PROGRAM REVIEW
CGAP'S PRO-POOR INNOVATION CHALLENGE
2000–2005

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Executive Summary

What does it take to offer sustainable financial services to economically, socially, or geographically marginalized clients? To answer this question, CGAP initiated the Pro-poor Innovation Challenge (PPIC) award program in 2000. The PPIC program has three goals:

1. to identify smaller, "under-the-donor-radar" microfinance institutions (MFIs) that use innovative methodologies to reach clients;
2. to help these MFIs perfect and scale up their methods; and
3. to promote these approaches to the industry at large by producing demonstration effects among practitioners and donors.

This review, undertaken five years after the launch of PPIC, assesses the performance of the program against its stated goals and looks at lessons learned from both the program and its winners about how donors and practitioners can extend the reach of microfinance. This review also makes recommendations to help the PPIC program develop as a learning source for the microfinance community.

Performance against goals. PPIC has successfully identified younger, smaller organizations off the "radar screen" of microfinance donors. PPIC award winners have grown substantially after receiving the award, adding more than half a million clients to their collective rolls. A 2003 survey found that compound annual growth in assets averaged 79 percent among PPIC award winners after they received the award.[1] Many awardees credited the PPIC "seal of approval" for access to additional funding.

Several organizations also believe the CGAP recognition helped to raise their status in the eyes of public officials, enabling them to influence policies and actions in official circles. In addition, several PPIC winners report that competing financial service providers have been attracted to their markets as a result of their pioneering efforts.

Lessons learned. The winners' experiences hold lessons for the industry on designing and delivering financial services for excluded and very poor clients. In addition to specific lessons on developing loan, savings, remittance, and insurance products, they demonstrate the value of basic microfinance 'best practices' in product design and delivery. A number of winners also had lessons to share on how to scale up service provision to poor clients.

Perhaps most important, the experiences of PPIC winners point out organizational practices that can foster innovation in microfinance organizations. Paramount among these is the management philosophy of "embracing error," which allows management to adapt to changing circumstances, learn from missteps, and translate lessons into improved methods.

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[1] For 25 winners for which data were available.

This, in turn, has implications for the programs donors and investors support to promote innovation in microfinance. Flexible funding facilitates the search for new ways to deepen and expand sustainable microfinance for the very poor. PPIC's focus on flexible grants for innovation and learning fills a gap in the donor world. The program neither overwhelms grantees with money nor imposes high costs on CGAP. Because the program is not based on conventional measures of performance, it gives winners the opportunity to take risks they otherwise would not.

Recommendations. The PPIC program should be continued. It benefits grantees and CGAP and helps to address the huge unmet demand for microfinance among the very poor. Innovation plays an important role in meeting the multidimensional challenge of providing sustainable financial services to a large number of socially, economically, and geographically marginalized people in different contexts. Through PPIC, CGAP can continue to promote new and creative ways to promote its strong poverty agenda in microfinance and sustainable microfinance services that reach the very poor.

CGAP should retain the "prize" dimension of the PPIC program and keep the application process simple, open, and welcoming. The internal review and selection process within CGAP works well and should be continued. CGAP should maintain a broad and flexible set of criteria for selecting winners because this allows the program to respond to industry changes. The reporting process should be streamlined to reduce the number of reports required, while still providing a basis for keeping in touch with the winners, following their progress, and capturing lessons learned. More emphasis on capturing and disseminating lessons learned would broaden the effects of the program and help winners raise funds to institutionalize and expand successful innovations. Finally, CGAP and award winners should create ways to maintain a relationship after the grants are over. This might be done through networks, thematic groups, or other vehicles.

The PPIC program is at a turning point. Although its focus has been largely on providing funding and generating recognition, it is time to focus more on the experiences of PPIC winners as valuable sources of learning. CGAP is well positioned to capture and disseminate lessons from award winners. Although this focus would require more CGAP resources, it would benefit the wider microfinance community.

Acronyms

AlSol	Alternativa Solidaria
ADOK TIMO	Archdiocese of Kisumu Savings and Credit Scheme
PRISMA	Asociación Benefica PRISMA
PILARH	Asociacion PILARH
APGA	Association pour la Promotion des Groupements Agricoles
ADEW	Association for the Development and Enhancement of Women
MEDA	Association Mennonite de Développement Economique
Bai Tushum	Bai Tushum
CFTS	CASHPOR Financial & Technical Services Ltd.
CBDIBA	Centre Beninois Pour Le Developpement Des Initiatives à La Base
CMF	Center for Microfinance
CI	Conservation International
Constanta	Constanta
CBB	Cooperative Bank of Benguet
CU 1st in the FE	Credit Union "The First in the Far East"
FONKOZE	Fondasyon Kole Zepol
FFH	Freedom from Hunger Ghana
Grameen	Grameen Foundation USA
GRET	Groupe de Recherche et d'Echanges Technologiques
Horizonti	Horizonti
IJM	International Justice Mission
JCCUL	Jamaican Cooperative Credit Union League
LEAP	Local Enterprise Assistance Program
LAPO	Lift Above Poverty Organization
Barakot	Microfinance Program Barakot
MMA	Moldova Microfinance Alliance
MAFF	Mountain Areas Finance Fund
NRSP	National Rural Support Program
OLC	Oportunidad Latinoamérica Colombia
ODEF	Organizacion de Desarollo Empresarial Femenino
PACT	PACT Myanmar
Padakhep	Padakhep Manabik Unnayan Kendra
Parwaz	Parwaz Microlending Fund
RIC	Resource Integration Centre
RFC	Rural Finance Corporation
Sinapi	Sinapi Aba Trust
SKS	Swayam Krishi Sangam Microfinance Ltd.
SFCL	Small Farmer Cooperative
UMU	Uganda Microfinance Union
AMUCCS	Union Mexicana de Uniones de Credito del Sector Social A.C.
WAGES	Women and Associations for Gain both Economic and Social
WEEC	Women Economic Empowerment Consort
YOSEFO	Youth Self Employment Program

Introduction

In mid-1999, CGAP committed to a strong poverty agenda to complement its focus on financial sustainability and gave priority to microfinance initiatives that reach the very poor, reduce their vulnerability, and increase their economic well being. CGAP's funding to SHARE in India, Kashf in Pakistan, Nirdhan in Nepal, and CARD in the Philippines reflected this emphasis on financial sustainability and deep outreach. However, it soon became clear that, beyond a narrow group of MFIs (including those funded by CGAP), few institutions ensured that their innovative approaches to pro-poor financial services also would be sustainable.

To help remedy this situation, CGAP launched its Pro-Poor Innovation Challenge (PPIC). To find new ideas and techniques to advance the state of microfinance practice, it was decided that the program would target smaller institutions that fell below the conventional donor radar screen.

Now, five years later, there continues to be growing interest from donors and practitioners in expanding the reach of microfinance to economically marginalized, geographically isolated, and socially excluded people. The PPIC award program brings visibility and support to a variety of creative efforts to develop new products, create new institutional partnerships, and reach new target groups.

Interest in deepening microfinance outreach is reflected in increased attention to measuring poverty and assessing impact. To justify investments, public and private donors alike are concerned with the social performance of microfinance—specifically, its outreach to poor people and impacts on poverty and vulnerability. As the microfinance industry grows, innovations that increase the direct involvement of poor people can be expected to accelerate its impact on poverty.

Purpose of the Review

This review answers the following questions:

- Has the PPIC fulfilled its objectives to identify smaller, lesser known MFIs and help award recipients undertake innovative methodologies to deepen outreach to economically, socially, or geographically marginalized clients?
- What are the demonstration effects of the program within the industry and lessons for other innovation funds?
- What lessons are offered by the collective experience of PPIC award recipients on how to successfully deepen outreach and increase scale on a sustainable basis?
- Should the PPIC program be continued? And, if so, what is the best way forward?

Sections III and IV discuss the PPIC program and its effectiveness in meeting its objectives. Section V reviews the PPIC from the perspective of award recipients, summarizing lessons learned about enhancing the effectiveness, expansion, and efficiency of microfinance for the very poor and excluded clients. The final section makes recommendations for improving the program.

The review was conducted in late 2005–early 2006. It involved a desk study of documents about the award program and its 44 award recipients. These documents included applications, reports, Web pages, and 2003 and 2005 surveys of winners. The assessment also involved interviews with CGAP staff and a review of several case studies of award recipients conducted by CGAP consultants. A draft report was reviewed and discussed in a workshop with 15 PPIC winners in early February 2006; inputs from workshop participants are integrated into this final report.

Input from participants was essential to fully capture the results and lessons of the program. By design, reporting requirements for award winners are minimal, to avoid burdening them. Although many of the proposals provide a good description of the idea of the program or program innovation, subsequent documentation on the reality of outcomes was not as detailed. Workshop discussions were much richer, yielding many more lessons than it is possible to cover in this report.

