

The Consultative Group to Assist the Poor (CGAP)

CGAP Phase III Mid-Term Evaluation (July 2003 – June 2006)

Final Report

**Sarah Forster
Klaus Maurer
Michael Mithika**

**with contribution from
Christine Poursat**

16 March 2007

Glossary of Acronyms Used

ADB	Asian Development Bank
AFD	Agence française de Développement
AfDB	African Development Bank
AIFH	Africa International Financial Holding
AML	Anti-Money Laundering
BCEAO	Central Bank for West Africa
BRI	Bank Rakyat Indonesia, a state-owned bank providing microfinance
BRICs	Brazil, Russia, India and China
CAPAF	Francophone Africa Capacity-Building hub, based in Dakar, Senegal
CFT	Combating the Financing of Terrorism
CIDA	Canadian International Development Agency
CG	Council of Governors
CGAP	The Consultative Group to Assist the Poor
CLEAR	Country Level Effectiveness and Accountability Review
EBRD	European Bank for Reconstruction and Development
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft fuer technische Zusammenarbeit
DFI	Development Finance Institution
DFID	United Kingdom Department for International Development
DIRECT	Donor Information Resource Center
EXCOM	Executive Committee of the CG
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation of the World Bank Group
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IT	Information Technology
KfW	Kreditanstalt fuer Wiederaufbau
MDGs	Millenium Development Goals
MENA	Middle East North Africa
MFC	Micro Finance Centre, based in Warsaw
MFIs	Microfinance Institutions – retail providers of microfinance
MFMI	Microfinance Management Institute
MIX	Microfinance Information Exchange
NBFIs	Non-Bank Financial Institutions
NGOs	Non-Governmental Organizations
OT	Operational Team of CGAP
PPIC	Pro-Poor Innovation Fund
PPP	Public Private Partnerships
RAS	Retail Advisory Services
SDC	Swiss Development Corporation
SHG	Self-Help Group
SPFT	Social Performance Task Force
TA	Technical Assistance
UNCDF	United Nations Capital Development Fund
USAID	U.S. Agency for International Development
WB	World Bank

Table of Contents

- EXECUTIVE SUMMARY iii
- I. INTRODUCTION 1
 - 1. Background 1
 - 2. Objectives and Scope of the Evaluation 1
 - 3. Conceptual framework 2
 - 4. Methodology 2
 - 4.1 Review of documents and analysis of material 2
 - 4.2 CGAP client survey 2
 - 4.3 In-depth interviews with key stakeholders 4
 - 4.4 Participation in CGAP activities or in international/regional events (on-site)..... 4
 - 5. Evaluation process and report 5
- II. EVALUATION FINDINGS 6
 - 1. Relevance 6
 - 1.1 Relevance of CGAP as an organization 6
 - 1.2 Clarity, coherence and relevance of CGAP’s strategy 7
 - 1.3 Responsiveness to global trends 8
 - 1.4 CGAP’s comparative advantage 10
 - 2. Efficacy 11
 - 2.1 Operational Team’s Performance 11
 - 2.2 Performance of CG members: Delivery on commitments 32
 - 2.3 Effectiveness of Working Groups 37
 - 2.4 Overall assessment of efficacy 38
 - 3. Accountability 38
 - 4. Efficiency 45
- III. CONCLUSIONS AND RECOMMENDATIONS 49
 - 1. Areas for improvement for the remainder of CGAP III 49
 - 2. Future of CGAP beyond 2008 52
 - 2.1 Frontier issues 52
 - 2.2 Results from the scenario-building exercise 53
 - 2.3 CG members’ views on CGAP’s future 54
 - 2.4 Industry stakeholder views 56
 - 2.5 Evaluation Team’s Thoughts and messages 58

EXECUTIVE SUMMARY

I. Introduction

The Consultative Group to assist the Poor (CGAP) is currently mid way through its third phase of operation. The purpose of this evaluation was to (i) evaluate CGAP's performance so far under Phase Three (III) in relation to its five priority objectives; (ii) glean lessons learned and areas for improvement over the remainder of CGAP III; and (iii) serve as an input to a broader reflection about the need and future directions for CGAP (post June 2008).

The evaluation covers the whole CGAP system i.e. the CG members, the Executive Committee (Excom), the Operational Team (OT) and the Investment Committee (IC). The evaluation focused on four key questions: (i) *Relevance*: To what extent is CGAP pursuing the right objectives in the right way? (ii) *Efficacy*: To what extent is CGAP achieving its priority objectives as measured by the quantity and quality of its outputs and outcomes? (iii) *Accountability*: To what extent is CGAP's governance and management clear, transparent, fair, and accountable? (iv) *Efficiency*: To what extent does CGAP provide value for money?

The evaluation methodology involved four types of research which complemented each other: (i) review and analysis of documents and material, (ii) review of CGAP client survey results, (iii) in-depth interviews, and (iv) observation/participation in CGAP activities.

II. Assessment of Phase III

1. *Relevance: To what extent is CGAP pursuing the right objectives in the right way?*

Relevance of CGAP as an organization. CGAP's work has continued to be of central relevance to the development of microfinance during Phase III. The overwhelming majority of client survey respondents (85%) agree that CGAP's contributions to microfinance are very important to the success of microfinance globally. The client survey also found that "the more familiar stakeholders are with CGAP the more likely they are to have positive views of its role and contributions to microfinance". This is a tribute to CGAP and reflects the respect of people throughout the industry for the leadership, technical capability and contributions of CGAP staff. Stakeholders highlighted how the microfinance world is more competitive and there are more places to go to for information now. However, CGAP is still regarded as having more legitimacy and being more readily heard than any other organization.

Clarity, coherence and relevance of CGAP's strategy. Overall, CGAP's strategy is clear, coherent and relevant to the global challenges facing microfinance today. The shift in strategic focus from microfinance development to building inclusive financial systems was a good decision. The strategy has increased CGAP's relevance to and influence over mainstream banks and development finance institutions and provided an opportunity to place tackling financial exclusion at the top of the mainstream financial sector agenda.

The strategic shift towards a financial systems approach risked alienating and reducing CGAP's relevance to NGO MFIs and more socially-oriented players. However, for the most

part, CGAP has mitigated this risk by having a focus on poverty throughout its operational work and focusing attention on measuring social, as well as financial, performance.

The increase in work at the meso and macro levels was also a wise move and has seen CGAP play more to its strengths and comparative advantage in Phase III. Although, CGAP still provides some direct investment to MFIs this is through initiatives which are of industry-wide relevance. As a result, criticisms of CGAP investing in retail MFIs have virtually dissipated.

There is room for improvement in the articulation of the strategy. More could be done to simplify and clarify the framework. For example, there is overlap between the objective of supporting diverse institutions and diverse services.

About one-third of CG members feel CGAP could pay more attention to the links between building inclusive financial systems and poverty alleviation. They would like to see greater definition and measurement of how CGAP's outputs translate into outcomes and poverty impact. Although this is key to determining the real "success" of microfinance, the difficulty of measuring the poverty impact of an organization like CGAP must not be underestimated.

A minority (15 percent) of members asked the question "where and how do CG members fit into the strategy?" They feel that the strategy does not do enough to recognize the work programs of members and that there is overlap and even competition between CGAP's activities and their activities in certain areas. CGAP has already taken some action to address such concerns, but more could be done to address these tensions head on and be clear on mutual expectations, roles and responsibilities, for example, through better and more systematic use of the partnership checklist and partnership typology.

Responsiveness to global trends. In looking at CGAP's responsiveness to global trends we distinguished between three roles:

- Intelligence provider – spotting emerging trends, analyzing and interpreting their implications and enabling others to act on them.
- Trend setter – initiating or popularizing a new direction or trend.
- Horizon scanner – systematically examining the potential threats, opportunities and likely future developments which are at the margins of current thinking and planning.

CGAP is good at playing all these roles. It is particularly recognized and valued as an intelligence provider. It is able to spot emerging industry-wide topics and innovative practice and highlight it for the field in the hopes of encouraging good practice and replication. An excellent example of this is CGAP's highlighting BRAC's efforts to serve the ultra poor.

In certain areas, CGAP has been a trend setter. Areas where CGAP has set trends include calling attention to the risk of hard currency lending and the need to put an emphasis on building *domestic* financial markets. Technology is another important example.

In other areas, CGAP is not a trend setter. This is to be expected as, in general, it is practitioners, not donors or industry organizations that set trends. In some cases, those at the forefront of new trends fear that CGAP will "take over" new ideas. This is more a *fear* of competition than a reflection of actual "take-overs".

CGAP has recently clearly established its ability to carry out horizon scanning. The publication of the recent scenarios exercise is a pioneering and thought-provoking piece of work. This is clearly a role for CGAP that is valued and useful to other organizations.

In general, in all these roles there is a call among stakeholders for CGAP to remain an outward facing organization which seeks to reach out and inform its own staff perspectives from a wide range of views. Some feel that CGAP does not always listen and learn from others as much as it might.

CGAP's comparative advantage. CGAP was born with certain comparative advantages. We call these “first generation” advantages, namely, convening power, credibility to its member donors, global perspective, and link to World Bank.

Over the past ten years, CGAP has developed “second generation” comparative advantages thanks to the capability of its staff and the quality of their work: These include:

- Technical competence and ability to attract high quality staff
- Lean procedures which enable agility and flexibility
- Credibility to the entire industry
- Neutrality (to the majority of players)
- Communications capability
- Recognized and trusted brand name

For the majority of CG members, CGAP adds value to what individual members can achieve on their own. Others do not consider CGAP adds much value to their agencies' microfinance operations, however, they consider CGAP adds value to the industry as a whole. Generally, all CG members value CGAP as a field-building organization.

2. Efficacy: *To what extent is CGAP achieving its priority objectives as measured by the quantity and quality of its outputs and outcomes?*

2.1 CGAP Operational Team Performance

The CGAP Operational Team has been the key driver in pursuing the priority objectives set for Phase III. Its performance has been reviewed in terms of outputs achieved, and how these outputs have contributed to achieving desired outcomes and priority objectives.

Promoting institutional diversity. The OT has clearly made progress in promoting greater institutional diversity in microfinance. CGAP has helped to broaden the industry's conception of microfinance providers beyond the NGO MFI model, for example by creating awareness of the variety of financial institutions that serve the poor and by bringing private commercial banks into the picture through the Retail Advisory Services initiative. CGAP's training activities have significantly contributed to expanding the institutional and human resource base of MFIs and to promoting and disseminating a more commercial approach. Information and communications technologies (ICT) will play a crucial role in achieving universal access to formal financial services through various ICT-enabled delivery channels. Hence, the take on of the technology theme mid-way in Phase III was a good and timely decision.

Little work has been done so far on financial cooperatives and on state-owned banks; these are the dominant structures in many parts of Asia, especially in large countries like India and China. More work needs to be done in this regard, most likely beyond the current phase. Overall, it is expected that by end of Phase III, the OT will have achieved most of the outputs and will have significantly contributed to the outcomes drawn up at the outset.

Promoting diverse pro-poor financial services. The OT has made solid progress in its work to promote pro-poor financial services. The PPIC has achieved its objective of identifying MFIs below the donor radar screen that use innovative methods to reach poor clients. The savings and money transfers work has built a good body of knowledge that can be used as a platform to make the business case for the further development of these services. The graduation program has demonstrated the OT's ability to respond to emerging trends and put a new innovation onto the microfinance agenda globally while giving credit to BRAC. In its social performance work, the OT has worked collaboratively with others in leading the field in mainstreaming social performance measurement.

A focused effort will be needed on this area of work for the remainder of Phase III with adequate commitment of staff and resources. The OT now needs to focus on translating its work into action and do more to communicate findings if it is to achieve its priority objective. This is a complex area where CGAP needs to continue to work in an inclusive way and with the long-term approach needed to achieve lasting change.

Transparency. CGAP has done excellent work designing and managing the various initiatives under this objective. The evaluation team are confident that the priority objective of building financial transparency will be achieved by the end of this phase. Indeed CGAP can lay claim to having contributed to the improved quality and increased quantity of information available today from different microfinance actors. The positive changes to increased transparency by microfinance institutions are likely to endure.

Interestingly, it is not the financial incentives offered by CGAP under the Financial Transparency Award that is valued most by institutions, but recognition by CGAP. The CGAP brand and recognition is very powerful and highly coveted.

Fostering a sound policy and legal framework. In the policy field CGAP OT has been well on track in achieving the expected outputs, especially since the launch of the policy initiative and the deployment of additional human resources. Given the considerable attribution problems of short-term interventions in the policy field, CGAP's contribution to achieving the outcome is difficult to measure. There are, however, an increasing number of examples where CGAP interventions have a decisive effect on policy makers.

In the third phase, CGAP has undergone a major shift in thinking and in strategy away from the hands-off stance of the "rush-to-regulate-era" to a more proactive approach to creating a conducive policy environment, and away from a narrow policy focus on regulation and supervision to a broader microfinance policy agenda. Both changes have been timely, appropriate and positive.

CGAP has a clear comparative advantage in the policy arena due to World Bank link. By leveraging this comparative advantage more strategically and systematically CGAP would make considerable progress towards achieving this important objective. Policy work requires time and with the objective of changing behaviour, process is as important as technical content. Sometimes CGAP should be less 'straightforward' in the approach, and should have a more 'political' and less 'technical' dialogue with the relevant actors.

Improving the quality of funders' support to microfinance. Aid effectiveness is an area where CGAP has a clear mandate, an absolute advantage, and has made some very good progress. In Phase III, aid effectiveness work was made a priority by defining it as a strategic objective, creating a dedicated donor team and establishing an office in Paris. This

investment has paid off. Donor relationships are much improved. Sixteen out of 26 CG members (ie. 62%) cited aid effectiveness as an area where performance has been excellent.

The OT is well on track to achieve almost all its expected Phase III outputs. The greatest achievements are in the area of the accountability for results – the peer reviews, the Country Level Effectiveness and Accountability Reviews (CLEARs) and now the Quality of Aid Management for Microfinance Index are all useful tools in helping donor agencies develop better management systems and greater transparency. However, the ultimate test of CGAP's impact are the results on the ground. It was not possible to evaluate whether donor projects are improving as a result of CGAP's aid effectiveness work. Anecdotal evidence suggests that there are improvements, however, bad practice still occurs. This is an area where there is still ongoing work to be done, most notably by the CG members themselves.

Training. CGAP's training and capacity building initiative has been a great success. Working in partnership with others has enabled CGAP to get the messages in these courses and skills broadly disseminated. The courses incorporate best practices and are delivered by local trainers with good understanding of their markets.

Integrating CGAP's training and capacity initiatives under the Microfinance Management Institute (MFMI) should maximize efficiencies and synergies but more importantly raise the profile of MFMI and its offerings. CGAP's continued institutional and financial support is key for the success of MFMI. An important spin-off such as the MFMI should be allowed to continue leveraging CGAP's brand, communications platform and knowledge base.

