Policy Framework for the Consultative Group to Assist the Poorest," September 5, 1995, and "CGAP STRATEGY: July 1998 - June 2003, July 1998." Copies of these documents are available from the CGAP Secretariat or on the CGAP website.

<sup>1</sup> "CGAP: Recommendations for the Future," January 16, 1998, CGAP Review/Renewal and Governance Committees.