Award Program Description

Background

The CGAP PPIC program demonstrates that the financial frontier can be deepened to reach poorer people, and that sustainable services can be designed to reduce their vulnerability and increase their economic well being. It recognizes and supports initiatives carried out by MFIs using innovative models and methodologies to reach client populations normally excluded from microfinance because of economic, geographic, or cultural factors.

Applicants compete for PPIC awards of up to $50,000 to be used for expenses related specifically to their innovative pro-poor program. The program is flexible and is run with limited funding and low overhead costs. It provides venture funds intended for small but riskier microfinance investments that test concepts and approaches to extend financial services to the very poor and socially excluded groups.

Since the program was established in 2000, there have been eight funding rounds. Forty-nine MFIs from Asia, Africa, Latin America, and Eastern Europe have received awards (see Appendix A for brief descriptions of winners). Two of the rounds (2003 and 2004) were co-funded by the International Fund for Agricultural Development (IFAD) and were named the Rural Pro-Poor Innovation Challenge (RPPIC) to reflect their emphasis on sustainable service delivery to rural populations. For its first seven rounds, the PPIC program sought applications mainly from smaller, lesser known, and younger MFIs. The eighth and most recent round also accepted applications from larger institutions.[2]

Application Process

To reach as many small MFIs as possible, PPIC announcements are available in English, French, Spanish, and Arabic. The announcements are sent to networks, associations, microfinance newsletters, NGOs, and in-country contacts. They also are posted on the Microfinance Gateway, the Devfinance listserve, and other industry listserves.

The application form is short (a maximum of four pages when completed) and relatively simple. It has a structured set of questions that guide applicants in presenting relevant background on their organizations and clients, a simple summary of what they intend to do with the award funds, and financial data on their institution. It requests standard financial data to screen for a minimum level of discipline and capacity to manage credit, savings, or other financial services. It requests specific information on the poverty level and gender of clients, which screens for the organization's focus on social performance.

The program receives a large number of applications—300 per round, on average—out of which five winners typically are selected. In the first five years, the program received more than 2,000 applications. Although many applications are from organizations

[2] Only Rounds I through VII are covered by this review, as Round VIII was being conducted at the same time as the review process.

seeking support for activities that do not meet the program's criteria, the program has attracted hundreds of good proposals. The chance of being selected for an award is around 2 percent. Although the large number of applicants gives CGAP a wide variety of proposals to choose from and provides status to the winners, it also means that expectations are raised and unmet for 98 percent of applicants. This is another reason for the streamlined application form: to avoid undue effort on the part of small organizations relative to the small number of awards.

Review and Selection

Basic criteria used by CGAP to evaluate the applications include depth of outreach; innovation in areas such as client identification, delivery methodology, or product and service design; and demonstrated commitment to eventual sustainability.

Beyond this, the selection criteria are flexible, which allows the program to respond to a wide range of interests in the broader MFI community.

The PPIC review and selection process is simple when compared with that of other CGAP awards programs and most other public donor programs. There are no site visits, and the winners are chosen by an internal review committee based on information in the applications, previous knowledge of the organizations, and telephone or email reviews via local, national, or regional contacts (associations, networks, donor field staff, etc.). CGAP staff bring to the review process their insights and knowledge gained through experience and networks.

Recipient reporting

To receive the PPIC award, each winner must provide a business plan that describes the proposed activity and identifies specific targets for poverty outreach and financial performance. Recipients must submit progress reports every semester for two years to assess progress made toward their specified targets. The reporting format is divided into quantitative and qualitative sections. The quantitative section includes standardized indicators (i.e., loan portfolio, deposits, and financial and operational sustainability) and a set of tailored indicators specific to the awarded program. The qualitative section is a summary of activities and a status report of project activities (i.e., general updates on progress, outreach, etc.).

Because grants are not tranched, the PPIC program has only limited ability to ensure reporting by winners. However, program staff follow up regularly with award recipients, while trying not to burden organizations. There is about 50 percent compliance with reporting despite regular requests; most organizations provide some progress reports, but few have provided them all. The most comprehensive information sources on PPIC programs are external case studies and surveys.

PPIC Winners

This section provides an overall description of PPIC winners across a variety of parameters when they entered the program.[3]

Institutional type

Award recipients included a variety of institutional forms. Table 1 classifies them according to their self-descriptions. Regardless of institutional type, all winners were providing financial services before they received the PPIC award.

Table 1. PPIC Winners, by Type of Institution

Type of Institution	Number	Percent
NGO	27	62
MFI	5	12
Other financial institutions	4	10
Credit Union	3	7
Private companies	2	5
Cooperative bank	1	2
MFI support network	1	2

Program age

More than half of the recipients were established in the mid to late 1990s. Upon receipt of the PPIC awards, two-thirds of the organizations were less than 10 years old. Parwaz (Afghanistan) was the only start-up.

Regional balance

In general, the PPIC achieved a good balance of awards across regions, except for the Middle East (Table 2). CGAP anticipates that Middle East participation will increase with the establishment of CGAP's hub in the region and the recent translation of application forms into Arabic.

Table 2. PPIC Award Winners, by Region

	Number	*Percent*
Africa	11	25
Asia	12	27
Latin America and Caribbean	10	22
Middle East	1	2
Europe and the New Independent States	10	22

[3] Not all data were available for all organizations. The five winners selected in PPIC Round VIII are not included in the overall performance and categorization analysis of this report.

Number of clients

The initial number of clients among PPIC winners ranged from fewer than 500 in GRET (Cambodia) and Parwaz (Afghanistan) to more than 30,000 in Prisma (Peru) and JCCUL (Jamaica).[4] However, baseline client numbers for most of the winners tended to be smaller than for mainstream MFIs, partly reflecting their youth. As illustrated in Table 3, approximately 60 percent had fewer than 10,000 clients when they received the award.

Table 3. PPIC Award Winners, by Initial Number of Clients

	Number	***Percent***
<1,000 clients	3	8
1,000 <2,000	8	20
2,000 <4,000	7	18
4,000<10,000	6	15
10,000<20,000	7	18
20,000<40,000	7	18
40,000+	1	3

Gender of clients

As is the case in microfinance in general, women were well represented among clients of the awardees. Several award recipients were women-specific organizations (e.g., ADEW, AlSol, CASHPOR, and Parwaz), and many reported that more than 90 percent of their clients are women (e.g., Fonkoze and LAPO). Recipients who reported less than 50 percent female clients tended to be in Eastern Europe and Latin America.

Poverty outreach

Most award recipients reported a high proportion of poor clients. Respondents to the CGAP "2005 Survey of PPIC Winners" reported that 66 percent of their clients were collectively estimated to be living below the poverty line. Awardees identified as having the highest level of poverty focus included Parwaz (Afghanistan), YOSEFO (Tanzania), SFCL (Nepal), NRSP (Pakistan), and WEEC (Kenya). The common feature of these organizations is that they have a hard target of reaching only poor people.

Asset levels

All but one recipient organization had less than $4 million in assets when they received their PPIC award (see Table 4). These asset sizes are small compared to most mainstream MFIs (among those posting data on the MIX Web site).[5]

Table 4. PPIC Winners, by Starting Asset Base ($'000)

	Number	***Percent***
< $25,000	3	9
25,000 < 100,000	4	12
$100,000 < 500,000	7	20
$500,000 < 1 mil	4	12
$1 mil < 2 mil	5	15
$2 mil <3 mil	5	15
$3 mil < 4 mil	3	9
$4 mil +	3	9

Types of innovations: Award winning proposals fit into three broad types of innovations: new client groups, new products and services, and new methodologies (see Table 5). New

[4] PPIC Round VIII opened the application process to include larger MFIs (>20,000 clients) committed to extending financial services to marginalized populations.

[5] Microfinance Information eXchange (MIX), www.mixmarket.org.

products and services included innovations in microinsurance, remittances, savings, and loan products (18 winners). Innovations in serving new client groups extended access to financial services to various socially and geographically vulnerable groups (17 winners). Innovative methodologies included the application of technologies, delivery systems, and client assessment methodologies (9 winners).