Communications. CGAP has a strong and effective communications capability and their performance in this area is judged highly by all stakeholders. CGAP's publications and knowledge products are considered among the most important and influential sources in the field of microfinance. Phase III has seen a more nuanced and balanced tone to much of CGAP's communications on issues such as the role of government and interest rates. This is very positive and appropriate at this stage of maturity of the industry.

2.2 CG members' performance

Performance indicators for CG members were defined at the outset of Phase III, but these indicators have not been monitored in a consistent and systematic manner. The absence of such information posed a major challenge to the evaluation. However, anecdotal evidence from discussions and interviews with CG members and the OT in Paris allows, on the one hand, the preliminary conclusion that CG members increasingly apply good practice guidelines and principles. On the other hand, many structural weaknesses persist in CG member organizations which negatively influence their effectiveness: disbursement pressures, donor funding squeezing out commercial funding, the disconnect between the focal point and operational departments, or between headquarters and the field, to name a few.

The contribution to core funding – one of the performance criteria - has been unequal across CG members. Most bilaterals except the US have fulfilled their commitments over the past three years, while the IFIs outside the World Bank Group and UN organizations do not provide any funding at all due to structural barriers. Some, like the private foundations, pay less than others. A common and consistent standard is needed here.

The four membership criteria have not been enforced. Had they been enforced consistently, CGAP would have been left with very few members, and perhaps missing out some of the relevant ones. For example, the IFIs provide no funding but have recently become the most active players in microfinance. On the other hand, the bilateral funders have been consistent in providing core funding but many of them are not active in microfinance nor do they second a technically competent focal point. CGAP needs clear criteria that decide on the inclusion (or exclusion) of members. These criteria should be enforced consistently.

The effectiveness of the **CGAP Working Groups** varies. The Microinsurance group is very effective, produces high value outputs and represents a model example of cooperation within the CGAP system. The Social Performance group is active with increasing levels of participation. This working group is playing an important role in supporting the Social Performance Task Force and promoting social performance management by MFIs and donors. The Housing Finance group is still in the process of being constituted and it is too early to judge its effectiveness. A shortcoming for the CGAP system as a whole is that the working groups are rather disconnected and unrelated to the Operational Team's work program, perhaps with the exception of the Social Performance working group.

2.3 Overall assessment

The CGAP Operational Team has produced high quality outputs during Phase III. With a few exceptions, the team is on-track to produce almost all outputs by the end of Phase III and in some cases will exceed original expectations. These outputs have significantly contributed to achieving Phase III objectives. Particularly in the area of transparency, CGAP has contributed to tangible improvements in industry performance for the benefit of microfinance institutions and ultimately low-income clients. Most areas will require more time and effort to fulfil objectives.

There is more mixed performance among CG members in terms of meeting their Charter commitments. However, among CGAP's members are the leading funders of microfinance who have spurred innovation and good practice in their own right. Greater impact could potentially be achieved by better connecting and integrating the elements of the CGAP system – Operational Team, CG members and the working groups.

3. Accountability: *To what extent is CGAP's governance and management clear, transparent, fair, and accountable?*

CGAP has adequate governance and management systems that are transparent and thorough in providing information about the program. The Charter and the Phase III Strategy with a log-frame of objectives, outcomes, outputs and respective performance indicators provides a solid framework. This is a significant improvement compared to Phase II. The restructuring in 2003 has definitely improved the governance system.

The Excom provides adequate strategic direction and oversight to the work of the Operational Team. The composition of the Excom – combining CG representatives and industry practitioners – has contributed to a good balance of guidance and control functions. Also, the Excom is fairly responsive to the needs, views, and concerns of the CG members, although this depends on the person and the relationship with the respective constituency.

The gradual expansion of membership from an initial 16 to 33 members has widened the spectrum of types of member institutions and increased the heterogeneity in the membership.

There is a large group of CG members – more than half according to our assessment – which are less active, with microfinance or financial systems development not playing a significant role in their organization, and with focal points who are generalists rather than specialists. For this group it is an increasing challenge to assume a governing role for a highly technical organization like CGAP. It might be more appropriate for these members to hold a kind of “preferential shares” (but non-voting) in CGAP in a tiered membership structure.

CGAP is a management-led and staff-driven organization, and this is perhaps reinforced by the relatively passive role of the CG as governing body. With a clear strategic framework in place and with checks and balances implemented by the Excom, this model has worked remarkably well during Phase III. The Phase III Strategy, including the priority objectives and the performance indicators has provided a framework which ensures accountability for results while leaving enough space for agility, flexibility and opportunism on the other hand.

Compared to previous phases, CGAP’s organizational structure is more clearly defined, functional and effective. Management systems and teamwork have improved and work plans are better structured with clearer identification and monitoring of performance targets.

CGAP’s monitoring and evaluation systems are well developed with regard to activities and initiatives and at the level of outputs. However, with regard to measuring, monitoring and evaluating outcomes, more needs to be done. CGAP OT should be able to monitor and report to what extent they *contribute* to achieving *outcomes* and priority *objectives*.

CGAP should develop a concept for measuring its own overarching key objective, i.e. building inclusive financial systems. When is a financial system “inclusive”? What are the criteria? Conventional measures of “financial deepening” (M2 over GDP) do not give the full picture, they are based on “amounts” and not on “number of people”. The World Bank’s work on measuring and monitoring access to finance is a first step in this direction. CGAP should closely collaborate with the Bank’s initiative.

Beyond that, CGAP should do more conceptual work on *impact* and generate evidence on the impact of inclusive financial systems on broader development. It is not meant that CGAP itself get involved in comprehensive microfinance impact studies nor measuring the impact of its own work. What is needed is some generic demonstration of the alleged contribution of inclusive financial systems to poverty alleviation and improvements in the real sector of the economy. The question is being raised in countries with active and mature microfinance markets, such as Bolivia, Bangladesh, Uganda and Bosnia. After two decades of microfinance development and investment, has there been a real and measurable impact of poor people’s increased access to microfinance services on poverty reduction and on improvement of living standards? And if yes, in what way? CGAP should be leading the way towards a *new impact methodology* which – from our point of view – should be some combination of the academic rigor of previous longitudinal impact studies combined with the pragmatic and client-focused approach of social performance measurement. CGAP should serve as convening platform for practitioners, academics and policy makers.

It seems necessary to clearly demarcate the division of tasks between the Excom and the CG members, especially with regard to the workplan. Instead of having a 3-hour session in the annual CG meeting on OT workplan and outputs, there should rather be a policy and strategy discussion and a focus on outcomes and impact. This may include an annual review of the desired outcomes and priority objectives, their relevance and progress made towards the overarching objective of building inclusive financial systems for the poor. Taking it a step

further, a more thorough discussion may be warranted on the role and contribution of inclusive financial systems to the overall goals of poverty alleviation and other MDGs.

The Investment Committee is adequately serving its fiduciary role, and it should retain this function as the custodian of CGAP. In our view, the Excom should be more involved – at least with regard to technical contents – in investment decisions which are in any case closely linked to the workplan. Selected Excom members could become members of the IC, and/or the IC a sub-committee of the Excom.

The CGAP Operational Team learns from its external and internal evaluations and monitoring systems. CGAP is a learning organization and OT staff demonstrate a high degree of responsiveness to the findings of monitoring and evaluation reports. However, sometimes CGAP can be slow to recognize the need to take action.

External evaluations play an important role in assessing the performance of CGAP's investments and providing strategic recommendations. The OT makes all evaluations available to CG members. However, it may need to highlight learnings more as some CG members felt that the OT was not good at learning lessons and being self-critical.

4. Efficiency: *To what extent does CGAP provide value for money?*

CGAP is a cost-effective and competitive organization. Some of the work of CGAP is unique e.g. aid effectiveness in microfinance, or has limited comparables, underscoring the value of such work. Despite having sufficient funding and commitments for its initiatives, CGAP OT has a strong desire to be first in class or compares favorably against the efficiency metrics of similar organizations.

The organizational structure of CGAP in our view contributes to the overall efficiency of CGAP. Limited decentralization contributes significantly to team work and more importantly strategic alignment of the organization, contributing to increased outputs.

Regional 'hubs' of CGAP operate under different models. The optimal structure for these needs to be reviewed after a detailed cost-benefit analysis and strategic review of the programs.

The link and relationship with the World Bank has appreciable cost-savings for CGAP. Access to key back-office services and systems in finance, administration and legal, is valuable for CGAP. In our view CGAP staff are keenly aware of how to leverage this relationship when necessary in their day to day work.

The shift in CGAP's emphasis from external grants to internally managed initiatives has improved efficiency. A performance review of CGAP's investments in 2006 concluded that 'CGAP initiatives perform better than its grants'. On the other hand, CGAP's organizational efficiency is underpinned by a learning culture and flexibility. Initiatives that are off-track are closely monitored and halted where necessary. The workplan framework adopted in this phase of CGAP has contributed to this discipline.

The funding arrangements that CGAP has with its members seem appropriately structured for its activities. CGAP displays flexibility in working with its partners and its members, managing both designated and undesignated funds. The new Technology initiative is a good example of how CGAP achieved an appropriate balance in the structure of funding. We

recommend that CGAP maintain flexibility in structuring and managing its funding arrangements.

CGAP has a flexible and dynamic work structure that leverages the full resources of the OT in teams. This framework approach to work – themes and teams, has made it possible for CGAP to work almost seamlessly between the various office and hubs, with greater cross-team working and increasingly greater work with external partners. The result is a heightened level of discipline and focus on planning, tasks and execution – contributing to overall efficiency.

Efficiency and cost-effectiveness are relatively new dimensions in development program evaluations. As such key internal metrics have not been developed which we can monitor. We are however, confident that CGAP represents value for money and it compares favourably with other organizations with similar activities and mission.

III. Conclusions and Recommendations

1. Recommendations for the remainder of CGAP Phase III

CGAP is currently more than midway through Phase III and a little over one year remains until June 2008. Below we present some recommendations that should lead to achieving the priority objectives

On promoting diverse financial institutions:

- Distill and synthesize lessons from the RAS jointly with CG members which have long experience in this field.
- Provide recognition of other microfinance service providers such as state banks and cooperatives which play a dominant role in many parts of the world.

On promoting diverse pro-poor financial services:

- Commit the staff and resources required to translate the money transfers, savings, PPIC and graduation work into action, and bring the social performance work to center stage.
- Send a strong message to IFIs and DFIs about their role in helping formal financial institutions to expand savings services for the poor. Highlight the contradictions between IFIs policies and the consequences of their credit-focused projects.

On enhancing transparency:

- Run the annual Financial Transparency Awards through to the end of CGAP Phase III.
- Expand CGAP's Information System Fund.
- Continue to support the MIX.
- Work with the Investment Funds to improve their transparency, reporting and linkages to the market.

On fostering a sound policy and legal framework:

- Utilize the close link to the World Bank and engage in more systematic working with the World Bank and the IMF as the major organizations involved in financial sector policy work.

- Increase CGAP's presence at mainstream policy fora (IMF/WB annual meetings, Basle Committee, World Economic Forum etc) and make the case for building inclusive financial systems.
- Develop clear and consistent policy messages.
- Involve CG members more actively in policy work/country diagnostics.

On aid effectiveness:

- Carry out a mapping exercise of donor comparative advantages and activities on a country level.
- Tie in aid effectiveness work more systematically to content areas.
- Consider whether and how best to work with other funders – apexes, investment funds – and develop a work plan for the remainder of Phase III.

2. Key questions for CGAP's future beyond 2008

The vast majority of CG members and industry stakeholders believe that there is a future role for CGAP. The job of building inclusive financial systems is not yet done. CGAP is seen as a vital force in the field to help achieve this goal.

The evaluation team gathered the initial thoughts of CG members and industry stakeholders on CGAP's future and also did some preliminary thinking of our own. Here we raise a few questions which we believe to be fundamental to mapping out the nature of CGAP's future.

To whom does CGAP want to be relevant?

The microfinance industry is developing fast and the spectrum of players is increasing. On one side of the spectrum you have multi-service NGO-MFIs that are engaged in livelihood projects with destitute households; on the other side you have MFIs issuing bonds in local capital markets and participating in international securitization transactions. CGAP has tried – and managed fairly well – to be relevant to the broadest possible spectrum. There is the graduation program on the one hand, and the performance standards of microfinance investment funds on the other. Covering such a span has not been without tensions.

Some players which found CGAP extremely relevant in the past, find them less relevant today. Some of the high performing MFIs are looking to learn, not from CGAP, but the mainstream financial markets. Other less developed MFIs still find CGAP's original technical tools and resources invaluable. At the same time, the relative importance of different actors is changing. Bilateral donors' aid flows to microfinance are declining, while the funds available from new players are increasing.

Going forward, CGAP may need to clarify to whom it wants to be relevant. The greater maturity and complexity of microfinance means that more market segmentation and definition of CGAP's services and audiences is required for CGAP to maintain its relevance.

CGAP potentially can be relevant to all groups provided it has a clear message and underlying set of values and beliefs which are relevant to the financial sector as a whole. This could centre around the core tenet that the aim of microfinance is to improve people's live i.e. the importance of social performance, and also of ethics in lending.

What are CGAP's comparative advantages?

For a future phase of CGAP it will be crucial to identify and strategically utilize CGAP's comparative advantages. CGAP was born with certain comparative advantages innate in its structure, e.g. being a consortium of all major donors, or the link to the World Bank. On this basis, CGAP has successfully developed "second generation" comparative advantages, e.g. its credibility to the entire industry, or its brand name.

The future of CGAP will be influenced by how it develops its "third generation" comparative advantages. There is room for further development of and leverage of the World Bank relationship in the policy arena. The PPIC and the Transparency Awards clearly indicate the value of the "CGAP seal". Using the CGAP seal proactively can be a powerful, effective and efficient tool. A thorough identification and analysis of CGAP's comparative advantages will be an important step in developing a future strategy.

What areas should CGAP work in?

There is a fairly broad consensus among different stakeholders on certain content areas where CGAP should be involved in the future: policy and technology are cases in point. Aid effectiveness, or continuing the successful work with donors or funders, is the third area. A fourth area is the work on social performance and its integration in what we term "double bottom line accounting" as a working title. A fifth area is market intelligence, but here CGAP will need to analyze carefully what existing and planned information sources exist on both the demand and supply side. CGAP's best role is likely to be in packaging rather than producing primary data and analyzing and communicating big picture trends.

How should CGAP work?