Table 5. PPIC Award Winners by Type of Innovation	
New Products and Services	
Microinsurance	Life insurance (AlSol, Mexico; CMF, Nepal; and PACT, Myanmar) Health insurance (GRET, Cambodia)
Remittances	International remittances (Fonkoze, Haiti; JCCUL, Jamaica; ODEF, Honduras; and AMUCCS, Mexico) Urban-rural money transfers (UMU, Uganda)
Savings and loan products	Savings and loans for education (YOSEFO, Tanzania) Savings and loans tied to pension products (CU 1st in the FE, Russia) Loans for shares (LAPO, Nigeria) Loans for land (PILARH, Honduras) Loans for enterprise development (PRISMA, Peru; APGA, Togo; Bai Tushum, Kyrgyzstan; CI, Mexico; and Grameen, Uganda)
New Client Groups	
Vulnerable groups	HIV-affected households (ADOK, Kenya) Youth (ADEW, Egypt; and Padekhep, Bangladesh) Very poor women (CASHPOR, India; CBDIBA, Benin; and Parwaz, Afghanistan) Bonded laborers (IJM, India, and NRSP, Pakistan) Disabled people (OLC, Colombia) Refugees (WAGES, Togo) Older people (RIC, Bangladesh)
Vulnerable geographic areas	Conflict affected areas (Horizonti, Macedonia, and LEAP, Liberia) Isolated areas (CBB, Philippines; MAFF, Albania; WEEC, Kenya; and KAFC, Kyrgyzstan)
New Delivery Systems/Methodologies	
Technologies	Card technology, hand-held computers, software systems (SKS, India; MMA, Moldova; and RFC, Moldova)
Delivery systems	Credit with education (FFH, Ghana) Community banks (MEDA, Haiti) Farmers' Cooperatives (SFCL, Nepal) Three-tiered financial service delivery structure (Constanta, Georgia)
Client Assessment Methodologies	Market research methodology (MFC/MFP, Barakot) Impact assessment methodology (Sinapi Aba Trust, Ghana)

PPIC Program Results

The three goals of the PPIC are (1) to identify smaller, “under-the-donor-radar” MFIs with innovative methodologies for reaching excluded clients with microfinance; (2) to help them perfect and scale up these methods; and (3) to promote the spread of these approaches to the industry at large by producing demonstration effects among practitioners and donors. This section reviews PPIC’s success at reaching these multiple objectives.

Identifying lesser known innovators

Through the PPIC program, CGAP interacts with a wide range of organizations that work with clients excluded from mainstream microfinance. Overall, the program has successfully identified younger, smaller organizations that are off the radar screen of microfinance donors. Three-quarters of all PPIC winners had two or fewer donors at the time they won the award.

Box 1. Defining Innovation

Pro-poor innovation is a dynamic process that takes place in a particular context and operating environment. It may involve introducing new things to new places, new things to old places, or existing things to new places. In a changing environment, innovation is necessary to compete and grow or, in some cases, just stay in the game. The innovation process requires leaders to have a vision, be committed, and be flexible.

The awards have included a variety of innovations—some focused on vulnerable target groups, others on remote regions, and many on innovative products, delivery models, and product development processes. Most of these have been market innovations rather than product innovations; that is, the product or methodology may not have been new, but was a departure for the market in which the award recipient was working. The PPIC thus defines innovation in relation to the award recipient’s operating contexts, as a local, rather than an international or industry-wide, phenomenon.

Scaling up

PPIC winners have achieved substantial growth in terms of clients and assets. The 2005 winners’ survey (for 26 institutions for which reliable data were available) found that compound annual growth rate (CAGR) in clients averaged 43 percent in the time the award was received and 2005.[6] The

Table 6. PPIC winners, by client growth between time of award and 2005, relative and absolute

Organization	Year of award	Clients added (rank)	CAGR, clients (rank)
Fonkoze	2004	9,748	64% (5)
JCCUL	2002	119,267 (1)	6%
NRSP	2002	86,150 (3)	48%
Parwaz	2004	443	214% (1)
Sinapi Aba Trust	2003	44,773 (5)	130% (3)
SKS	2000	100,455 (2)	176% (2)
UMU	2001	74,355 (4)	69% (4)

CAGR = compound annual growth rate

[6] For years for which data were available.

2003 winners' survey found that the CAGR in clients averaged 57 percent across 25 institutions. Most of the institutions responded to both the 2003 and 2005 surveys, indicating a slowing of growth as they have matured.

Client numbers grew the fastest at SKS (India), Parwaz (Afghanistan), Sinapi (Ghana), UMU (Uganda), and Fonkoze (Haiti). In some cases, these growth rates were attributable to small starting bases (SKS and Parwaz), but Fonkoze, Sinapi, and UMU each had more than 10,000 clients when they won the award. As illustrated in Table 6, these five institutions added 425,000 clients to their rosters since winning the PPIC, representing more than 80 percent of the total clients added (503,392) by the 24 PPIC winners for which data were available.

The most recent data available for asset growth are from the 2003 winners' survey, which found that CAGR in assets averaged 79 percent since receipt of the award.[7] The top five winners, by asset growth rate, were MMA (Moldova), SKS (India), WEEC (Kenya), Padakhep (Bangladesh), and MEDA (Haiti). These growth rates were not a function of small starting assets; three out of these five also have the highest absolute level of assets added (WEEC, SKS, and MMA).

Table 7. Top PPIC winners, by asset growth between time of award and 2003, relative and absolute

Organization	Year of award	Assets added, USD (rank)	CAGR, assets (rank)
MEDA Haiti	2001	249,658	123% (5)
MMA	2003	6,132,923 (3)	273% (1)
Padakhep	2001	70,067	163% (4)
SKS	2000	4,325,000 (5)	189% (2)
RFC	2003	5,600,000 (4)	66%
UMU	2001	6,600,000 (2)	107%
WEEC	2001	15,294,598 (1)	187% (3)

Although growth in PPIC-awarded organizations has been tremendous, it is unclear whether this growth has been pro-poor. The 2005 winners' survey asked about the proportion of clients under local poverty lines. The results, for 16 winners for which consistent data were available, are summarized in Table 8. Although the proportion of poor clients tended to go down in most of these organizations, several of them registered substantial overall increases in clients.[8] All except three winners registered overall increases in the absolute number of poor clients. One of the exceptions—unfortunately the largest—appears to have undergone a wholesale shift in market positioning. Without the decrease in poor clients registered by JCCUL, the remaining 15 PPIC winners increased their outreach to poor clients by 171,000.

[7] Across 24 institutions for which data were available. The PPIC had made only 39 awards when the 2003 data were gathered.

[8] The data on poor clients should be interpreted with caution because they are based largely on estimates at two points in time, which introduces the possibility of high margins of error in both measurement and reporting. Moreover, given differences in the time between the dates when awards were received and 2005, the data are not strictly comparable.

Table 8. Changes in Poor Clients in 16 PPIC Winners							
	Original			2005			Change in poor clients
	Total clients	*Estimated % under poverty line*	*Poor clients*	*Total clients*	*Estimated % under poverty line*	*Poor clients*	
AlSol	1,200	50	600	3,501	50	1,751	1,151
CMF	1,700	90	1,530	45,798	70	32,059	30,529
Conservation International	1,073	100	1,073	2,594	98	2,542	1,469
JCCUL	646,744	60	388,046	766,011	17	129,456	(258,591)
LAPO	14,820	90	13,338	34,661	63	21,836	8,498
MAFF	3,650	55	2,008	4,517	12	542	(1,465)
MMA	21,439	80	17,151	24,168	60	14,501	(2,650)
NRSP	37,932	80	30,346	124,082	100	124,082	93,736
Parwaz	259	100	259	812	100	812	553
Padakhep	5,900	80	4,720	10,500	60	6,300	1,580
Pilarh	2,900	81.7	2,369	3,785	80	3,028	659
RFC	25,000	70	17,500	51,000	80	40,800	23,300
UMU	10,417	70	7,292	84,772	20	16,954	9,663
WAGES	7,749	60	4,649	23,446	28	6,565	1,915
WEEC	4,393	87	3,822	6,644	65	4,319	497
YOSEFO	1,443	100	1,443	3,600	100	3,600	2,157

Demonstration effects

The influence of the PPIC and its winners is felt at multiple levels: among practitioners, among donors, among policy makers, and within CGAP itself. In each case, the effect stems, at least in part, from the PPIC identifying and highlighting a promising organization, raising the visibility of its work, and providing it with an international seal of approval.

Effects on the financial services industry. Several PPIC winners report that other players have been attracted to their markets as a result of their pioneering efforts. In Moldova, RFC deployed smart cards within rural cooperatives. Although this market was untested for banks and the cards were unfamiliar for clients, banks began to issue cards to rural clients on a much larger scale in the years following RFC's award. In Georgia, Constanta's commercial bank partner is considering opening branches in rural areas where the MFI has proven that operations can be viable with simplified offices.

By surviving during the conflict in Liberia, LEAP demonstrated the importance of microfinance and positioned the organization to advocate for the industry and influence a UNCDF assessment when the conflict died down. This encouraged other donors to come to Liberia and fund microfinance during the post-conflict period.

Box 2. Winners Report PPIC Enhances MFI Image

For recipients, one of the most consistently reported impacts of the PPIC program is the increased visibility, recognition, and status that winning the award brings to an organization. CGAP's successful promotion of the program has made the PPIC brand of innovation and commitment to the very poor and socially excluded, widely known within the microfinance world. Some award recipients, in turn, mention their award on their Web sites. Many winners report that the worldwide attention and status of the award program helped to motivate staff and make them proud of their work.

"The PPIC award has strengthened Pact Myanmar's image in the local NGO community about its ability to design and deliver innovative services. It has helped Pact Myanmar's marketing efforts by opening the doors of new donors. Pact as a whole is also benefiting from the award as an international recognition of its work."— PACT Myanmar

"Besides the influence to other important donors we have received a strong recognition with different organizations and individuals, others that know the importance of CGAP in general"— AlSol, Mexico

"The award boosted up the morale of staff and self-confidence of the institution."— MAFF, Albania

"At the time of the award, SKS was a young organization with only a few hundred clients. This award helped boost staff morale. This recognition also opened new avenues of funding for SKS. SKS was invited to various conferences and this increased SKS's visibility among funders and also within the industry. This award also helped attract talented volunteers and staff to SKS. SKS gained recognition as an innovator in the industry." Today SKS has over 175,000 clients.—SKS, India

Source: PPIC winners' survey, 2003.

Models and methods also are initiated, replicated, and adapted. In Haiti, other banks have replicated Fonkoze's "Family Day" free phone calls to the United States as part of their remittance marketing strategy. Through a USAID-funded project, WAGES replicated its model in another region of Togo and adapted it to local conditions. There also has been replication of AlSol remittance schemes in El Salvador and cross-learning with Grameen de la Frontera in northern Mexico and Adelante in Honduras.

Effects on donors. The 2005 survey revealed that most respondents gained access to additional funding after winning the PPIC. The 2003 winners' survey found that the total additional funding accessed across 30 institutions equaled more than $24 million—the majority of which was provided by major international donors, such as Grameen, Ford, DFID, IFAD, UNDP, and USAID. Several winners indicated that the award played an important role in helping them access subsequent funding (e.g., PACT Myanmar; GRET, Cambodia; MEDA, Haiti; YOSEFO, Tanzania; and WEEC, Kenya). Note that these organizations were likely excellent candidates for funding even without the PPIC award, and that the PPIC award helped to highlight their qualifications.

Effects on policy. Several organizations noted that the CGAP recognition helped to raise their status among public officials. This enabled them to influence policies and actions taken in official circles, including participating in government policy and national strategy working groups (FFH, Ghana and LAPO, Nigeria); establishing partnerships (WEEC and the Kenyan government partnered to implement a public livestock program and HIV/AIDS training program); and lobbying to change current policies and regulations (RIC, Bangladesh, and PACT Myanmar).

Links within CGAP. PPIC winners become valuable CGAP partners that provide learning opportunities in various areas of its work. In general, PPIC winners serve as useful in-country contacts for CGAP missions and studies. For example, PPIC winners contributed to CGAP Occasional Paper 10, "Crafting a Money Transfers Strategy: Guidance for Pro-poor Financial Service Providers," and participated in the Microinsurance Working Group case study on GRET, Cambodia's health insurance product. In addition, there is currently a partnership between SKS and CGAP on a pilot microfinance franchising model in India.

Links within IFAD. IFAD staff say the agency's participation in the two rural PPIC rounds has been enriching. Lessons derived from PPIC as a flexible funding instrument to promote innovation have been useful as a test case for IFAD that could be replicated in other areas. Some PPIC features (i.e., the demand-driven approach, flexibility, and the incentive system based on the pursuit of innovation rather than immediate performance) have helped IFAD reflect on ways to further encourage innovation in rural finance. Moreover, some of PPIC winners were IFAD's rural finance partners in on-going projects (i.e., MAFF, Albania, and Fonkoze, Haiti), which created interesting synergies. The lessons from other PPIC winners have further enhanced IFAD's experience in areas of growing importance, such as microinsurance.

Box 3. Innovation Funds on the Rise Among Donors

Innovation funds have become increasingly popular among microfinance donors. DFID's Financial Deepening Challenge Fund promotes private-sector efforts to develop commercially viable financial services that benefit the poor and promote economic growth. USAID's Office of Microenterprise Development has two programs—the Implementation Grant Program and the Practitioner Learning Program—focused on innovations that improve the effectiveness and efficiency of financial service and enterprise development programs for the poor. Both programs incorporate a thematic focus and explicit learning components. Several other donors also are thinking about establishing challenge funds.

Lessons Learned

This section reviews the experiences of PPIC winners. Categorizing winners by the types of innovation they pursued, this section explores lessons from their experiences on specific ways to extend microfinance to very poor and excluded populations. Specific lessons on designing loans, savings, remittance, and insurance products are detailed and then are followed by lessons that cut across product type.

Many of the lessons reviewed here resemble tried-and-tested microfinance best practices in product design and delivery, applied to reach very poor and marginalized clients. However, given the focus of the PPIC, two lessons stand out in particular. The first relates to management's commitment to reaching excluded clients, which affects all aspects of operations but is especially visible in client targeting. The second highlight's the importance of management flexibility and ability to learn from error, and the specific organizational practices that demonstrate this openness to encourage organization-wide innovation.

New products and services

Almost half of PPIC winners were awarded grants for innovations in products and services aimed at poor and excluded clients. Many used the awards to diversify their product lines to provide more services to current clients or to target particularly vulnerable groups with existing or new products.

Loans. The PPIC program supports the development of a wide range of loan products to expand the economic participation of poor people in new areas. Loan products designed to support specific economic activities provide clients access to capital to help them reduce risk and take advantage of new market opportunities. In Mexico, Conservation International loans through farmers' cooperatives to provide bridge-funding for coffee farmers enabled farmers to sell to new buyers and participate in global markets. In Uganda, Grameen Foundation partners provided loans to their clients to buy cell phones so that they could become village phone operators in remote rural areas. This not only promoted a new business opportunity, but also helped to address information asymmetries that put other rural producers at a disadvantage.

Box 4. Incubating a New Product

Through its credit-for-shares loan, PPIC winner LAPO identified several success factors critical to developing a new loan product. Many of these are applicable to almost any new product. These success factors include:

- Having leadership that is committed to and passionate about the product;
- Working with a small number of clients in the beginning;
- Working with clients you know; and
- Closely monitoring the program, especially for new loan products.

Savings. The experience of several PPIC winners who implemented savings schemes echoed key principles promoted by savings experts across the industry. Confidence in the security and accessibility of savings is critical to clients who have few other resources available. YOSEFO learned this when it introduced a weekly savings program to help clients accumulate resources for school fees. Because YOSEFO is not a deposit-taking institution, it encouraged clients to save among themselves in savings clubs. However, savings mobilization was limited because clients lacked confidence in these clubs, which were not official institutions. In addition, many people who had simultaneous loans with YOSEFO were unable to keep up with both savings contributions and loan repayments at the same time. YOSEFO's experiences highlight the importance of carefully matching the design of savings products—especially contractual savings—to client cash flows.

Remittances and money transfers. Money transfer and remittance services are a potentially powerful way to bring poor people into the formal and microfinance banking systems, but PPIC winners' experiences show that the challenges are formidable. Marketing to remittance senders is especially complicated for MFIs because they usually deal with recipients rather than senders. Fonkoze attempted send-side marketing by collecting senders' information from recipient customers through a series of "Family Days." Fonkoze offered recipients a free five-minute call to the United States for opening an account with the institution or making a deposit in an existing account. However, when Fonkoze processed the data two months later, much of the contact information was invalid because of the high mobility of Haitian immigrants in the United States. Nonetheless, recipient marketing yielded high corollary benefits for Fonkoze, resulting in the opening of hundreds of additional savings accounts per month.

Marketing, however, cannot overcome a design that does not fit the needs of its targeted clients. Although UMU's domestic money transfer service quickly reached sustainability, it noted that the intended clients—poor traders who needed to transport funds along Uganda's crime-ridden highways—were not adopting the product. Marketing initially was recognized as an obstacle, but a subsequent marketing drive did little to change the customer profile. The main users remain large traders and businesses in towns. It turns out that the relatively high fee for money transfers was the main obstacle limiting access and benefits to smaller microentrepreneurs.

Box 5. Remittance lessons from JCCUL

JCCUL's success in introducing remittance services generated lessons including:

- Make sure margins are acceptable for all partners, not just the remittance company.
- Avoid exclusive licenses, to preserve scope for negotiation and maneuvering when circumstances change.
- Try to partner with good overseas institutions that serve senders well.
- If possible, capture the foreign exchange income that accompanies international money transfer to help offset administrative costs.
- Evaluate whether technologies, such as Internet and smart cards, are feasible to use in the areas in which you work. Telecommunications infrastructure is critical in getting information and services out to rural populations, but coverage is uneven.
- Build your own brand, but acknowledge the investment needed up front.