How should CGAP work? Undoubtedly, by highlighting "good practices and setting standards" for the industry (field 2 on the horizontal axis) and through "communications and advocacy" (field 4). We pose a question mark in the area of "research and innovation"; others have clearer comparative advantages. This is an area where CGAP may be best off developing closer links with universities and other researchers to ensure any of its initiative with a research angle are appropriately designed and implemented. "Training and advisory" is another area where CGAP should analyze whether it leverages its own resources to the maximum extent. The decision to spin-off training in a separate institute may be a reflection of this. Providing advisory services, especially at the retail level, is clearly not one of CGAP's comparative advantages. In its actions, CGAP should be guided by "creating a demonstration effect" to the industry. Only then would it be justified to engage in field-level work.

In the past three to four years, the core of CGAP's work on aid effectiveness has been working with funding agencies to improve their internal systems and procedures for better microfinance funding. This work will certainly continue with a selected number of agencies.

We recommend a complementary strategy of working more explicitly in partnership with funding agencies on specific content areas and improve donor programs "on the job" by doing them jointly in a better way, by creating demonstration effects and good practice examples. We think that aid effectiveness and technical contents should be more intertwined and donor work should be clearly seen as a *mode of working* as well as a content area.

How should CGAP deal with the tradeoffs and tensions?

CGAP faces considerable tradeoffs and tensions but overall it has managed these tradeoffs fairly well: content versus process, being a field-building organisation vs. a membership organisation, a nimble leader versus a neutral facilitator, setting the agenda versus working in true partnership, to name the major ones. In most cases, the challenge is not about making choices in either direction – which is often more simple – but rather to engage actively and with great sensitivity in a balancing act of both ends. As a general message, CGAP should continue to be and do *both*.

In the future, the tradeoffs and tensions will remain, and may even increase. The extreme scenarios developed in the scenario-building exercise illustrate the scope of these tensions. CGAP has very well balanced its role as nimble leader in certain areas, e.g. the sustainability paradigm, with its role as facilitator in other areas, e.g. the consensus guidelines. We see the challenges for the future in working in *true partnerships*, focusing more on *process* in addition to technical content and engaging more visibly in *poverty outreach* remain as challenges for the future.

Going forward, CGAP should increase awareness of the tradeoffs and tensions and built them into the future strategy, by “embracing” the inherent tensions and, to give one example, by posting both *content* persons and *process* staff on one team. Most of CGAP’s work will require a delicate balancing act that needs to be managed well.

What should the organization look like?

The current organizational structure serves CGAP’s purpose and operations well. CGAP has gained credibility with this institutional set-up. We think that CGAP’s location in the World Bank is favourable in principle. However, boundaries vis-à-vis the World Bank’s financial and private sector unit may need to be clarified. Furthermore, CGAP should leverage the World Bank link more effectively in the policy area.

The future membership of CGAP is one that needs re-examining. There are two issues: one is the current membership structure which needs reorganization and strengthening, the other issue is the future expansion of membership.

Improvement of current membership structure. The current membership structure must be improved. Membership criteria are not being adhered to and are not being enforced either; this clearly needs to change. First of all, membership criteria should be clarified, streamlined and possibly simplified.

- Which institutions should be **eligible** as members?

CGAP is and should remain a public good. Hence, as a fundamental principle, we think that membership should be confined to institutions with a clear public interest.

- Which should be the **main membership conditions** and criteria?

Paying the membership fee is probably the most straightforward condition. In the CGAP context, this translates into a minimum contribution to core funding.

A second condition could be that member representatives in the Council of Governors must fulfil minimum requirements in terms of qualification and competence in microfinance, in order to ensure good governance.

Both criteria, **funding** and **good governance**, are currently not adhered to by some members. Some donors face difficulties to fund staff and administrative costs of a global trust fund operation like CGAP. Designated funding of defined projects or countries/regions is more in line with donor policies and procedures. CGAP should consider using designated funds strategically like it has done with designated funds from Gates Foundation in the technology initiative, or with Ford Foundation in the Social Performance field. Donors and CGAP should agree on a standard administration and reporting framework for designated funding. If contribution to core funding were made a *conditio sine qua non*, some of current members would have to be excluded. These members could be accommodated if CGAP adopt a more flexible stance on co-financing of initiatives and investments.

Implementing and enforcing the second criterion, **good governance**, is more difficult. Some of the current CGAP members do not have the prerequisites for seconding competent microfinance specialists as CG representatives because microfinance operations are limited and are overseen by generalists who have little time to devote to CGAP affairs. It may well be that some CG members would themselves refrain from an active governance role in CGAP because – due to its highly technical nature - it requires specialist know how. Hence, some CG members would probably be happy to be a member of CGAP and provide core funding but not take an active role in governance.

One option to solve these problems and improve the current membership structure could be to create a **tiered membership**, consisting of at least two tiers (Tiers A and B or “silver” and “gold”) with different degrees of obligations and responsibilities on the one hand and rights and benefits on the other hand.

Tier A – “silver club members” – may include on the obligations side (i) a base level of funding (core and/or designated), (ii) adoption and endorsement of standards and consensus guidelines, on the benefits side (i) the recognition of support to CGAP as a public good for the wider microfinance industry, (ii) ready access to CGAP publications and outputs, (iii) participation in annual meetings and other CGAP events, but (iv) no role or only limited role in governance, e.g. adopt consensus documents, approve extension or disbandment of CGAP, amend CGAP Charter.

Tier B – “gold club members” – may include additional obligations such as (i) a higher level of funding, (ii) annual reporting on performance and adherence to standards, preferably through the Aid Effectiveness Index, (iii) active and competent participation in relevant meetings (with focal points fulfilling fit and proper criteria), and would provide additional benefits in the form of (i) customized member services (to be defined), (ii) extended role in governance and voting right, incl. set policy and strategy, select Excom, confirm appointment of Executive Director of CGAP OT and (iii) strategic partnerships with CGAP OT on designated initiatives. The conditions of membership should be consistently enforced.

A second option – or even additional to the first option above - suggested by the OT management could be to create a dual structure of **members and affiliates** and to use core funding or no core funding as the main and simple decision for membership or for different tiers -members and affiliates.

- **Members.** The criterion for membership would be making at least the minimum contribution to CGAP core funding. Members have a vote and are eligible to serve on the Excom. Members would have to commit to annual reporting of microfinance support amounts. Some of the current members would need to gear up in funding contributions in order to retain membership.
- **Affiliates.** These are the organizations that are considered as non-members. The requirement for such affiliate status would be that they be major funders of microfinance. They would be invited to most CGAP meetings and have access to information.

The compliance with good practice standards – a further one of the current membership criteria – would be captured through the aid management index now being piloted. If the aid management index acquires momentum, it’s probably a better tool for this purpose than the requirements of the present CGAP charter. CGAP could create some kind of “Gold Circle” or other branding to highlight members that do meet the standards of transparency on performance.

Further thought needs to be given to this second option. First, CGAP needs to assess the implications of the core funding vs. no core funding as the main membership criteria. A rigorous enforcement of this criterion may lead to exclusion of some current members. With some of them, like the IFIs, being major and influential players in microfinance, the question is whether this is wanted. Second, the concept of affiliates needs further thought with regard to the benefits. What would make affiliates different from other partners with whom CGAP currently collaborates and will collaborate in the future?

Expansion of Membership. We believe that CGAP should extend its membership (or affiliation in case of the second option outlined above) for two main reasons. First, in order to achieve its mission it needs to include those funders which are the most influential and provide the most funds to microfinance. Second, CGAP needs a secure financial base to carry out its work. Given the difficulties of securing funding from some of the current members, it makes sense to expand the membership to organisations interested in being members and willing to pay.

The question is based on what criteria should membership be expanded given there are hundreds of other funders, including commercial banks, investment funds, developing country governments, apex funds, and international NGOs.

An overarching principle could be that CGAP remain a public good and membership should be confined to institutions with a clear public interest. Based on this understanding criteria for extending the membership could include:

- Do the funder’s objectives include a development purpose, as demonstrated by the nature of its track record of providing resources that the commercial markets are not yet willing to provide? Membership should not be extended to funders who are only providing refinancing at commercial rates.
- Is the effectiveness of the funder’s work important to the advancement of microfinance? Given the large number of funders, here a size criteria could be introduced to reduce the pool of potential new members. For example, above x amount of funds available.

- Does the funder see membership in CGAP, and CGAP services and other work, as useful enough that it is willing to contribute to the budget?

Beyond its membership, CGAP may engage in partnerships or develop programs targeted at private sector institutions, apex institutions, international NGOs etc. It could also potentially sell services to private sector funders e.g. consulting services and information products. We would be wary of this option at this stage.

We do not advise the extension of membership beyond funders. However, we would ensure the Excom retains its current practice of having leading practitioners on the Board. Excom representation could potentially be extended to other stakeholder groups.

Overall, CGAP is a powerful and pivotal force in the field, which is playing a critical role in helping others to build inclusive financial systems. It produces high quality, high value work which is universally respected. CGAP provides good value for money and has earned a highly coveted brand. It has long moved from being a “program” to being an organization of central importance to helping achieve the vision of “access for all” in terms of financial services.

I. INTRODUCTION

1. BACKGROUND

CGAP is a donor consortium and resource center whose vision is to build inclusive financial systems that work for the poor. Its 33 members – including bilateral, multilateral, and private funders – have committed to a common strategy to realize this vision during CGAP’s third phase (July 2003 – June 2008). This strategy, referred to as the “CGAP III Strategy” entails five priority objectives: (i) supporting a diversity of financial service providers; (ii) promoting greater diversity in the range of both poor clients being served and financial services being offered; (iii) improving transparency on the performance of microfinance providers; (iv) fostering a sound legal and regulatory framework; and (v) improving the quality of donors’ support to microfinance.

To carry out this strategy, CGAP works with stakeholders at all levels of the financial system: (1) retail financial institutions; (2) organizations that are part of the financial market infrastructure; (3) governments in developing countries; and (4) public and private funders. CGAP provides a variety of services to these stakeholders: advising on legal and regulatory issues; researching, publishing, and disseminating good practices and standards; delivering tailored change-management support to funders who wish to improve their effectiveness; and developing and funding experimental initiatives that can make financial services accessible to more of the world’s poor. CGAP also serves as a convening platform for a broad range of stakeholders to interact and develop consensus on standards and guidelines for the microfinance industry.

CGAP is currently in its 12th year of operation. It was initially created in 1995 as a three-year program at the instigation of the World Bank, other major development institutions, and leading microfinance practitioners to build a sustainable microfinance industry. Following independent evaluations, it was renewed for a second, five-year phase in 1998, and was extended to a third five-year phase in 2003 (2003-2008). The current evaluation of CGAP Phase III assessed performance slightly more than mid way through CGAP III .

2. OBJECTIVES AND SCOPE OF THE EVALUATION

The purpose of this evaluation is threefold, as spelled out in the Terms of Reference:

- 1. to evaluate CGAP’s performance so far under Phase Three (III) in relation to its five priority objectives;*
- 2. to glean lessons learned and areas for improvement over the remainder of CGAP III, including the adjustment of priority areas based on its comparative advantage in the rapidly evolving microfinance landscape; and*
- 3. to serve as an input to a broader reflection among CGAP’s members about the need and future directions for CGAP or a like entity (post June 2008).*

The evaluation covers the whole CGAP system, which includes the following components: (i) the Council of Governors of member agencies (CG) who are the owners and funders of CGAP. They form the General Assembly. (ii) The Executive Committee (Excom) as the Board and executive governing body. (iii) The Operational Team (OT) which is responsible for implementing CGAP’s work. (iv) The Investment Committee (IC) serves as the custodian of CGAP’s investment fund and plays the fiduciary function of the World Bank as administrator of CGAP. As noted in CGAP’s Charter, each component of the CGAP system

has its own role and mandate, and the interaction of the system as a whole is critical to CGAP's success.

3. CONCEPTUAL FRAMEWORK

The evaluation of CGAP focused on four main criteria and key evaluation questions:

- *Relevance*: To what extent is CGAP pursuing the right objectives in the right way?
- *Efficacy*: To what extent is CGAP achieving its priority objectives as measured by the quantity and quality of its outputs and outcomes?
- *Accountability*: To what extent is CGAP's governance and management clear, transparent, fair, and accountable?
- *Efficiency*: To what extent does CGAP provide value for money?

Following a discussion on the vast scope of the evaluation, the Excom assigned priorities and weights to the four questions in the following order: 1. Relevance 20%, 2. Accountability 20%, 3. Efficacy 40% and 4. Efficiency 20%. While this order of priority was taken into account during the evaluation, the presentation of findings in this report follows the order above for reasons of clarity and argument flow, i.e. treating efficacy *before* accountability.

4. METHODOLOGY

The evaluation was based on four methodological pillars complementing each other: (i) Review and analysis of documents and material, (ii) Contracting of a CGAP client survey, (iii) In-depth interviews, and (iv) Observation/participation in CGAP activities.

The bulk of the evaluation was carried out off-site, as agreed with the Excom, especially pillars (i) and (ii) and much of pillar (iii).