Although some PPIC winners find offering money transfer services to be a good way to attract new clients and expand savings services, others have difficulty integrating the service with their existing operations. Most, therefore, agreed that it is important to be clear why an organization is getting into remittances from the beginning and that revenue generation was not necessarily a sufficient reason. As Fonkoze noted:

> In Haiti, we decided to do it because they are so important; you can't ignore it and pretend you are delivering financial services. Our aim is to develop products that benefit clients and are linked to our mission; not just provide revenue for our organization.

Box 6. Selling New Products to Staff

Several PPIC winners that introduced new products stressed the need to make them simple and easy for staff to sell. UMU attributed much of its success with a new money transfer product to the simplicity of the system, which did not unduly burden staff and allowed it to reach break-even within a year of launch.

CMF, on the other hand, found that staff resistance to selling its new insurance product was a major obstacle to its growth. As the product design was set, CMF managers introduced an incentive scheme to encourage staff to promote the new product.

Microinsurance. Marketing also was a challenge for PPIC winners initiating microinsurance programs, especially because the concept of insurance often is not familiar or fully understood by clients. As AlSol reports:

> Under most circumstances, death is a difficult topic to discuss in any culture, and life insurance was a totally new product for clients in the area. Some women were reluctant to buy life insurance because of superstitions that they would then die earlier. Further, clients initially questioned the logic of leaving money behind for their husbands to spend (not necessarily for their children) instead of having the funds before they die to directly help their families.

PPIC winners used several tactics to overcome these concerns. Both AlSol and CMF say client education on insurance is critical. They further cite the importance of providing fast and efficient pay-out services to the first claimants on life insurance policies. In communities new to the concept of life insurance, it is only when policy holders die that other customers see the real value of the policy. However, this is a relatively infrequent occurrence. Both organizations report that responsive customer service and rapid payouts on these rare occasions result in increased demand for the product.

Given the relatively small number of claims, providers have had to find other ways to promote customer adoption. PACT Myanmar's strategy to promote customer adoption was to piggy-back a simple, low-cost life insurance product onto its credit product. The program, which pays $25 to families upon the death of a family member, is well received by clients and within five years had 102,000 subscribers. PACT learned it was possible to introduce additional services that both benefit clients and improve their effective use of credit without compromising sustainability.

Similarly, AlSol bundled its life insurance product with a loan for a client's first three cycles. Making insurance mandatory for an initial period introduces clients to the product while also reducing administrative costs. After three loan cycles, the insurance reverts to a separate, voluntary product. AlSol adapted the product to allow clients to change their beneficiary designation mid-way through the term of the coverage.

PPIC winners have seen that flexibility in coverage and premium options is as important in health insurance as it is for life insurance. Features like the door-to-door marketing and flexible payment structure adopted by GRET make its health insurance product more attractive to very poor clients.

Box 7. Educating Clients on New Products

In addition to marketing, several PPIC winners emphasize the importance of client education when introducing new products or services.

> In providing remittance services, it is important to educate clients. Remittances are complicated for clients to understand. We need to be transparent and give clients a comparison of prices along side benefits to help them evaluate various remittances. —Fonkoze, Haiti

Education is important when working with new client groups. However this can add to the cost of the program because staff must spend additional time explaining the new product or service.

> Our product was not familiar to clients. They didn't understand what it was all about and our staff had to spend lots of time educating and motivating the clients. We did not anticipate the need for client education in the budget.—LAPO, Nigeria

Up-front investments in client education can pay off handsomely in the end.

> In the beginning, the work we must do with clients makes Credit with Education an expensive endeavor for the rural banks. But in the end they see the result—15 months after we launched the program, one bank that was failing posted a profit for the first time in 12 years.—Freedom from Hunger, Ghana

New client groups

Targeting and client assessment. Seventeen PPIC awards were made for innovations targeting poor and marginalized groups using both direct and indirect targeting methods. Direct methods apply specific eligibility criteria (e.g., poverty score, social characteristic, or geographic residence); indirect targeting is achieved through product features and services that attract a particular client group.

Many PPIC winners emphasize the importance of explicit targeting efforts to reach vulnerable groups. Effective targeting strategies require commitment by organization leadership, which is why they are most successful in the context of institutions with a social mission to reach the poor. In other words, intention matters. This may explain why the winners with the highest proportion of poor clients all had hard targets of serving only poor clients.

Effective targeting strategies also require poverty measurement tools to identify poor clients. Client assessment methodologies, such as market research tools, exit surveys, impact monitoring systems, and impact studies, can help MFIs respond effectively to demand. MFC (Poland) and MFP Barakot (Uzbekistan) designed an innovative product development process that uses vulnerability rather than traditional measures of poverty to segment the market. The vulnerability and financial analysis helps MFP Barakot to identify target segments and to select a livestock loan as an institutionally viable financial product that best serves vulnerable households. The analysis helps MFP Barakot to package a loan to fit consumer behavior, literacy, capacities, and expectations.

In Ghana, Sinapi adapted and disseminated a practitioner-led impact assessment, originally developed by AIMS/SEEP, to track client satisfaction and social and economic change in clients. The PPIC award helped Sinapi to integrate its impact monitoring component into its existing operations and information systems, simplify the system, refine its approach to sampling, and train staff to analyze data. The information is used by Sinapi to identify a key client satisfaction issue and respond by improving the efficiency of its group loan processing. Simple, low-cost approaches are useful for monitoring the effectiveness of current products, improving them, and developing new products that improve impacts on poverty and vulnerability.

Designing products and services that are fine tuned for the target group also is key. Simple things like staff training, how people move in the field, or small changes in product attributes, can make a big difference in accessibility, use, and impact for very poor and socially excluded groups. In many cases, subtle changes in existing products, rather than overhauls, are what is needed. In Togo, WAGES fine tuned its product for refugees by (1) changing the interest rate (lowering it from 18 to 12 percent); (2) dropping the up-front savings requirement; and (3) dedicating staff to this rural target group. In Bangladesh, RIC found all that was needed to serve older clients was a policy change to increase the age ceiling for participation in its credit program. Although RIC also offered other support services for the elderly, it found that its existing microfinance group lending methodology met the needs of older borrowers and, as a result, could be easily mainstreamed.

Conflict and post-conflict settings. Two PPIC winners provided financial services during endemic conflict situations (LEAP, Liberia, and Horizonti, Macedonia). Parwaz began offering services for women in Afghanistan just after a conflict and the overthrow of a gender-repressive regime. The highly flexible venture-funding provided by PPIC was crucial for all three organizations, but in slightly different ways. For Parwaz, the timing of support was critical in helping women take advantage of new freedoms and new economic opportunities.

For LEAP, PPIC support was a lifeline when no other donors were funding in Liberia and operations had to be suspended several times in the face of outbreaks of violence. Communicating to clients that LEAP was committed to serving and supporting its clients despite the conflict was one of the keys that enabled LEAP to maintain its portfolio. This meant that there was an institution in place to provide financial services to help clients rebuild and recover once the conflict was over.

Horizonti reported a similar dynamic:

> It was of great importance during the crisis that a clear message was sent the clients: “Horizonti is here to stay;” therefore, the issuing of new loans never stopped. For Horizonti, the crisis and the groups’ reaction also presented a learning opportunity… clients were visibly traumatized by the events unfolding. The teams reacted by visiting the field more often and holding longer meetings. This gave clients the time to discuss private issues and the general situation in the country. In the long run this service, combined with the clear message that Horizonti was here to stay, had a significant positive effect on repayment moral.

Yet Horizonti did experience a decline in repayment with clients claiming that they had lost all of their money during the conflict. A detailed arrears policy put in place after the conflict helped loan officers handle this pressure, balancing the need for strict repayment discipline with the genuine need for flexibility in conflict circumstances.

PPIC winners working in conflict and post-conflict situations agree that it is critical for MFIs to react quickly once a conflict occurs. Management must come out with a statement to both staff and clients as soon as possible on the MFI's policy and let them know what is expected.

Another lesson relates to the decision whether to continue operations in a conflict setting. This requires an assessment of critical variables related to risk. The MFI should aim to (1) protect the assets of the organization; (2) continue operations if at all feasible; (3) recover capital to the extent possible; and (4) get money into the hands of clients as soon as possible to help recovery. It is also important to assess the ability of staff to safely move in the field and communicate with clients.

New delivery systems/methodologies

New delivery mechanisms. To reach more people, several PPIC winners modified the way they bring their products to clients. Examples include the following:

- *Building streamlined infrastructure*. Constanta expanded rural outreach significantly by implementing a three-tiered delivery structure combining branches, smaller outlets, and still smaller service points to sustainably reach rural towns of varying sizes. Streamlining their branch infrastructure and shortening working hours made a physical presence viable even in towns with as few as 300 clients.
- *Piggy-backing on existing infrastructure*. FFH selected rural banks as partners for its Credit with Education (CWE) program in Ghana. According to FFH,

  > Rural banks were selected because they are located at places where commercial banks are unwilling to go. They also finance projects that the commercial banks find too small to be of any banking value. However… they use the same conditions that exclude the poor from accessing the services. For example minimum deposits to open an account, collateral using documents or instruments that are out of the reach of the poor, etc.

  There was thus a case for FFH to partner with these institutions and introduce CWE as a mechanism to reach clients that rural banks' current products were effectively excluding.

New technologies. A few PPIC winners experimented with hand-held computers, mobile phones, and smart cards to help them reach more people. RFC pioneered a system of non-cash transfers for members of Moldovan rural savings and loan associations (SCAs), issuing their loans on smart cards rather than in cash, which would have limited outreach because of security concerns. SCAs that were more successful in adopting the card technology tended to be ones where account activity took place year-round rather than seasonally. Poor communication infrastructure and infrequent use of the technology in rural areas limited staff and members' familiarity with the technology. As RFC learned, realizing the potential advantages of computer-based technologies may require unanticipated investments of time and resources.

SKS learned a similar lesson when it gave clients smart cards and loan officers personal digital assistants to track account data. The intention was to shorten the time required for group repayment meetings, enabling loan officers to serve more clients in the limited time available for meetings. Automation produced the anticipated benefits of reducing the scope for error and fraud and increasing management's ability to monitor operations and respond to problems. However, SKS decided not to continue its use because the costs outweighed the incremental benefits.

Cross-cutting lessons

In addition to lessons on specific ways of reaching poor and excluded clients, there are several common themes running through PPIC winners' experiences. These relate to goals shared by these organizations and practices that enhance their ability to reach and serve target clients, regardless of the particular innovation being pursued.

Expansion. Organizational theorist David Korten characterizes expansion as one of the three key goals of innovation in social change organizations (see Box 8). Indeed, increasing the number of clients served is a common goal of every PPIC winner and to the program itself. Most PPIC winners have gone through a period of rapid expansion since receiving their awards. Although not necessarily a direct result of the PPIC award, these expansions have generated many important lessons.

- Expansion requires *good staff,* and this requires good staff training. As an alternative to building internal training capacity, LAPO decided to outsource its training functions.

- *Access to larger amount of funds* is necessary and usually requires funding from new sources beyond the traditional sources for MFIs. With any kind of expansion, a variety of financing sources is necessary. Relying on any one source of financing is too risky.

- With multiplying clients and transactions, there is a need for *tighter internal audit and management* to ensure inefficiencies do not multiply as well.

Box 8: A Typology of Innovation

David Korten (1980) saw innovation in social change organizations as supporting improved effectiveness, increased efficiency, or accelerated expansion. This categorization corresponds to three main challenges facing microfinance as a whole today: reaching poorer people, reaching more people, and cutting transaction costs to do so. The first two also correspond roughly to the major types of innovation for which the PPIC has given awards: new products and services (which increase the effectiveness of microfinance for marginalized groups) and new delivery systems (which increase efficiency).

	Effectiveness	***Efficiency***	***Expansion***
What	*Relates to matching the design products and services to the needs of poor and excluded clients.*	*Relates to decreasing costs, increasing productivity, improving accessibility, and achieving sustainability.*	*Relates to scale.*
How	*Introduced through improved products and services; new/complementary products and services; new target groups; new strategic alliances; and evaluation*	*Introduced through new technologies; new delivery systems; new forms of administration and governance; and new strategic alliances*	*Introduced through new business models; new modes of financing; new methodologies to serve remote geographic areas; growth and replication of effective pro-poor methodologies; and new strategic alliances*

Korten suggests a learning process in which organizations first perfect their approach (effectiveness), then perfect and streamline their process (efficiency), and finally learn to scale the approach to reach large numbers of people (expansion). In practice, however, the process is not linear, particularly in microfinance where there is a large degree of interaction and connectivity. Accordingly, innovations to support effectiveness and efficiency in microfinance also contribute to expansion, producing cross-cutting lessons on achieving scale.

- Expansion requires a *good information system*. AlSol found that life insurance requires an especially strong computerized information system on clients to partner with a large insurance company. Now that it has this system in place, it can begin to consider expansion.

- Expansion through either growth or replication requires *adaptation*. In Myanmar, PACT found communities to be so different that, as it grew, its programs needed to change and be tailored. In Nigeria, LAPO found that differences between urban and rural areas were especially important to consider in adapting products in the course of expansion.

- When adapting or tailoring a model or product, it is important to *understand and preserve the fundamental characteristics* that made it effective in the first place. In trying to replicate a BRAC program from Bangladesh in Haiti, Fonkoze first analyzed the program to identify key success factors. FFH took the same approach in taking its credit with education program to various rural banks in Ghana (see Box 9).

Box 9. Preserving the Fundamentals While Adapting the Details

In expanding its Credit with Education Program to rural banks across Ghana, FFH maintained certain key program features while varying their specific form. For example, all partners

- worked with borrower groups—but group size varied from institution to institution;
- agreed to small loan sizes—however, exact amounts varied with varying poverty level across the country;
- retained frequent repayments—but frequency varied; and
- retained education as a central component—but the type of education differed.

Partnerships. A consistent theme among many PPIC winners is the potential of carefully constructed partnerships to expand the outreach of microfinance to marginalized clients. PPIC winners have had both good and less successful experiences with partnerships, yielding valuable lessons on how and with whom to partner.

- JCCUL was deliberate about identifying the *key success factors* (KSFs) that would allow its remittance initiative to bear fruit, and obtaining buy-in on all of them from potential partners. Explicit endorsement of the KSFs allowed JCCUL to judge partner commitment and gave it a reference to return to during moments of potential conflict.

- The *final results of partnership arrangements may not be visible immediately*. AlSol and CMF both offered insurance products through partnerships with a commercial insurer. Although they achieved relatively fast uptake in the first year, the insurance companies found they needed at least three years for a pilot to determine whether to continue the scheme.

- For this reason, *exclusive relationships should be avoided*, or at least entered into for a limited time only. As in JCCUL's experience, this gives the parties an opportunity to exit or renegotiate as circumstances change.

- It is important to *analyze the incentives* of all potential partners. Constanta discovered this when it partnered with commercial banks as disbursement and repayment points in towns where it did not have offices. Seeing Constanta's high repayment rates, these banks eventually poached Constanta clients.

- Partnering with entities that have *appropriate and complementary competencies* can mean the difference between success and failure. In AMUCCS' case, the U.S.-based portion of its remittance program failed because none of the partners had the right connections to Mexican immigrant communities. The Mexican side of the project was more successful because the partners brought together all the abilities needed to deliver remittances to AMUCCS' clients.

Organizational practices that support innovation. Various organizational practices can help support the process of innovation. Below are some of the key lessons learned from PPIC.

- It is necessary to have a strong *structure* in place to support the innovation, such as a separate team for the pro-poor product or staff incentives for those working on innovative products. However, several PPIC winners also mention the importance of subjecting new products or methods to *real-world stress tests* as early as possible in the development process. Otherwise, the innovation can grow into a "hothouse flower," developed in a vacuum and unable to survive integration into the daily operations of the organization.

- The right balance between *flexible, adaptive management* and *strong commitment to the project* is crucial for successful innovation, especially for organizations working in unpredictable or adverse conditions. For example, Haiti experienced some of the worst natural disasters and political violence in its history during the two years since Fonkoze won the PPIC. Yet Fonkoze managed to increase remittances received through its PPIC-funded program by more than one-third that year through flexible project management (and the sheer persistence of its staff). Similarly, Horizonti implemented multiple product and process adaptations in response to the outbreak of violence in Macedonia, while maintaining process discipline within the institution and repayment discipline with clients.

Box 10. The Importance of Nonfinancial Services—Learning for the Future

Reviewing PPIC winners' reports and speaking with their staff hinted at many more lessons than can be adequately documented in this report. One example is the potential importance of nonfinancial services in enhancing the impact of financial services for marginalized clients. The pairing of financial with nonfinancial services—either in-house or through partnerships—was a consistent theme among PPIC winners. Nonfinancial services were used both to support the effective use of financial services and to precede microfinance to prepare vulnerable groups to participate in credit, savings, or other mainstream financial services. Nonfinancial services offered by PPIC winners include life skills, technical skills, financial education, legal support, health and nutrition support, medical treatment, recreational opportunities, business training, and market linkages.