4.1 REVIEW OF DOCUMENTS AND ANALYSIS OF MATERIAL

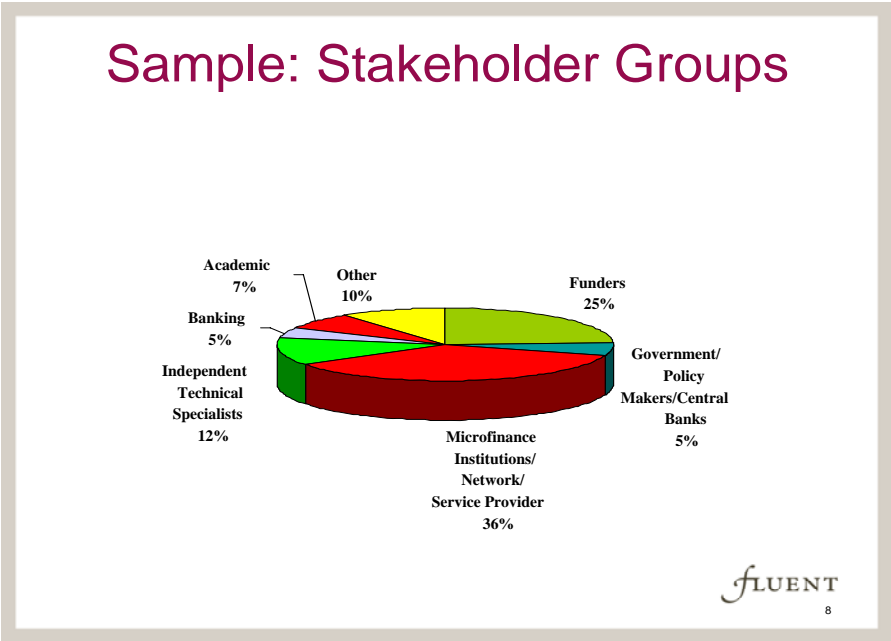
- Review of key CGAP (internal) documents, including the Phase III Strategy, CGAP Charter, annual workplans, the paper presenting the results of the scenario building exercise, annual reports, financial statements, minutes from Excom and CG meetings and Investment Committee meetings, project monitoring reports, 'Back-to-Office' reports from CGAP staff, and communications between the CG and/or Excom and the Operational Team.
- Review of content and delivery mechanisms of CGAP products and services
- Review of secondary evaluations: "client listening" assessments and project evaluations.
- Analysis of data and material

4.2 CGAP CLIENT SURVEY

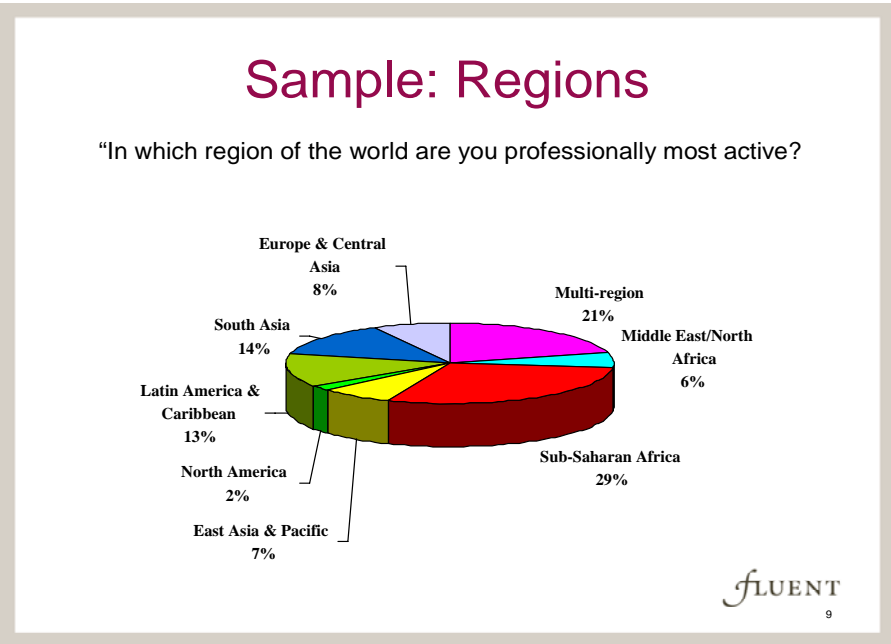
In order to gauge the views of a wider circle of CGAP stakeholders, clients and the microfinance industry at large a web-based client survey was designed and implemented in October/November 2006. The questionnaire focused on (i) Strategy focus and client needs, (ii) Client communication with CGAP, (iii) CGAP products and services. The questionnaire

was initially developed by the Operational Team, received major inputs from the Excom chair and comments/inputs from the evaluation team. The compilation and analysis of survey data was carried out by FLUENT, an independent market research firm. The complete report is attached in the Annex.

The survey generated responses from 621 respondents across all stakeholder groups, as presented in the figure below.



The regional distribution of the respondents is shown in the figure below. There has been a particularly strong response from Sub-Sahara Africa accounting for 29% of the sample.



4.3 IN-DEPTH INTERVIEWS WITH KEY STAKEHOLDERS

The evaluation team conducted in-depth interviews in person or by phone with 106 key stakeholders. A mapping of key stakeholders resulted in two main categories, (i) the CGAP system and its organs in a narrow sense, and (ii) the CGAP clients and microfinance industry in a wider sense.

The first category comprises the CG members, the Excom, the Operational Team and the Investment Committee. The evaluation team made it a principle to interview all CG members, Excom and OT staff. For the in-depth interviews, the team developed an interview guideline which is attached in the Annex. The CG Meeting in Cotonou provided a good opportunity to interview the majority of CG members. Furthermore, the evaluation team has been in close consultation and interaction with the CGAP Operational Team as the key driver in the CGAP system. The evaluation team spent two days with the Operational Team in Paris (06-07 November 2006) and four days with the Team in Washington DC (04-08 December 2006). During both visits, individual interviews and consultations and focus group discussions were conducted. In total, 66 stakeholders were interviewed among CG members (34), Excom (6), Operational Team (28) and Investment Committee (3).

The second category comprises the CGAP clients in a wider sense, at the *micro* level the microfinance providers, wholesaling banks and investment funds, at the *meso* level the microfinance networks and industry institutions such as rating agencies, auditors, credit bureaus etc, and at the *macro* level the governments, policymakers, central banks. This stakeholder cluster was largely covered by the web-based client survey with responses from more than 600 stakeholders (see above). In addition to these, the evaluation team conducted personal interviews with selected key stakeholders who are sufficiently knowledgeable about CGAP. From a long list of resource persons provided by the Operational Team and the Excom, the evaluation team selected 40 people for interview. The interviews were semi-structured conducted using a five-question interview guideline.

4.4 PARTICIPATION IN CGAP ACTIVITIES OR IN INTERNATIONAL/REGIONAL EVENTS (ON-SITE)

The evaluation team participated as observers in the following CGAP or CGAP-related events:

- Council of Microfinance Equity Funds, London, 18 September 2006
- KfW/CGAP Seminar on Structured Finance and Microfinance Investment Funds, Frankfurt, 24-25 September 2006
- High Level Meeting on Better Aid, Paris, 20 October 2006
- CG meeting in Cotonou 23 to 24 October 2006
- Africa Day in Cotonou on 25 October 2006
- CGAP Excom Meeting in Cotonou on 22 October 2006
- CGAP Management Team Meeting in Washington on 6 December 2006
- CGAP Staff Meeting in Washington on 6 December 2006.

5. EVALUATION PROCESS AND REPORT

The evaluation team reports directly to the Excom, which has appointed a sub-committee to oversee the evaluation. This sub-committee consists of Frank DeGiovanni (Excom Chair), Carlos Cuevas, Carlos Labarthe, Brian Branch, and Gabriela Braun.

The evaluation process stretched over a period of seven months from August 2006 until March 2007. The process can be broken down in three phases: Preparation (14 August to 17 October 2006), Implementation (18 October 2006 to 17 January 2007) and Report drafting (16 January to 16 March 2007).

Throughout the evaluation process, regular interactions between the evaluation oversight committee and the evaluation team have taken place:

03 October 2006	Kick-off meeting with Excom Chair in Paris
18 October 2006	Briefing with Excom sub-committee in Paris
17 January 2007	Presentation of preliminary findings to Excom sub-committee in Paris
26 January 2007	Comments from Excom sub-committee
12 February 2007	Submission of Draft Report
20 February 2007	Initial comments from Excom (Teleconference)
06 March 2007	Written comments from Excom

This is the revised and final version of the evaluation report. The comments and inputs from the Excom have been incorporated into the report.

II. EVALUATION FINDINGS

The findings are structured along the main criteria and key evaluation questions.

1. RELEVANCE

This section assesses the relevance of CGAP. The overarching question posed was *to what extent is CGAP pursuing the right objectives in the right way?* This was broken down into specific questions about the relevance of CGAP's strategy, its responsiveness to emerging trends and CGAP's comparative advantage and value added (see TORs in Annex 1). Below we present the views of the CG members (including ExCom and Investment Committee members), the results of the client survey, views of selected industry stakeholders, and the OT perspective before providing our overall assessment.

1.1 RELEVANCE OF CGAP AS AN ORGANIZATION

CGAP's work has continued to be of central relevance to the development of microfinance during Phase III. The overwhelming majority of client survey respondents (85%) agree that CGAP's contributions to microfinance are very important to the success of microfinance globally. The client survey also found that "the more familiar stakeholders are with CGAP the more likely they are to have positive views of its role and contributions to microfinance". This is a tribute to CGAP and reflects the respect of people throughout the industry for the leadership, technical capability and contributions of CGAP staff to microfinance development. This also reflects the fact that CGAP is both a membership organization and one which serves the entire microfinance industry, and hence is relevant to all stakeholders, not just CG members.

The stakeholders interviewed consider CGAP to be a very relevant organization although the reasons differed for various segments of stakeholders:

- For MFIs, CGAP's relevance is due to the usefulness of their tools and resources in building capacity, and in improving aid effectiveness.
- For networks, CGAP's greatest relevance is in the work they do to shape the industry in terms of their thought leadership (the scenarios exercise was mentioned as an example), the messages they communicate and their market intelligence at the macro level.
- For investment funds, CGAP's work on tools for MFIs and transparency is seen as relevant and important in helping to strengthen the industry and thereby increasing investment opportunities.
- CGAP was regarded as least relevant by academics and technical specialists. For some this lesser relevance was due to the nature of CGAP as a donor consortium; for others it was because they are not regarded as being at the forefront of research.

Although, stakeholders overall perceive CGAP to be relevant, they also highlighted how the microfinance world is becoming more competitive. Some stakeholders perceive that CGAP is becoming less relevant than it was. There are more places to go to for information now – the Grameen Foundation, networks, and UNITUS were mentioned as examples. However, for most stakeholders, including the major networks, CGAP is still the "official voice" of microfinance and has more legitimacy and is more readily heard than any other organization.

1.2 CLARITY, COHERENCE AND RELEVANCE OF CGAP'S STRATEGY

Overall, CGAP's strategy is clear, coherent and relevant to the global challenges facing microfinance today. The shift in strategic focus from microfinance development to building inclusive financial systems was a good decision. It provides a vision and broadens thinking about how to scale-up microfinance – through developing financial systems that benefit the poor. Although the strategy may seem familiar today, at the time it was developed and approved, it was radical for many constituencies and has influenced thinking about the nature of microfinance, its place within financial systems and the role of banks and other institutions. The strategy has increased CGAP's relevance to and influence over mainstream banks and development finance institutions and provided an opportunity to place tackling financial exclusion at the top of the mainstream financial sector agenda.

The strategic shift towards a financial systems approach and working with mainstream market players risked alienating and reducing CGAP's relevance to NGO MFIs and more socially-oriented players; some of these players see such a strategic framework as shifting the focus to increasing access to financial services in and of itself and not on the end goal of tackling poverty. However, for the most part, CGAP has mitigated this risk by having an explicit focus on poverty throughout its operational work and focusing attention on measuring social, as well as financial, performance.

The increase in work at the meso and macro levels was also a wise strategic move and has seen CGAP play more to its strengths and comparative advantage in Phase III compared to previous Phases. Although, CGAP still provides some direct investment at the retail level this is through initiatives with strategic objectives which are of industry-wide relevance and value, such as promoting institutional diversity and transparency. As a result, criticisms of CGAP competing with CG members by investing in retail MFIs have virtually dissipated.

CGAP is seen to be pursuing the right objectives in the right way. CG members, industry stakeholder interviewees and the majority of respondents (75%) to the client survey agree that CGAP's strategic objectives – (i) fostering a diversity of financial institutions that serve the poor; (ii) facilitating the poor's access to a wide range of financial services; (iii) improving the availability and quality of information on the performance of microfinance institutions and, (iv) promoting a sound policy and legal framework and (v) improving aid effectiveness – reflect the main global challenges facing microfinance. Overall, the majority of CG members are very supportive of CGAP's current strategy. Some mentioned that it was not only a useful framework for CGAP's interventions but for member agencies' own microfinance strategies.

CGAP's Phase III strategic framework is clearer and more coherent than the Phase I and Phase II strategies. Compared to previous phases, CGAP's organizational structure is also more clearly defined, teamwork has improved and work plans are better structured with clearer identification and monitoring of outputs against performance targets.

There is room for improvement in the articulation of the strategy. More could be done to simplify and clarify the framework. For example, there is overlap between the objective of supporting diverse institutions and diverse services which can lead to difficult choices as to where to categorize certain initiatives e.g. the social performance measurement work has been categorized under each of these objectives at different times. Clearer definition of objectives, outputs, and outcomes is also needed in some work areas, particularly the pro-poor financial services.

About one-third of CG members feel CGAP could pay more attention to the links between building inclusive financial systems and poverty alleviation. These members want to see more focus not just on increasing *access* to financial services for the poor, but transparency about *who* is being served and the impact of financial services on alleviating poverty. They also would like to see greater definition and measurement of how CGAP's outputs translate into outcomes and poverty impact. Although this is key to determining the real "success" of microfinance, the difficulty of measuring the poverty impact of an organization like CGAP should not be underestimated. Given the nature of CGAP's activities, the relationship between inputs, outputs, outcomes and impact on the poor is indirect and, therefore, hard to measure. However, OT staff are looking into this area and trying to identify realistic ways of measuring impact to the extent possible at both an overall and project level.

A minority (15 percent) of members asked the question "where and how do CG members fit into the strategy?" These represent some of the larger CG members with substantial microfinance programs. They feel that the strategy does not do enough to recognize the work programs of members and how these link to CGAP's work program. Several feel there is overlap and even competition between CGAP's activities and their activities in certain areas. Examples given were in the areas of policy, technology and the CLEARS.

CGAP has already taken some action to address such concerns, but more could be done to address these tensions head on and be clear on mutual expectations, roles and responsibilities. CGAP has established two tools to manage partnerships. The first is a "partnership checklist" which is a form used to make explicit issues such as roles and responsibilities and ownership of intellectual property for joint work. The second is a "typology of partnerships" which distinguishes between six types of partnership: grant partnership, equal partnership, collaborative partnership led by CGAP, collaborative partnership led by others, advisory partnership and contractual partnership (see Annex 10 for details).

There is potential to adapt and use these tools to help in the management of partnerships with CG members. Currently, the partnership checklist is completed, shared and agreed by both parties for more formal partnerships such as joint publications. This is not done consistently, nor is it done for informal partnerships when no money or contracts are exchanged. It is recommended that the OT review the partnership checklist and adapt it so it is linked into the typologies i.e. it identifies which type of partnership this is. The OT should then update its list of CGAP partnerships, which include different types of partnerships with CG members. The two tools could then be shared with CG members and used on a consistent basis, for both formal and informal partnerships, as a framework for making clear roles, responsibilities and mutual expectations between CG members and the OT.

1.3 RESPONSIVENESS TO GLOBAL TRENDS

In looking at CGAP's responsiveness to global trends we distinguished between three roles:

- Intelligence provider – spotting emerging trends, analyzing and interpreting their implications and enabling others to act on them.
- Trend setter – initiating or popularizing a new direction or trend.
- Horizon scanner – systematically examining the potential threats, opportunities and likely future developments which are at the margins of current thinking and planning.

CGAP is good at playing all these roles. It is particularly recognized and valued within the industry as an intelligence provider or “knowledge resource center”; this was the most resonant description for client survey respondents when asked to describe CGAP’s identity. CGAP is seen as the world’s leading organization in terms of knowledge management and information and best practice dissemination on microfinance. It is able to spot emerging industry-wide topics and provide valuable guidance and advice on these topics through the resource centers on the Microfinance Gateway and its publications. CGAP also plays an important role in identifying innovative practice and highlighting it for the field in the hopes of encouraging replication. An excellent example of this is CGAP’s highlighting BRAC’s efforts to serve the ultra poor.