Unfortunately, there is currently little documentation among PPIC winners of the incremental impact of these services on clients as compared to financial services alone. Exploration of this topic would be a valuable future endeavor.

- An *atmosphere of openness* within the organization is essential to promote honest discussion of the results of the innovation—both successes and failures. AlSol has instituted organizational processes, such as quarterly evaluation meetings, regular reporting from the field, and team reports to all staff on the progress of the innovation to help create this type of atmosphere. To encourage dialogue and discussion on the innovation, AlSol's rule of thumb is to make sure no one works on it alone.

- Management's ability to adapt to changing circumstances and unanticipated challenges, learn from missteps, and translate those lessons into improved methods, is key to enabling the innovation process. Korten calls organizations that can do this "learning organizations":

> The learning organization embraces error. Aware of the limitations of their knowledge, members of this type of organization look on error as a vital source of data for making adjustments to achieve a better fit with beneficiary needs. An organization in which such learning is valued is characterized by the candor and practical sophistication with which its members discuss their own errors, what they have learned from them, and the corrective actions they are attempting.

Many of the PPIC award recipients are organizations that have indeed embraced error and learned from mistakes. As Korten writes, “The response to this error is one of the best available indicators of the quality of an organization’s leadership.” Management’s vision, commitment, flexibility, and openness to error, may be some of the most important determinants of which organizations successfully cultivate innovation and which see their new ideas die on the vine.

Summary and Recommendations

What does it take to sustainably offer financial services to economically, socially, or geographically marginalized clients? Of all the lessons described, three elements are key:

- management commitment to reaching excluded clients;
- organizational practices that support innovation, underpinned by management flexibility and openness to experimentation and learning from error; and
- proven microfinance best practices in product design and delivery.

If these three elements are in place, flexible funding from donors can provide a crucial cushion to innovative organizations, enabling them to take measured risks they otherwise could not afford. These experiments hold the potential to advance practice and deepen outreach throughout the microfinance industry.

In enabling this type of risk-taking, PPIC's focus on flexible grants for innovation and learning addresses a gap in the donor world. It is not performance based and does not assume that managers know exactly what they are doing ahead of time. To demand otherwise would stifle the very innovation PPIC seeks to encourage.

One of the best features of the program is that it is unimposing—in terms of the application process, use of the funds, and reporting. Award winners decide for themselves how to use the funds, and reporting requirements are minimal. It does not overwhelm winners with money, nor does it impose high costs on CGAP.

Despite a modest commitment of staff resources, PPIC demonstrates CGAP's serious commitment to sustainable microfinance for the poor. The program's focus on flexible funding for innovation and learning has made CGAP a valued and respected partner among those who, in the past, have questioned CGAP's commitment to the poverty agenda.

For PPIC winners, CGAP's support provides status and recognition that contributes to their broader visibility, acceptance, and demonstration effects. As a center of excellence and innovation in microfinance, the CGAP name is influential, and its support offers recognition and legitimacy to the work of these and other organizations committed to pro-poor microfinance.

Recommendations

PPIC's effectiveness as a learning tool could be enhanced through several modifications, mainly on the reporting and documentation side. Some recommendations for improving the PPIC, while retaining the fundamentals that make it successful, are listed below.

1. CGAP should retain the *prize dimension* of the program. This and the energetic marketing of the program generate enthusiasm and ripple effects. It provides an open and transparent process for applicants and enhances the status and visibility of pro-poor

efforts. The enthusiasm it generates attracts a large number of proposals worldwide and connects CGAP to a diverse range of poverty-focused organizations.

2. CGAP should keep the *application process* simple, open, and welcoming. It should continue its successful efforts to promote the program through networks, forums, Web sites, and personal contacts. Even if organizations do not apply for awards, simply knowing about the PPIC program and CGAP's strong poverty orientation helps to affirm the legitimacy of work on poverty-focused microfinance.

3. The internal *review and selection process* within CGAP works well and should be continued. Leveraging the considerable collective experience of CGAP staff, the process identifies promising institutions at minimal cost. It also brings CGAP staff in touch with a wide range of organizations and allows for consideration of the proposals from different perspectives, promoting internal dialogue and exchange on challenging issues.

4. PPIC should continue to keep the *criteria for selection* broad and flexible. This helps the program to be responsive to industry changes. The experience of the IFAD/CGAP collaboration on the Rural PPIC is an example of one way the award program has been able to respond to a particular challenge, in this case rural microfinance. In a similar vein, CGAP could focus on other challenges, for example, targeting microfinance to poorer people in poorer countries where poverty is more widespread, severe, and often chronic. Because many of these countries are in Africa, one approach would be to seek out applications through an "Africa window."

5. CGAP should explore the question of providing *different size awards* to extend the reach of the program to more organizations. CGAP could consider offering two levels of awards to increase the accessibility of the program to smaller innovations. This option could include offering more small awards (i.e., $25,000) with a better chance of winning and fewer large awards ($50,000) with less chance of winning. A two-tier approach still keeps the process standardized. However, managing more awards would take more time and effort by CGAP staff.

6. The *reporting process* should be kept simple and straightforward and should be designed to match the level of human resources CGAP has to devote to monitoring PPIC winners. Reporting should not be a burden for either the grantees or CGAP. The purpose should be for CGAP to keep in touch with the award winners, follow their progress, and capture lessons from the innovations. The reporting process should ensure that it is an effective use of time and collection of relevant information. CGAP could review the existing report format to further streamline the process.

7. CGAP could continue to conduct a *PPIC winner survey* to take a cross-cutting look at progress, growth, and sustainability of the innovations. To improve understanding of the dynamics of poverty outreach with the innovation, they also could include any available information on outreach to the poor or other vulnerable target groups and draw out lessons related to poverty-focused products, methodologies, organizational processes, partnerships, target groups, geographic areas, or expansion strategies.

8. The reporting process should feed into a *learning process.* To this end, the narrative report format could include one or two tailored learning questions specific to each

grantee. This could relate to a particular target group, product design, delivery system or methodology, use of technology, institutional partnership, or linkage with nonfinancial services. These questions could be proposed by the grantees as part of the proposal process and agreed upon at the beginning of the grant. They might also include a small number of cross-cutting learning questions related to key aspects, effectiveness, efficiency, or expansion. CGAP could send out a two-page template requesting basic financial data, progress of the institution as a whole (to contextualize the innovation), a description of the innovation, and a summary of the outcomes and lessons learned from the innovation. CGAP could compile this information into a profile of each winner to post on a Web site. The Web profiles could be updated every six months and serve as a repository of lessons from the innovations supported by PPIC.

9. Periodic *phone calls* between CGAP and innovators to reflect on and discuss issues related to the innovation on a more personal basis are another way to advance learning. Several people have found outside discussions to be particularly useful.

10. More focus should be placed on *gathering and disseminating lessons learned* from the innovations. An incentive to promote the learning process would be to earmark a small portion of funds in each award for reporting. These funds could be held back at the beginning and used as leverage to encourage organizations to reflect on and share the lessons learned from their innovation. The funds could be used by the organization, for example, to hire outside support to write case studies or to disseminate lessons learned to others. CGAP could disseminate the lessons through the network it uses to publicize the award program to reach a broader microfinance community.

11. The few *case studies* CGAP has done were the most useful sources of information on PPIC winners of any documents reviewed for this assessment because they provided much more qualitative insight into innovations and lessons learned than the reports. CGAP has been able to run the PPIC with very little staff time, but fully capitalizing on the lessons of winners is likely to require more staff time. PPIC should continue to respond to targets of opportunity for case studies, even if on a limited basis. CGAP staff could make short visits to PPIC winners when they are in the field and document progress or lessons through back-to-office reports.

12. CGAP should explore ways to facilitate a *sustained system of interchange* between PPIC winners and CGAP after the grants are over. One idea would be to form a network of PPIC winners or thematic groups to exchange ideas and learning through listserves or Web-based discussions. Periodic meetings on focused topics, such as poverty measurement or microinsurance, would be another way to bring focus and depth to discussions and interchange. Providing written materials ahead of time (in relevant languages for participants) could further deepen the learning process. Another possibility would be to invite PPIC winners to form a "friends of CGAP" network to disseminate information brochures and other materials on CGAP's global agenda in their countries.

13. The need for *follow-on funding* to institutionalize pro-poor innovations was expressed by many PPIC winners. CGAP could facilitate access to follow-up or second-tier funds for post-award support to further test, fine tune, or expand promising innovations by referring winners to other donors or by organizing a donor consortium of funds to provide second-generation funding for feasible innovations. Moreover, organizations could use

the profiles developed as part of a CGAP-facilitated learning process to raise the comfort level of other donors or investors.