Some stakeholders would like to see more information from CGAP on microfinance trends, developments, new products and innovations:

"In an increasingly complex environment, CGAP would add a lot of value in keeping track of where the industry is moving -- trends that are important to the MF industry: who is doing what?"

"I would like to see more about new products and innovations."

"More research and guidelines on innovative areas concerning reaching the very poor."

In certain areas, CGAP has been a trend setter. Areas where CGAP has set trends and led a change in the field include calling attention to the risk of hard currency lending and the need to put an emphasis on building *domestic* financial markets. Technology is another important example.

In other areas, CGAP is not a trend setter. This is to be expected as, in general, it is practitioners, not donors or industry organizations that set trends. One example of where CGAP lagged behind is policy and legal reform – field-level donors and practitioners were working with Governments on linking microfinance to economic development strategies and on legal and regulatory reform some years before CGAP focused resources and attention on this area. But CGAP did respond and is now a leader in this field. There are issues in the policy area which some would say are still not getting enough attention, such as consumer protection issues and ethics.

In some cases, those at the forefront of new trends fear that CGAP will “take over” new ideas. This is more a *fear* of competition and CGAP’s brand strength and power than a reflection of actual “take-overs”. Typically, CGAP aims to work in collaboration with trend setters and sees what they can do to add value to what is already being done by others. The establishment of the Rating Fund is a good example. Despite criticisms by some rating agencies that the approach undermined the viability of the market, on balance this has had a positive impact on the uptake of ratings and, thereby, the transparency of MFIs which even the critics would recognize.

CGAP has recently clearly established its ability to carry out horizon scanning. The publication of the recent scenarios exercise (Focus Note No. 39) is a pioneering and thought-provoking piece of work. As one CG member put it: “CGAP sees things that the rest of us don’t; they can look up towards the horizon and see the big picture”. One practitioner spoke

of how her organization had used the scenarios report as a framework to analyze the organization's strategy and how well it was adapted to respond to the threats and opportunities identified by CGAP. This is clearly a role for CGAP that is valued and useful to other organizations.

In general, in all these roles there is a call among stakeholders for CGAP to remain an outward facing organization which seeks to reach out and inform its own staff perspectives from a wide range of views. Some feel that CGAP does not always listen and learn from others as much as it might. This is an important message and reflects the need not to just *hear* what others are saying but to truly listen, acknowledge and reflect back.

1.4 CGAP'S COMPARATIVE ADVANTAGE

In terms of CGAP's comparative advantages, our view is that CGAP was born with certain comparative advantages. We call these "first generation" advantages, namely:

- Convening power
- Credibility to its member donors, which provided the basis on which to develop consensus guidelines and standards
- Global perspective
- Link to World Bank

Over the past ten years, CGAP has developed "second generation" comparative advantages thanks to the capability of CGAP's management and staff and the quality of their work:

- Leading source of information for the microfinance industry
- Technical competence and ability to attract high quality staff
- Lean procedures which enable agility and flexibility
- Client-oriented and fast speed of service
- Ability to broker relationships between industry stakeholders
- Credibility to the entire industry
- Objectivity
- Neutrality (to the majority of players, although a minority have strong views that CGAP tends to be doctrinaire)
- Access to and leverage with key constituencies (policymakers, regulators, and donors)
- Communications capability
- Recognized and trusted brand name
- Freedom of expression – CGAP is recognized as having the courage to say things even if they are critical of their core constituents
- Respect of WB staff – it is only in the recent period that CGAP staff are working closely with Bank staff and have established themselves as a service center for the Bank.

For the majority of CG members, CGAP adds value to what individual members can achieve on their own. Most see clear additionality from CGAP's work, particularly the aid effectiveness and policy work. Others do not consider CGAP adds much value to their agencies' microfinance operations. However, they consider CGAP adds value to the industry as a whole.

Generally, all CG members value CGAP as a field-building organization. For those CG members which have limited investment in microfinance, this may be their primary reason for supporting CGAP. As one member put it:

CGAP has a vital role in influencing the development of the microfinance industry. It is a dynamic force which stimulates development of the sector and its value comes from this role.

The future of CGAP will be influenced by how it develops its “third generation” comparative advantages. As discussed in the final section, we believe there is room for further development and leverage of the CGAP brand, the World Bank relationship in the policy arena, and CGAP’s communication capability.

2. EFFICACY

This section assesses the performance of CGAP in Phase III and addresses the following key evaluation question: *To what extent is CGAP achieving its priority objectives as measured by the quantity and quality of its outputs and outcomes?*

The evaluation of CGAP’s performance is based on the performance indicators established at the onset of CGAP III for the Operational Team (Outputs), for the CG members (Commitments) and for the CGAP system as a whole (Outcomes).

2.1 OPERATIONAL TEAM’S PERFORMANCE

The assessment of the CGAP Operational Team’s performance is conducted in three steps:

- a. Achievement of outputs from the various activities/initiatives

This first step compares *actual* against *expected* outputs from the various activities/initiatives undertaken by the CGAP OT. For *completed* activities, the analysis focuses on the extent they did achieve the planned outputs (fully, partially, not). For *ongoing* activities, the question is to what extent the activity is on track or not, and how likely it is that the Phase III outputs will be delivered.

- b. Contribution to achieving desired outcomes

At the outset of Phase III, the stakeholders formulated desired outcomes related to the CGAP system as a whole, i.e. joint outcomes of CG and CGAP Operational Team.¹ Hence, the CGAP OT alone cannot be held accountable for achieving outcomes. However, the question is rather: To what extent have the outputs generated by CGAP OT *contributed to* achieving desired outcomes?

- c. Progress towards achieving priority objectives

¹ Ref. CGAP III Revised Performance Indicators, Sept 15, 2003

How far have outputs and outcomes furthered the progress towards achieving the priority objectives?

The evaluation of OT performance is primarily the evaluators' assessment applying the analytical steps outlined above, taking into account the OT's self-assessment as presented in the workplan reporting. The assessment is organized along the five priority objectives.

This (objective) assessment is then complemented by (i) the CG members' view on OT performance gathered through personal interviews and (ii) the views from the wider microfinance industry which were primarily generated through the web-based survey but also through additional personal interviews with a few selected representatives (see Annex 3 for detailed list).

Priority Objective 1: Promoting institutional diversity

Rationale. Institutional diversity means that a variety of institutions will provide financial services to the poor. CGAP stakeholders decided to move beyond the NGO MFI model which was the dominant channel under CGAP I and II to promoting a wide range of existing and potential microfinance service providers such as commercial banks, credit unions, financial cooperatives, state banks, rural banks, and alternative delivery mechanisms such as post offices, supermarkets, beverage suppliers.

a. Achievement of outputs from the various activities/initiatives

Outputs	Achievement
<p>Appraisal and Monitoring Service and Network Initiative (CGAP Team helps donors identify appropriate funding opportunities for different kinds of institutions).</p> <ul style="list-style-type: none"> - Publish new updated appraisal tool for microfinance providers and the new evaluation framework for networks - Coordinate 3-5 joint appraisals and funding consortiums per year of MFIs and Networks 	<p>Achieved – Both tools finalized and published in early 2006</p> <p>Not achieved – Discontinued in 2004</p>
<p>Prospecting and new delivery mechanisms</p> <ul style="list-style-type: none"> - Develop 2-3 pilots or case studies per year on alternative delivery mechanisms for financial services to the poor 	<p>Partially achieved / on track – Out of 6 to 9 pilots/case studies planned in 3 yrs, 4 have been produced</p>
<p>Retail Advisory Service</p> <ul style="list-style-type: none"> - Due diligence and diagnostic reviews conducted on new applicants - Advisory work underway in at least 8 new organizations - Framework for analysis of TA effectiveness and program impact developed - Learning and dissemination workshop planned and organized 	<p>Achieved</p> <p>Achieved</p> <p>Partially achieved</p> <p>Planned for mid-2007</p>
<p>Technology Fund</p> <ul style="list-style-type: none"> - 4-5 technology projects shaped and launched - Experimenting with new technologies - Sharing lessons and results - Diagnostics of policy framework written up in 1-2 countries 	<p>New initiative</p>

Regulatory framework for branchless banking - 1-2 diagnostics and round tables - Promoting technology-appropriate regulation	New initiative
--	----------------

As illustrated in the table above, the outputs under this priority objective have partially been achieved at this point. A brief assessment of the major initiatives is presented in the following:

Appraisal and Monitoring Service. This service was designed by the OT to help donors identify appropriate funding opportunities for different kinds of financial institutions. It was planned to coordinate 3 to 5 joint appraisals per year. However, only a few such joint appraisals took place and the service was discontinued in 2004 due to low demand from CG members. Low demand may have been caused by the specific design features of the service (rather centralized and supply-led) which are not compatible with donors’ project cycle management (rather decentralized and demand-driven).

Mapping of financial institutions for the poor and different institutional models. At the outset of Phase III, CGAP staff carried out a series of analyses of financial institutions in microfinance and conducted quick assessments of different institutional models and delivery channels. Initial results were presented on the Microfinance Gateway and in an Occasional Paper (*No.8, Financial Institutions with a Double Bottom Line*). These outputs were of crucial importance as they raised awareness of the range of microfinance providers beyond the NGO MFI model. They were subsequently followed by publications on different institutional models, such as (private) commercial banks (*Focus Note 28: Commercial Banks and Microfinance: Evolving Models of Success*), cooperatives (*Donor Brief 25, Working with Savings & Credit Cooperatives*) and community-managed loan funds (*Focus Note 36: Community-managed loan funds: which Ones Work?*). A joint study by CGAP and MIX shed light on the outreach and performance of microfinance institutions in Africa. Furthermore, the initial reviews triggered the early “discovery” of technology as an important future delivery channel of microfinance services (*Focus Note 32, Using Technology to Build Inclusive Financial Systems*). Finally, an in-depth study of the Self-help Group Model in India has been finalized and is forthcoming as Occasional Paper No.12. Little attention has so far been given to state banks or public banks which are the dominant players in microfinance in Asian countries such as India, China, Indonesia and Thailand (which account for over half of the world’s microfinance). This should be a specific focus for the remainder of Phase III. Overall, the various outputs have clearly expanded the perception of the spectrum of institutional models and delivery channels in microfinance and sent important signals to the industry. From this broader base, CGAP has made a choice of models for follow-up and in-depth work. The focus – also in terms of staff and financial resource allocation – has been on (private) commercial banks with the Retail Advisory Service (RAS) and on the use of technology in the partnership with Gates Foundation.

Retail Advisory Service (RAS). Through this program, CGAP advises selected commercial banks on leveraging their existing branch and back-office infrastructure to serve microfinance clients. The program evolved partly from an earlier CGAP initiative on bank privatizations, Africa International Financial Holding (AIFH), which failed and was subsequently closed. The RAS currently provides technical assistance to ten commercial banks worldwide. In addition to CGAP’s aim of bringing commercial players into the market, the RAS also serves to build capacity and markets for local consultants who are given priority wherever possible. Except for its own staff expertise, there is no direct comparative advantage for CGAP to

engage in retail technical assistance to commercial banks compared to CG members like EBRD, USAID, KfW, IFC, FMO etc which have been engaged in commercial bank down-scaling for many years via consultants. CGAP OT rather sees its role as a “matchmaker” between commercial banks, local consultants and funders like IFIs. As the RAS in its current form is coming to an end in mid-2007, it is planned to distill lessons learned, jointly with the relevant CG members who have experience in this field, and develop a good practices toolkit on commercial bank down-scaling for wider dissemination. In this context, the demonstration effect of the RAS should be highlighted in the sense that (i) TA inputs are more focused, (ii) it uses local consultants and (iii) is more efficient (maximum USD 250,000 per bank).

Microfinance Technology Program. Technology portends perhaps one of the biggest opportunities to drastically lower the cost of delivering financial services to geographically isolated populations, poorer clients and countries with under-developed financial systems. CGAP’s technology work focuses on developing scale and efficiency and looking for potential breakthroughs to achieve both. The technology focus was not an explicit part of CGAP III but was embraced because of its potential benefits. Following a proposal from the OT to add to CGAP III themes the focus on technology, this was approved by the Excom. Initial work in this area was on e-payments – mapping initial existing initiatives amongst MFIs and e-payment pilots in India with ICICI Bank and VISA Asia-Pacific. Notably the focus has also been on understanding the demand side with completion of a customer acceptance study of WIZZIT, a mobile phone banking firm in South Africa.

This initial research shed more clarity on the challenges and potential of technology to increase depth of outreach, but provided few answers on exactly how to use technology in microfinance models and which technologies. This is not necessarily bad, as it reinforces the need to catalyze innovation at a much larger scale. The result is CGAP’s scaled-up technology program supported by the Bill and Melinda Gates Foundation. This new initiative (US\$26mn) leverages CGAP’s ability to attract not only funding from new sources but participation by various ICT partners and mainstream financial institutions and intermediaries. The new technology initiative is designed to support existing MFI initiatives in e-payments, branchless banking and underwrite development of new technologies on a competitive basis.

The multi-sector interest in this work is good for the industry and should result in new innovative alliances. This experimentation model is inherently risky and is bound to produce some losers but also some great wins. The challenge will be for CGAP to effectively raise awareness of the ‘winning ideas’, understand impacts and communicate this across different sectors. CGAP must be very clear on how the learning will be captured and shared with the different multi-sector actors. Developing an integrated learning and communication strategy and exploring the most effective ways to share findings is new to CGAP, but key to the success of this initiative. Along with this, CGAP must play its role to ensure regulatory environments for these new delivery channels and methods are supportive. This technology initiative is primarily about learning how information and communications technologies can expand access to finance.

b. Contribution to achieving desired outcomes

With the outputs discussed above, the CGAP OT has positively contributed to desired outcomes. CGAP’s training activities have significantly contributed to expanding the institutional and human resource base of MFIs (outcome 4) and to promoting and disseminating a more commercial approach (outcome 3). It has prepared the ground and created awareness of the variety of financial institutions that serve the poor (outcome 1).

Desired Outcomes	OT contribution to achievement
1. Variety of financial institutions with different objectives, methodologies, and services will serve the poor (ie adoption of new financial products for the poor by commercial banks, state banks, retail businesses, and other alternative institutions)	Created awareness on a spectrum of institutional types providing microfinance In-depth work with a few only, e.g. private commercial banks Still to be expanded to encompass other types, e.g. state banks
2. Scaling up through use or restructuring of existing infrastructure of large-scale institutions such as state banks (however, scaling up can also be done through <u>new</u> institutional models and delivery mechanisms)	Not yet, to some extent under RAS with commercial banks
3. More commercial approach (ie increase in the number of already commercially viable financial institutions that provide services to poor people)	- Getting commercial banks involved - Number of sustainable MFIs increased 2002 versus 2006
4. Expand institutional and human resource base (ie develop long-term technical capacity of microfinance service providers through training, capacity building, and technical tools)	Significant reach: 12,000 people trained in 48 countries and 12 languages

So far, little has been done towards outcome 2 “*scaling up through use or restructuring of large-scale institutions such as state banks*”. The RAS has primarily focused on *private* commercial banks. Concrete outputs which would contribute to outcome 2 have not been specified but OT staff is currently working on this. Clearly, CGAP itself should not “restructure state banks” but rather signal, inform and expose new thinking on the role of state banks in microfinance, e.g. as done by show-casing successful models like BRI in Indonesia.