Conclusion

Five years in, the PPIC program is at a turning point. To date, the focus has been largely on providing funds and offering recognition to microfinance organizations for poverty-focused innovations. As this review has shown, the experience of PPIC winners is a valuable source of learning, not only about the process of innovation at the field level, but how to move forward the microfinance poverty agenda. CGAP is well positioned to play a greater role in capturing lessons from the awards and disseminating the results through the types of activities mentioned earlier. Although this would require more CGAP resources, it would capitalize on the experience of winners to the benefit the wider microfinance community.

In sum, the PPIC program should be continued because it works well for grantees, it works well for CGAP, and most important, there is still a huge unmet demand for microfinance among the very poor. Innovations always will be needed to meet the multidimensional challenge of providing sustainable financial services to large numbers socially, economically, and geographically marginalized people. Through PPIC, CGAP can continue to promote new and creative ways to push its anti- poverty agenda in microfinance and promote sustainable microfinance initiatives that reach the very poor.

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Appendix: Alphabetical List of and Basic Information on R/PPIC Winners

Organization	Program	Country	Year MFI Founded	Year Award Received
Alternativa Solidaria (AlSol)	Offers microinsurance for poor population in Chiapas, Mexico	Mexico		2001
Archdiocese of Kisumu Savings and Credit Scheme (ADOK TIMO)	Expanding a pilot credit product which provides loans, mainly to peasant women, to produce food products recommended for supporting immune function in HIV patients.	Kenya	1999	2005
Asociacion Benefica PRISMA	Providing seed capital for contingency fund for small rural farmers in Peru	Peru	1994	2003
Asociacion PILARH	Offering loans and social services to family-owned small businesses, primarily in agriculture and extending access to land for the very poorest of families	Honduras	1997	2003
Association pour la Promotion des Groupements Agricoles	Expanding the diversity of existing programs that target poor women	Togo	1994	2003
Association for the Development and Enhancement of Women (ADEW)	Expanding its Girls Dream program: provide young girls who have dropped out of school with training on financial literacy, technical skills and personal development and health	Egypt	1987	2005
Association Mennonite de Developpement Economique	Literacy for clients in rural Haiti	Haiti	1994	2001
Bai Tushum	Introducing a new product targeting disadvantaged women, in dairy industry	Kyrgyzstan	2000	2003
CASHPOR Financial & Technical Services Ltd. (CFTS)	Implementing a newly designed first-time loan product for raising semi-scavenging poultry, an activity which fit around clients' work schedules	India	1997	2001
Centre Beninois Pour Le Developpement Des Initiatives A La Base (CBDIBA)	Launching a mini-credits for women as a graduation program to regular loans	Benin	1992	2000
Center for Microfinance	Working with formal insurance companies to develop life insurance for poor	Nepal	1993	2003

Organization	Program	Country	Year MFI Founded	Year Award Received
Conservation International	Offering loans for isolated coffee growers; expanding program to Colombia	Colombia	2000	2003
Constanta	Offering a lower-cost strategy of satellite offices and mobile teams to reach the rural populations	Georgia		2001
Cooperative Bank of Benguet (CBB)	Expanding outreach by targeting youth in highlands, offering them training, and introducing new techniques	Philippines	1995	2003
Crédit-Epargne-Formation (CEFOR)	Expand financial and nonfinancial services for very poor entrepreneurs, including microloans, savings, business management training, and links to social services.	Madagascar	2001	2006
Credit Union "The First in the Far East" (CU "1st in the FE")	Introducing savings and loan products tied to pensions	Russia	1995	2005
Fondasyon Kole Zepol (FONKOZE)	Short-term marketing to increase volume of US - Haiti transfers; reducing the transaction costs to target a larger number of people	Haiti	1996	2004
Freedom from Hunger Ghana	Providing poor women with both microloans and non-formal adult education on food security and nutrition through self-managed women's associations	Ghana	1992	2002
Grameen Foundation USA	Financing village phone operators (VPOs), increasing access to telecommunications for rural populations while also providing an income generating activity for the VPO and a source of income for the MFIs	Uganda, Rwanda	1995	2004
Groupe de Recherche et d'Echanges Technologiques (GRET)	Expand health insurance program: The program provides primary health care to both children and adults, including free medical check-ups, and provides cash payments for some secondary care such as childbirth and certain surgical procedures	Cambodia	1998	2000
Horizonti	Marketing a partial loan payment program	Macedonia	2000	2002
Institution de Microfinance HOPE (IMF HOPE)	Redesigning its current products and delivery mechanisms to reach poorer entrepreneurs in peri-urban areas who have not had access to financial services (Kinshasa, Kisangani, and Lubumbashi	Democratic Republic of Congo	2004	2006

Organization	Program	Country	Year MFI Founded	Year Award Received
International Justice Mission	Working to reverse the exploitation of bonded labor	India	2003	2003
Jamaican Cooperative Credit Union League (JCCUL)	Linking credit unions with transfer companies; offering the lowest costs in country for transfer services	Jamaica	1996	2002
Kyrgyz Agricultural Finance Corporation	Offering new microsavings product; working with NGOs to reach more of the poor and to educate the poor about the benefits of savings	Kyrgyzstan	1997	2005
The Local Enterprise Assistance Program (LEAP)	Planned to open two new branches in conflict area	Liberia		2001
Lift Above Poverty Organization (LAPO)	Providing loans for its clients to participate in the privatization of state-owned enterprises in industries such as banking, insurance, manufacturing, shipping, and aviation	Nigeria	1988	2002
Microfinance Program Barakot	Development of a holistic framework to study vulnerability and poverty to produce segmented data on client needs for financial and supporting non-financial services	Uzbekistan	2001	2004
Moldova Microfinance Alliance	Establishing and supporting Savings and Credit Associations in rural areas of Moldova	Moldova	1997	2003
Mountain Areas Finance Fund	Extending locations; expanding geographical outreach to those in remote highland areas with little access to financial institutions	Albania	1999	2003
National Rural Support Program	Helping formerly bonded laborers purchase agricultural lands	Pakistan	1993	2002
Oportunidad Latinoamérica Colombia (OLC)	Providing financial services to disabled clients; expanding outreach and training	Colombia	1994	2005
Organizacion de Desarollo Empresarial Femenino (ODEF)	Expanding transfer access to rural areas through partnerships; using smartcards to disburse funds	Honduras	1989	2002

Organization	Program	Country	Year MFI Founded	Year Award Received
PACT Myanmar	Providing health and life insurance, improving distribution of basic drugs at village level	Myanmar	1997	2002
Padakhep Manabik Unnayan Kendra	Expanding street children loan program where they can save and access closely supervised loans	Bangladesh	1993	2001
Parwaz Microlending Fund	Start-up funds for locally operated MFI	Afghanistan	2003	2004
Resource Integration Centre	Expanding outreach to elderly people and disseminate learnings about including this population in financial services	Bangladesh	1987	2004
Rural Finance Corporation	Using non-cash financial services and partnering with local banks for greater rural access	Moldova	1997	2003
Sinapi Aba Trust	Integrating impact indicators to track social and economic trends in clients' lives	Ghana	1994	2003
Swayam Krishi Sangam Microfinance Ltd.(SKS)	Introducing smart cards and hand held terminals for loan officers	India	1997	2000
Small Farmer Cooperative	Establishing a trust fund to replicate existing financial services to support rural agricultural activities	Nepal	1993	2003
Trickle Up and Bandhan	Partnership to pilot a model to graduate the urban poorest from grants to formal microfinance programs by offering access to consumer education, savings services, and business and management training.	India	1979 & 2001	2006
Uganda Microfinance Union (UMU)	Providing a transfer services for clients to assist in greater access and increased security	Uganda	1997	2001
Union des Clubs de Credit et d'Epargne (UCEC)	Expanding its microfinance services in Southern Chad by opening at least three new branches in areas currently lacking any financial service providers	Chad	1988	2006

Organization	Program	Country	Year MFI Founded	Year Award Received
Union Mexicana de Uniones de Credito del Sector Social A.C. (AMUCCS)	Expanding access to remittance money to rural areas; facilitate link between remittances and other services	Mexico	1999	2002
Women and Associations for Gain both Economic and Social (WAGES)	Offering loans without required savings to returned refugees and very vulnerable poor	Senegal	1994	2001
Women Economic Empowerment Consort (WEEC)	Providing financial services to Masaai women to assist with dairy cattle raising	Kenya	1996	2001
XacBank	Scale up its "Development Guide" franchise service for rural savings and credit cooperatives, offering cooperatives on-site consulting and audit services, management training, wholesale loans, and management information systems.	Mongolia	1998	2006
Youth Self Employment Program (YOSEFO)	Offering a savings and loan product specifically for school tuition	Tanzania		2001