Overall, it can be expected that by end of Phase III CGAP OT will have significantly contributed to the outcomes drawn up at the outset.

c. Progress towards achieving priority objective

CGAP has clearly made progress towards promoting greater institutional diversity in microfinance as one its priority objectives in Phase III. CGAP has helped to broaden the industry’s conception of microfinance providers beyond the NGO MFI model, for example by bringing private commercial banks into the picture. However, the emphasis has been less on credit unions and financial cooperatives and on state-owned banks which are the dominant structures in the BRICs, especially in India and China. More work needs to be done in this regard.

Technology plays a crucial role across different institutional models and will become even more important in the future. Hence, the take on of the technology theme mid-way in Phase III was a right decision.

Priority Objective 2: Promoting diverse pro-poor financial services

Rationale. This objective was established based on the recognition in the CGAP Phase III strategy that there is great diversity amongst the client group referred to as poor. Some poor people are employers, some are employees. Some have growing businesses, others live off subsistence activities in remote, rural areas. These differences in circumstances mean that the

poor need different kinds of financial services, including credit, savings, money transfers and insurance.

a. Achievement of outputs from the various activities/initiatives

The original themes under this objective were described as: (i) building industry knowledge; (ii) improving linkages between financial and non-financial programs; (iii) incubating new models; (iv) deepening poverty outreach; and (v) measuring social performance. These were translated into the outputs described below. Two initiatives – the PPIC and social performance work – have been switched back and forth between this objective and objective 1 given they also relate to institutions. However, for the purposes of this evaluation, we have grouped all CGAP’s work that relate to the original themes under this objective.

Outputs	Achievement
Pilot and document at least 5 models of financial services that meet the needs of the poor (ie, adoption of financial products by broader set of financial institutions”)	Partially achieved. Work has focused on two types of financial services – money transfers and savings – and one model – social safety net linkages – focused on the very poor. The PPIC has also identified new models of financial services.
Convince 150 FIs to report on depth of poverty outreach to the MIX and 100 FIs to report on social performance (also via MIX).	Partially achieved. In 2004, 296 MFIs reported at least one social performance indicator to the MIX. CGAP and Ford are working to develop a set of credible performance indicators linked to the MDGs.

Overall, our evaluation is that, at the mid-point of Phase III, CGAP has made solid progress in achieving its outputs in this area. Although some activities got off to a slow start, they are generally now on-track and the outputs will be nearly fully achieved by the end of Phase III. A brief assessment of the major initiatives is provided below:

Money Transfers Initiative. CGAP’s money transfers initiative, launched in 2002, focuses on “south-south” intra-regional transfers and domestic urban to rural transfers, as opposed to north-south money transfers where considerable work is being done by others. The aim is to stimulate competition, promote transparency and expand access to money transfers for poorer clients. The first phase of this work focused on building industry knowledge including market studies in Southern Africa and China and a review of payments systems in Africa. The second and current phase is about translating research into operational advice and action. This will be achieved through publication and promotion of a money transfers operational guide and the creation of a technical assistance fund to support MFI innovation in money transfer services, launched as a joint collaboration with the EU, IFAD, Luxembourg and potentially other CG members. A full assessment of the achievements of this initiative will only be possible at the end of Phase III. At this point, the initiative is on-track. It appears to be well-managed with a welcome emphasis in the design of the TA fund on monitoring and evaluating results and disseminating lessons from money transfer schemes with the aim of creating a demonstration effect. Although CGAP will not have a direct role in managing the fund, it is important that it continues to play a role in advocacy, communications and policy-related work to maximize the impact of the fund and work achieved to date.

Savings Initiative. The savings initiative was launched in 2005 to build industry awareness of the role of savings as a critical financial service for the poor and to help financial institutions, public and private funders and policymakers increase the poor’s access to quality deposit services. The first phase of the Savings Initiative focused on gathering and disseminating existing information on small-deposit mobilization through the *CGAP Savings Information Resource Center* and filling gaps in knowledge through original country-level

research (*Focus Note 37: Safe and Accessible: Bringing Poor Savers into the Formal Financial System*). So far CGAP has played an important role in increasing the information available on savings and expanding the message and understanding of “sustainability” to encompass the mobilization of local savings as an essential prerequisite. However, it is the next phase which will be critical to achieving CGAP’s original objective. Work in this phase will focus on building a business case to develop a strategic rationale for banks and other financial institutions to offer deposit services. The business case will have two components: a high-level analysis of savings and deposits services, and case material generated from implementation of these services using existing examples and RAS-supported models. The aim is to provide credible evidence to other market players of the viability of downscaling into this market. The evaluation team believes that savings still continues to be the neglected part of microfinance, overshadowed by credit. Hence delivery of this work is vital to achieving CGAP’s original objective.

Pro-Poor Innovation Challenge (PPIC). The PPIC program was launched in 2000 to (i) identify small MFIs below the donor radar screen that use innovative methods to reach poor clients, (ii) help these MFIs perfect and scale-up their methods, and (iii) promote these approaches by producing demonstration effects among practitioners and donors. The PPIC is now in its ninth round of funding. IFAD collaborated with CGAP in funding two rounds of the program. Overall, the PPIC has been very successful at achieving its first objective: identifying small MFIs below the radar screen. These MFIs represent a diverse range of institutional forms innovating at developing new products and services, new client groups and new delivery systems. However, the PPIC has yet to achieve its second and third objectives: to help MFIs scale-up their innovations and produce demonstration effects. The PPIC is lauded for being very good value for money. However, additional resources are required if the PPIC is to fully meet its objectives and potential to have an impact on scaling-up services for the poor. The team supports the conclusion of the PPIC evaluation that “CGAP is well positioned to play a greater role in capturing lessons from the awards and disseminating the results.... Although this would require more CGAP resources, it would capitalize on the experience of the winners to the benefit of the wider microfinance community.” It is recommended that the learning and dissemination activities proposed in the PPIC evaluation are considered for funding and implementation during the remainder of Phase III.

Graduation program. The graduation program initiative represents a departure from mainstream microfinance with its focus on the poorest who are typically excluded from microfinance. CGAP’s initial focus has been on highlighting the few successful cases linking microfinance to social safety nets, through careful sequencing of grants, skills training, savings and credit that provide a model for graduating the poorest into conventional microfinance. In 2006, CGAP published a Focus Note (*Focus Note 34: Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services*) and engaged in discussions to initiate a dialogue between the microfinance and social protection sectors. In 2007, CGAP, in partnership with the Ford Foundation, plans to fund several pilots in different countries to demonstrate that such linkages could work in practice beyond some of the initial successes, notably that of BRAC. This is an area where CGAP has been a thought leader and put a new innovation onto the microfinance agenda globally while giving full credit to BRAC for developing the innovation. It demonstrates the OT’s responsiveness and ability to respond to emerging trends. It is an important area where there is potential for breakthroughs, not just for microfinance but for economic development and poverty alleviation policies and strategies more broadly. For this initiative to produce a demonstration effect and have the influence it is hoping for, it is important that the pilot projects are well-designed and managed alongside a robust, impact assessment which gathers the evidence required to influence policymakers.

Measuring Social Performance. This area of work has two main activities – the Social Performance Task Force and the Social Performance Indicators Project. At the beginning of CGAP Phase III, measurement of MFI performance was concentrated on attaining financial sustainability. To strengthen the focus on the social performance dimension of the “double bottom line”, CGAP, the Argidius Foundation, the Ford Foundation, instigated the creation of the Social Performance Task Force (SPTF) in March 2005. From an initial gathering of 30 leaders in the social performance field, the Task Force now includes more than 150 leading microfinance networks, financial service providers, rating agencies, and donors. The task force stands out for being a unifying force and fostering collaboration among the many actors involved in developing ways of measuring social performance. Building on the achievements of the IMP-ACT project and other initiatives, this is an area where CGAP has helped to make the argument that social performance measurement matters. CGAP staff have taken a collaborative approach and appear to have been successful at building effective working relationships with all those involved in this field. Measuring social performance is a complicated area and one where it will take time to develop robust indicators and consensus. The challenge now is for those working on social performance measurement to respond to the increasing sense of urgency among MFIs, funders and governments for industry standards on measuring social performance. Currently, there is a lot of interest on the part of MFIs and new funders about measuring social performance but also a lot of confusion due to the many initiatives which exist. Now is the time for CGAP to increase its leadership in this area, while maintaining an inclusive approach. A good first step will be to finalize and publish the planned *Focus Note on Measuring Social Performance* and launch the *Social Performance Resource Center on the Gateway* quickly. These resources will provide outsiders with a social performance measurement framework and greater understanding of different ways of measuring social performance and the complexities involved. However, the question will still be asked “what’s the best way to measure social performance?” Many institutions are looking for simple, practical answers to this question.

The ***Social Performance Indicators Project***, started by CGAP and the Ford Foundation, intended to answer this question by developing common indicators for reporting on changes in the social and economic status of MFI clients. Given donor and national government consensus around the Millennium Development Goals, the project is trying to develop indicators that conform to several of the MDGs. Changes in client well-being are measured without attempting to attribute causality to microfinance services. Project activities are well underway – 34 MFIs are participating in the project, the second out of three rounds of data collection is currently ongoing, and poverty scorecards have been developed for more than 12 countries.

In September, 2006, CGAP asked members of the SPTF if they thought there was enough interest in the industry to adopt a common global reporting standard for social performance, in the way they have adopted the financial ratios; and if they thought the majority of the industry might adopt the Ford-CGAP client level indicators. In short, the answer was ‘yes’ there is interest in developing a common global reporting standard, but ‘no’, most felt it was premature to try and push the industry to adopt the Ford-CGAP indicators. The response to CGAP’s letter reflects the difficulty of this area of work and the fact that different actors endorse different approaches. It is recommended that CGAP continue with the Indicators Project, with a focus on ensuring the quality of implementation, but without pushing it as the preferred standard. CGAP should also take the lead, together with other members of the SPTF sub-committee on common reporting indicators, in developing a common framework for social performance measurement.

b. Contribution to achieving desired outcomes

Although the *majority* of CG members and outside stakeholders judge CGAP’s performance positively in this area, it is an area that is judged more critically by some CG members and outside stakeholders than other areas of work. In the client survey, promoting ways to reach poorer clients was considered the top most important area for CGAP to focus on (86%), yet 27% of respondents were dissatisfied with CGAP’s effectiveness in this area.

In the evaluation team’s opinion, the real test of CGAP’s contributions in this area will occur during the remainder of Phase III and beyond. During the remainder of Phase III, CGAP OT will need to create demonstration effects out of the work on money transfers, savings and graduation programs; decide whether or not to commit resources to evaluating and disseminating lessons from the PPIC; and publish more on the social performance work. It needs to be made clear to those outside the SPTF that progress is being made in this area but it will take time to develop reliable and widely-accepted indicators and methodologies to measure social performance. The analogy can be made to how long it took to get globally accepted standards for measuring financial performance. In addition, CGAP plans to carry out an in-depth analysis of the business models of selected MFIs which reach the very poor need to be firmed up. Achieving all this will require adequate commitment of resources and staff.

Desired Outcomes	OT contribution to achievement
1. Greater diversity and innovation in financial services available to the poor	Limited achievement to date. Potentially will have impact on accessibility and affordability of savings and money transfer services. Depends on take-up of guidance and impact of activities during remainder of Phase III.
2. Different segments of the poor are served by different kinds of financial services adequate to their demands	Created awareness about potential to link-up social safety net programs and microfinance for benefit of the poorest.
3. Ability of financial institutions to measure social performance	Shared leadership in making the argument that social performance measurement is as important as financial performance with resulting impact in terms of growing no. of institutions that have accepted importance of measuring social performance. Working to develop reaching consensus on how to measure and report social performance and scaling-up nos. of institutions w. credible social performance reporting.
4. Ability to provide evidence of impact. Development of reliable evidence that microfinance helps to create positive changes in the lives of poor households.	Published Donor Brief No. 13 on The Impact of Microfinance SPTF includes member focused on impact measurement.

c. Progress towards achieving priority objective

CGAP has made solid progress towards achieving its objective of promoting more diverse, pro-poor financial services. As mentioned above, CGAP now needs to focus on translating its work into action if it is to achieve real impact during Phase III. The social performance and poverty outreach work, in particular, is a core area of work for CGAP and one which is viewed as of high importance by both CG members and other stakeholders. A focused effort

will be needed on this area of work for the remainder of Phase III with adequate commitment of staff and resources. This is a complex area where CGAP needs to continue to work in an inclusive way and with the long-term approach needed to achieve lasting results.

Priority Objective 3: Transparency

Rationale. A key lever to support the growth, scale and outreach of microfinance is transparency – the full, accurate, and timely disclosure of information. Market players and stakeholders in the industry derive significant value from improved transparency at the macro, meso and more specifically micro level of the microfinance industry. CGAP’s Financial Transparency Program was created to support improved transparency and spans three aspects of transparency – data production, data validation and data dissemination.

a. Achievement of outputs from the various activities/initiatives

Outputs	Achievement
Increase number of MFIs reporting to the MIX and adopting MIX financial and poverty reporting standards (600 by Year 5)	Achieved. More than 800 MFIs at the end of FY2006.
Convince 150 FIs to report on depth of poverty outreach to the MIX and 100 FIs to report on social performance (also via MIX)	See objective 2.
Increase number of investors reporting to the MIX (50 by Year 5)	Achieved. More than 85 funds are reporting and profiled in the MIX.
Increase number of MFIs rated by well-recognized agencies in the microfinance world : 200 in Year 1, 400 in Year 5 (cumulative)	Achieved. By FY 2006 more than 300 ratings and assessments had been supported by the Fund.

Substantially all of the outputs set out in Phase III have been achieved. More importantly, all the outputs should be achieved by the end of FY2008. A brief assessment of the major initiatives is presented below.

Financial Transparency Award. The Financial Transparency Awards were first presented in FY2005. The Award was created with three main objectives: 1) highlight the importance of financial transparency; 2) provide information on good practices in financial reporting; and 3) encourage financial institutions, through competition, to adopt the highest reporting standards. Awards are made to microfinance institutions compliant with International Financial Reporting Standards (IFRS) and the CGAP Disclosure Guidelines.

The Award in the first year was a resounding success. 146 applications were received with 15 MFIs receiving the Awards. In FY2006 the Awards attracted 150 entrants from across the globe, with six overall winners and over 100 merit awards. At a minimum all entries must have an up-to-date MIX Market profile and submit audited financial statements.

The Awards leverage CGAP’s unparalleled position in the industry as the ‘trusted voice’. The OT’s Closing Report for the first round noted that indeed recognition of winners by CGAP ‘is the most valued aspect of the Award’. In addition, individual feedback is highly appreciated by the MFIs and presents an opportunity for CGAP to be in touch with industry at the micro-level albeit in a small way.

The design and administration of the initiative is effective and efficient, involving relatively low-value awards while at the same time using high-profile strategic individuals and CG Members to present Awards, raising the profile of microfinance. More importantly the better reporting and financial statements prepared of the participating MFIs are used and benefit a much wider audience. Improved reporting standards are often maintained by institutions creating a sense of permanence.

A key challenge in managing the initiative is identifying an external audit firm to process the applications, to the standards developed by CGAP OT staff.

The Rating Fund. Created in 2001 as a multi-donor initiative, a second phase of the Rating Fund was launched in FY2004, following the very successful first phase. The Fund seeks to stimulate demand for rating and assessment services, increase the amount and reach of market information, and strengthen the capacity of service providers to improve service delivery, product design and marketing.

By FY2006 the Rating Fund had supported more than 300 credit ratings and assessments through partially financing the cost of ratings to microfinance institutions. Only pre-qualified rating and assessment agencies are funded. Microfinance institutions supported by the Fund consent to publicly disclosing their performance information and ratings on the Rating Fund website. This one policy is indeed a watershed in the rating industry as mainstream commercial raters do not disclose performance information of the institutions they rate. This unique approach has contributed to improved transparency in microfinance. While some would argue that this has undermined the profitability of the rating industry, microfinance institutions can still fully fund their ratings and not make public their reports and ratings.

A key challenge during this phase has been how to build a sustainable market for ratings and assessments. The dynamics of this industry interestingly point to a limited market for specialized ratings. The 2004 evaluation of the Rating Fund by E.D. Ortega noted clients value vastly different aspects of the rating reports – MFIs like the analysis of institutional reports, investors use the ratings to short-list potential investees, while donors value country specific market information. The six or so active specialized rating agencies must therefore become more market-responsive and develop differentiated products. Much like the mainstream rating industry, consolidation can be expected in a bid to become sustainable.

The Rating Fund will end in FY2007 but has contributed significantly to growing the market over the past five years and raising the profile of ratings and raters in the microfinance industry.

The Microfinance Information Exchange (MIX). A key pillar in the Transparency theme, the MIX has since inception focused on addressing the lack of reliable and comparable publicly available information on microfinance institutions. The offering today includes data sourcing, benchmarking and monitoring tools. Created by CGAP and spun-off in 2002, the MIX is an independent partnership of CGAP, the Citigroup Foundation, the Deutsche Bank Americas Foundation, the Open Society Institute and the Rockdale Foundation. CGAP is an anchor shareholder and retains board chairmanship in addition to one other board seat. As a global web-based information service, the MIX Market links suppliers and users of capital in the microfinance industry.

More than 800 microfinance institutions report to the MIX providing financial statements, ratings and assessments and other non-financial information. On the supply-side the MIX

profiles investment funds (more than 80) and donors. Traffic to the MIX website has in turn quintupled over the past two years. The scale of the MIX’s impact is indeed unprecedented, resulting in not only increased transparency, but development of industry standards and bench-marking indicators. Overall the supply-demand spectrum is better understood and there is access to more information. Year-on-year data is available on the MIX and is used to support the key bench-mark performance indicators used in the Micro-Banking Bulletin. The MIX is the unrivalled one stop source of financial information for the industry on a global basis. A key challenge of the MIX is evolving the value proposition to institutions, if institutions are to keep reporting to the MIX.

The Information Systems (IS) Fund. The right technology and information system can contribute significantly to MFIs managing growth, scaling up and improving efficiency. The IS Fund was created in FY2004 to facilitate microfinance institutions access hire IS consultants pre-qualified by CGAP. Through the Technology Resource Centre website, more than 60 microfinance software products are profiled with more than two-thirds independently reviewed. This initiative has contributed uniquely to improving transparency and building the financial infrastructure. The combination of technical assistance and independent review of software products increases market information and supports competition. The impact of this initiative is MFIs that implement good systems are able to reliable and timely information.

b. Contribution to achieving desired outcomes

CGAP’s contribution has been industry leading through the careful design of initiatives across the three aspects of transparency – data production, validation and dissemination. These initiatives have built on work in Phase I & II on developing consensus guidelines on financial reporting. During Phase III CGAP’s OT has encouraged microfinance institutions to comply with International Financial Reporting standards through the Financial Transparency Awards and supported a dynamic platform – the MIX – where global microfinance financial information is accessible. CGAP’s contribution to the desired outcomes under this objective have been clearly achieved.

Desired Outcomes	OT contribution to achievement
1. Improved quality, quantity, and availability of financial and institutional information on MFIs (including outreach reporting)	OT designed and developed good initiatives that have been well taken by the industry. CGAP played a catalytic role, leveraging its platform and credibility.
2. Ability to provide evidence of impact. Development of reliable evidence that microfinance helps to create positive changes in the lives of poor households.	See Objective 2.

c. Progress towards achieving priority objective

CGAP has done excellent work designing and managing the various initiatives under this objective. As such both management and the evaluation team are confident that the priority objective of building financial transparency will be achieved by the end of this phase. Indeed CGAP can lay claim to having contributed to the improved quality and increased quantity of information available today from different microfinance actors.

Interestingly however, it is not the financial incentives offered by CGAP under the Financial Transparency Award that is valued the most by institutions, but the recognition by CGAP. The CGAP brand and recognition is very powerful and highly coveted. However, beyond

financial gain and recognition from CGAP, the positive changes to increased transparency by microfinance institutions should endure.

Priority Objective 4: Fostering a sound policy and legal framework

Rationale. Experience shows that government can play a positive role in microfinance as an enabler and facilitator. Fostering a sound policy and legal framework for microfinance has become an important area for CGAP’s involvement. CGAP promotes and explores the appropriate role of government and advocates for avoiding inappropriate government behavior that may hinder financial services for the poor.

a. Achievement of outputs from the various activities/initiatives

In the policy field CGAP OT has been well on track in achieving the expected outputs, especially since the launch of the policy initiative in 2004 and the deployment of additional human resources. In the past fiscal year, CGAP has mostly exceeded the stipulated outputs, as illustrated in the table below.

Outputs	Achievement
Publish information on regulatory regimes in different countries in CGAP’s online database (50 countries by Year 5)	<i>Achieved</i> in year 3
Engage in policy dialogue on microfinance regulation at specific country level (5 substantial country engagements per year)	<i>Achieved/on track</i> since 2005 About 9 significant country engagements in FY2006: Bosnia-Herzegovina, Kazakhstan, India, Sudan and in MENA (Algeria, Morocco, Syria, West Bank/Gaza, Yemen) (“significant” = min 5 days staff time)
Organize conference/training presentations (10 per year)	<i>Achieved/on track:</i> <ul style="list-style-type: none"> • 12 conference presentations in FY2004 • Missing data FY2005 • 16 conference presentations in FY2006

A brief assessment of the major initiatives is presented in the following:

Scaled-up Policy Initiative. Launched in 2004 and scaled up in 2006, the policy initiative is the cornerstone of CGAP’s policy work. Through this initiative, CGAP engages in global, regional and country-level consultations with government agencies seeking to improve the policy environment for pro-poor financial services. Furthermore, CGAP selectively participates in high-level policy conferences that offer opportunities to directly influence policy change. In addition to significant country engagements mentioned above, CGAP provides commentaries on specific draft laws and reform proposals. Senior CGAP staff is leveraged through the training and deployment of a eight-person consultant cadre who are primarily engaged in country-level diagnostic studies and consultations. CGAP derives a clear comparative advantage for policy work from being housed in the World Bank as one of the major international organizations engaged in financial sector policy, jointly with the IMF. CGAP has been working with the Bank and the IMF on a selective and ad hoc basis, but not (yet) in a systematic manner. For example, CGAP staff have selectively participated in Financial Sector Assessment Programs (FSAPs) conducted by World Bank/IMF and have provided useful contributions to the “access to finance” dimension – complementary to the “stability” dimension - within FSAPs. In spite of huge attribution problems, there are examples where CGAP has had a significant impact on policy. According to senior staff, the

impact has primarily been in the form of “averting something bad”, e.g. interest rate caps, rather than proactively helping to create a conducive policy environment. Overall, the policy initiative has been highly successful.

Regulation and Supervision Resource Center. This resource center comprises a global database of microfinance-related regulation and supervision of about 50 developing countries. It is managed by the IRIS Center of the University of Maryland. The database is one of the most popular resources on the CGAP web and the Microfinance Gateway and generates considerable leverage. With little resource input, this initiative provides good value for money. According to CGAP senior staff, IRIS data quality could still be improved and some policy areas more thoroughly researched. Overall, the initiative has been a successful one.

BCEAO Project West Africa. Together with SIDA, UNCDF and AFD, CGAP has launched a project with BCEAO, the West African Central Bank in 2005. CGAP is regarded as neutral and competent by BCEAO and no other donor would have been legitimate to initiate and lead this project. The project is ongoing and it is too early to assess results. However, there has been very positive feedback on the first year of operations. Following CGAP’s comments, the first changes have been made to the controversial microfinance law. If successful, the project will have a considerable leverage effect and benefit the microfinance sector in the entire West Africa region.

Policy-related research. CGAP has conducted or commissioned a number of research studies on policy-related issues, including interest rate sensitivity, competition and efficiency, loan guarantees, anti money laundering and combating the financing of terrorism (AML-CFT), loan guarantees and the use of agents in branchless banking. Most of the research findings have been published and disseminated through Focus Notes (Nos. 27, 29, 33, 38) and an Occasional Paper (*No. 9, Interest rate Ceilings and Microfinance: The Story so Far*).

b. Contribution to achieving desired outcomes

Desired Outcome	OT contribution to achievement
Improved policy and regulatory environment for financial institutions serving the poor	Anecdotal evidence, examples in several instances: Averted bad policies and laws, prevented interest rate caps

Given the considerable attribution problems of short-term interventions in the policy field, CGAP’s contribution to achieving the outcome (which is worded almost identically as the objective itself) is difficult to measure. There is, however, anecdotal evidence and examples of CGAP interventions having had an effect on policy makers. These examples should be collected and compiled for monitoring and learning.

c. Progress towards achieving priority objective

In the third phase, CGAP has undergone a major shift in thinking and in strategy concerning policy work. Firstly, there has been a shift away from the hands-off stance of the “rush-to-regulate-era” to a more proactive approach to creating a conducive policy environment. In this regard, the Guiding Principles on Regulation and Supervision of Microfinance represent a solid and nuanced piece of work.

Secondly, there has been a shift away from a narrow policy focus on regulation and supervision to a broader microfinance policy agenda. For example, CGAP’s message to policy makers that consumer protection – along with promoting competition – is a better policy alternative to controlling interest rates is a convincing and powerful one which has averted interest rate caps in several instances. Both changes have been timely, appropriate and positive.

At present, at least 50 countries are discussing or implementing new arrangements for regulation and supervision of microfinance, either as a separate new law or as amendments to the existing legal and regulatory framework. Globally, microfinance is on the agenda of policy makers, regulators and supervisors.

CGAP has a clear comparative advantage in the policy arena due to World Bank link. By leveraging this comparative advantage more strategically and systematically CGAP would make considerable progress towards achieving this important objective. However, it should also be noted that in a number of cases the World Bank or others want CGAP involved in addition to or instead of the World Bank because CGAP is considered more neutral than the World Bank (Madagascar, Nigeria, Sudan, China, Ecuador, Venezuela, Bolivia).

Policy work requires time and with the objective of changing behaviour, process is as important as technical content. In our interviews with stakeholders in Francophone Africa, a few comments were made on the need of CGAP to be less ‘straightforward’ in the approach, stating that CGAP should have a more ‘political’ and less ‘technical’ dialogue with all actors, especially in the field – which also implies taking more time. As one contact put it, working in Francophone Africa, especially on policy issues, is a long-term investment and “CGAP must be a marathon runner rather than a sprinter”. This implies a difficult balancing act because CGAP is generally not well-suited for long-term policy support to individual countries.

Priority Objective 5: Improving the quality of funders’ support to microfinance

Rationale: External funding plays a crucial role in supporting microfinance. CGAP’s aim is to improve the effectiveness of funders’ investment and support for microfinance. At the start-up of CGAP, bilateral and multilateral donors were the main funders of microfinance and the type of funders with whom CGAP has worked. Over the past five years, however, the funding landscape has changed with new funders arriving on the scene, including development finance institutions, private foundations, and investment funds, presenting new challenges to CGAP as to how they work with these organizations.

a. Achievement of outputs from the various activities/initiatives

In the aid effectiveness area, the OT is well on track to achieve almost all its expected Phase III outputs, as illustrated in the table below. Additional outputs are also being delivered – most notably in-depth advisory services for at least six CG members (AFD, CIDA, EC, IFAD, Finland and UNDP), the Country Level Effectiveness and Accountability Reviews (CLEARs) and the Quality of Aid Management for Microfinance Index.

Outputs	Achievement
- Complete peer reviews (17 agencies by Year 5)	• Achieved by Yr 2
- Complete updates of peer reviews (10 by Year 5)	• Partially achieved/not on-track. 4 updates

	completed
- Train donor staff (500 by Year 5)	<ul style="list-style-type: none"> Partially achieved/on-track. 260 donor staffed trained through CGAP/UNCDF course. Thematic workshops on donor reporting, social performance and role of government to more than 100 participants.
- Develop and provide tailored resources for donors (50 Donor Briefs, 50 Presentations, 30-35 training courses by Year 5)	<ul style="list-style-type: none"> Partially achieved/restructured. Range of resources developed including 25 donor briefs, 24 presentations, and 11 training modules.
- Establish Donor Helpdesk and promote its use by donors	<ul style="list-style-type: none"> Achieved. Helpdesk launched in 2004.
- Develop New Pink Book on Guidelines for Supporting Microfinance	<ul style="list-style-type: none"> Achieved, second edition of the Pink Book published in October 2006.

A brief assessment of the major aid effectiveness outputs is provided below, except for the donor training which is assessed in the section on Training.

Peer reviews. The Donor Peer Reviews were an ambitious undertaking but one that has proved extremely successful. All CG members who participated in the peer review process were highly complementary about the quality and usefulness of the peer review process. Most could point to how the review prompted concrete changes. CGAP's success at getting ministerial and heads of agency to high-level meetings on microfinance has undoubtedly helped provide the level of management support required to make this initiative effective. The Better Aid for Access to Finance meeting in October 2006 resulted in a renewed high-level commitment to improving aid effectiveness through a Compact and the acceptance of the *Quality of Aid Management for Microfinance Index* as a tool to rank and score agencies based on the quality of their aid management systems. Although there are some mixed views as to the usefulness of the Index, nine agencies have already committed to piloting the index. CGAP has been less successful at carrying out the planned peer review updates. So far, four out of a planned 10 have been completed. This is partly due to lack of sufficient staff capacity within CGAP to carry out the reviews. However, measurement of the aid management index could potentially assume the role of the peer review updates.

Tailored resources and helpdesk for donors. The donor team developed a number of resources specifically for donors during Phase III, including donor briefs, presentations, operational tools, training materials, as well as a donor helpdesk. These are accessible through the Donor Information Resource Center (DIRECT), a dissemination platform on the CGAP website. The DIRECT services have yielded disappointing results. In-house research found that although donors seem satisfied with the products and services on offer, most use DIRECT rarely or never. That said, our evaluation and the client survey found positive feedback in particular for the donor briefs. During 2006, the donor team has revamped DIRECT targeting it at all types of organisations which fund microfinance and providing more operational tools, such as sample Terms of Reference for different types of assignments. The Donor Briefs and the Donor Helpdesk have now become CGAP-wide services. The materials on DIRECT are useful and should be maintained, but any new materials need to clearly respond to client demand.

Pink Book. The second edition of the Pink Book was published in October 2006 following a participatory process of discussion and field testing. One of the main differences from the 2004 edition was the endorsement of the vision of building inclusive financial systems and the micro, meso and macro level framework. These guidelines are available in four languages and are broadly accepted as good practice microfinance standards by all CG members. The

challenge is for CG members not only to endorse the Guidelines but to apply them in practice. Anecdotal evidence suggests that there have been improvements in the microfinance strategies, policies and design of member agencies microfinance projects now as compared to five years ago. Ultimately, it is up to members themselves to be responsible for applying the Guidelines and monitoring their own performance.

CLEARs. CGAP launched the County-Level Effectiveness and Accountability Reviews in 2004 to bring peer review recommendations and learnings to the country level. Since October 2004, four CLEARs have been completed (Nicaragua, Cambodia, Madagascar and Sri Lanka) and one is in progress (Pakistan). In general, the CLEARs have proved an effective way for CGAP to engage at the country-level with their focus on aid effectiveness and donor coordination. They have also highlighted the important role of government in supporting microfinance. The CLEARs provide a platform to develop a common vision among donors to build inclusive financial systems and concrete actions have resulted. However, those directly involved in-country underline that the exercise is no magic bullet. Ultimately it consists of one mission and a well-produced report with advice that some accept (and some don't). It will be up to donors at the field level, working with government and practitioners, to further progress on building inclusive financial systems. The main challenge for CGAP is how they use the findings from these five CLEARs to have a demonstration effect and impact on improving aid effectiveness in more countries. The CLEARs themselves are very resource intensive and it is not planned to carry out any more. Once the Pakistan CLEARs is finalized, the OT will need to focus on synthesizing and disseminating lessons and developing operational tools to help improve donor coordination in the field. How these exercises could link into broader, national efforts for developing inclusive financial systems is also an issue to be addressed.

b. Contribution to achieving desired outcomes

This is an area where CGAP has a clear mandate, an absolute advantage, and has achieved very good progress during Phase III. The greatest achievements are in the area of the accountability for results – the peer reviews, the CLEARs and now the Index are all useful tools in helping donor agencies develop better management systems and greater transparency. The degree to which CGAP has contributed to improving the effectiveness and efficiency of donor support varies across different agencies. CGAP has a close working relationship with some agencies, such as AFD and IFAD, which credit CGAP with improving their effectiveness in microfinance. With other agencies, such as AfDB and the EU, the OT has spent a lot of effort but with more mixed results. Other agencies, such as the EBRD, IDB and the World Bank, find it harder to relate to the aid effectiveness work. Other agencies make little direct investment in microfinance and so have a fairly passive relationship with CGAP.

Desired Outcome	Achievement
1. Improved effectiveness, efficiency, and accountability of donor support, including that executed through/by CGAP.	<ul style="list-style-type: none"> • Demonstrable impact on improving strategic clarity, policies, project design and accountability for results of funding agencies • Impact on the ground in terms of the effectiveness and efficiency of funding harder to measure • However, anecdotal evidence that quality of donor strategies and design of microfinance project portfolios has improved.

c. Progress towards achieving priority objective

CGAP has made impressive progress in terms of focusing resources on and developing tools to improve the quality of funders' support for microfinance during Phase III. This is a significant improvement over performance during Phase II. The Phase II evaluation judged work in this area as not very successful in part because "improving the quality of donor microfinance programming has not been high on the priorities of the Secretariat staff" nor staff of the member donors.

In Phase III, aid effectiveness work was made a clear priority by defining it as a separate objective in CGAP's strategy, creating a dedicated donor team and establishing an office in Paris. This investment has paid off. Donor relationships are much improved. Sixteen out of 26 CG members (ie. 62%) who commented on CGAP's aid effectiveness work were highly complimentary citing it as an area where performance has been excellent. The other ten CG members still praised the OT's work in this area, but had suggestions about how to adjust the emphasis or type of work carried out. However, overall it is still hard to assess whether donor projects are actually achieving better results on the ground. There is clear evidence of a better understanding of good practice microfinance among donor agencies at a policy level. However, one still hears of donors supporting bad practice in the field e.g. MFI recipients of donor funds being subject to disbursement pressures or donor funding squeezing out private funding. Hence, this is an area where there is still ongoing work to be done, most notably by the CG members themselves.

Assessment of Training

A key challenge in building inclusive financial systems is expanding the human capacity and knowledge within retail institutions to deliver financial services. The results of the recent Client Survey indicate that 44% of the respondents consider 'lack of staff capacity of retail financial institutions' as one of the most critical elements in increasing access to microfinance. In addition, of the funders in the Client Survey, 34% ranked training of their staff as one of their highest needs.

Skills for Microfinance Managers. This is CGAP's flagship training initiative. Since 1998 CGAP has developed seven one-week courses in best practices in financial and operational management of microfinance institutions. The courses are offered in 12 languages and delivered by local training providers in Africa, South and Central Asia, China and Central and Eastern Europe. Over 12,000 people have been trained from 52 countries, by more than 40 qualified trainers.

CGAP Donor Training. This one-week course focuses on the role of donors in supporting inclusive financial systems. The course offers tools and perspectives for making effective and responsible funding choices and was jointly developed by CGAP and the United Nations Capital Development Fund, with the latter no longer involved in the running and management of course delivery. In the past two fiscal years, more than 130 donor field staff and professionals have attended the courses offered in six countries.

Microfinance Management Institute. Together with the Open Society Institute (OSI), CGAP founded the Microfinance Management Institute (MFMI) in July 2003 to advance management capacity in the microfinance industry by integrating microfinance management into MBA and graduate management programs. The MFMI network has grown to include 13 graduate management schools in 11 developing countries. In addition more than 10

fellowships in microfinance management have been awarded. The MFMI schools in Asia, Africa, Latin America and Russia have delivered microfinance electives to more than 500 MBA students, organized short-courses and masters programs for practitioners, developed academic resources and more than 18 cases.

In FY 2006 after consultations, with amongst others training partners in the Skills for Microfinance Managers program, CGAP made plans to integrate all its training initiatives under the Microfinance Management Institute.

Overall assessment. CGAP's training and capacity building initiative has been a great success. While the original 7 courses have been translated in 12 languages, numerous other courses have been developed by the respective training partners and institutions. A recent mapping counted more than 160 training and academic programs around the globe offering courses on microfinance. Working in partnership with others has enabled CGAP get the messages in these courses and skills broadly disseminated. The courses incorporate best practices and are delivered often by local trainers with good understanding of their markets.

Coalescing CGAP's training and capacity initiatives under the Microfinance Management Institute in FY2007 should maximize efficiencies and synergies but more importantly raise the profile of MFMI and its offerings. As the MFMI partners noted, the market need is for better information sharing, a trusted source of quality training and educational materials, more support for curriculum development and building their own organizational and technical capacity. The newly spun-off MFMI with increased funding and additional resources should be better placed to meet these needs.

CGAP's continued funding support institutional and financial is key. An important spin-off such as the MFMI should be allowed to continue leveraging CGAP's brand, communications platform and knowledge base.

Communications

Although the evaluation team was not asked to specifically look at CGAP's performance in the area of communications, it is mentioned here as communications underpins all that CGAP does. Overall, CGAP has a strong and effective communications capability and their performance in this area is judged highly by all stakeholders. CGAP's publications and knowledge products are considered among the most important and influential sources in the field of microfinance. The vast majority of client survey respondents evaluate CGAP as effective or very effective at generating knowledge on useful topics, disseminating knowledge on a global scale, delivering key messages and appropriately raising the visibility of the key issues facing the industry.

During Phase III, the evaluation team and outside stakeholders have noticed a more nuanced and balanced tone to much of CGAP's communications on issues such as the role of government and interest rates. This is considered very positive and appropriate at this stage of maturity of the industry. CGAP needs to be aware of contextualizing its core messages and recognize the need to be nuanced, pragmatic and wanting to engage in discussion and debate.

Among some stakeholder groups, CGAP has an image and communication problem. This clearly comes out of the partial evaluation of francophone Africa where CGAP is perceived as "not involved enough". This is somewhat unfair, given that each actor has only a partial view of CGAP's many activities in the region. Respondents consider CGAP as being "Anglophone-

oriented” despite all efforts of translating most CGAP publications into French. Findings from the client survey point to the same essential finding that “the more familiar stakeholders are with CGAP the more likely they are to have positive views of its role and contributions to microfinance.” However, they also suggest that CGAP still has more work to do to increase its outreach, particularly among stakeholders working in specific regions and countries.

Regional initiatives:

It was beyond the scope of this evaluation to assess the performance of all CGAP’s regional initiatives. This is a piece of work which CGAP OT is carrying out separately. However, the evaluation did include an in-depth review of CGAP’s activities in West Africa, including the performance of CAPAF. These findings are included here as they offer lessons for CGAP’s regional initiatives globally.

CAPAF²

CAPAF is a program designed to increase the capacity of MFIs in francophone Africa. It involves a regional hub which carries out training activities as well as helping to manage some of CGAP’s global initiatives in West Africa, such as the rating fund and the IS fund.

Relevance. A strong financial sector includes the development of adequate services (TA providers, trainers, auditors) that can support MFIs and promote best practices and professionalism. Most actors in Francophone Africa underline that there was (and still is) a strong need to support this development, and that CAPAF’s actions are highly relevant. Several actors also mention a very positive shift in CAPAF’s strategy:

- Adaptation in training modules – new courses are more adapted to mature MFIs (2007: governance)
- Opening of training modules to more diversified stakeholders (donors, government staff)
- More synergy with CGAP activities in Africa (e.g. training to policy makers in DRC)
- Knowledge creation: CAPAF identified resources in French and developed a website in view of complementing existing portals & sites
- New approach to the market: partners are increasingly involved and less subsidized: the role of CAPAF has evolved away from direct support to more “quality control”
- Transfer of training of trainers’ capacity to other partner institutions, instead of CAPAF doing it directly (CAPAF supported the creation in Mali of Centre de formation banque et microfinance)
- Diversification towards external audit seminars

This shift towards a more demand-oriented approach seems relevant, since core training modules are already developed and more CAPAF partners are now autonomous. CAPAF also increasingly serves as a hub for CGAP activities like dissemination of documents and tools, the Transparency Award, follow-up of discussions with Central Banks. CAPAF also organized the 2nd Technofoire (technology fair) in Senegal to encourage exchanges between MFIs and vendors of payment technologies/IS software providers. All of these actions seem relevant to increase CGAP’s capacity to inform and exchange with actors in Francophone Africa.

² The assessment of CAPAF has been contributed by Christine Poursat, see Annex for full report.

Performance. CAPAF has contributed to training a generation of staff and individual consultants in most Francophone countries in Africa on microfinance best practices and techniques. In all, CAPAF training partners have offered courses to over 5,000 people in Francophone Africa since 2002. In the last year (November 2005 – October 2006), 39 retail training courses were organized by 16 partners. On the whole, results have exceeded projections in terms of number of people trained, and the quality of courses seems good. The number of people trained is greater in some countries (Benin, Senegal, Haiti, Madagascar), while some markets have proved small or difficult to penetrate (Mauritania, Niger, Congo, Burkina).

The level of CAPAF partners, however, differ and not all of them may be capable of being autonomous. In reality, CAPAF trained many trainers who sometimes left the partner training provider and developed their own courses or work with other providers. But even then the initial objective (develop a market) is achieved.

The market for technical support to MFIs has been more difficult to develop. CAPAF organizes seminars for auditors, but they are relatively infrequent compared to the training courses (ten audit seminars have been organized since 2003).

The shift in CAPAF's strategy over the course of Phase III has improved its efficacy. Training for government staff and Central Banks (in DRC, Madagascar, and Congo in 2007) increases the impact of CGAP's work on policy dialogue.

However, there are also some limits and constraints. Training modules have sometimes been criticized as being too generic (ex. not adapted to BCEAO accounting framework). Also, it is difficult to estimate the impact training MFI staff has on the MFIs; there is high turnover in key MFIs and Ministries, which makes it difficult to assess whether those trained really manage to implement and pass on their skills. Rather, CAPAF's primary impact is the set-up of a sustainable training offer – partners or individuals able to offer training in microfinance in their country. Finally, CAPAF enjoys good recognition as a program, however most African actors do not consider it as a real “hub” for CGAP – clearly separating the actions of CAPAF and CGAP.

Future. CAPAF has shifted its orientation over the last two years to address new demands for training (introducing a new module on governance) and new actors (training for Central Bankers and government staff). Significant training has been achieved already. Indeed, some individuals and partner organizations who have been trained are developing their own courses. To complement current capacity building efforts, some actions are still necessary:

- The development of a few modules targeting more mature MFIs: on governance (already planned) but also risk management, access to capital markets, or reinforcing internal auditing procedures.
- Adapt existing modules/ToTs to new accounting framework in UEMOA.
- Accompany policy dialogue by training Central Bank and government staff, as was done in DRC and Madagascar, and possibly strengthen presence in countries where microfinance is more recent such as Central Africa especially.

Apart from these activities, CAPAF should continue shifting towards more “meso” actions, including a stronger communication strategy. It should be reinforced as a real “hub” with more human resource and a higher budget, to increase CGAP's visibility in the sub-region,

improve its image and foster exchanges between actors. Communications should focus not only on CGAP's initiatives, but also on surveys done in Africa, and other existing initiatives.

CG members' view on OT performance overall

The assessment by the CG members of the Operational Team's performance is very positive. In our interviews, 26 members (out of 33) rated OT performance at an average of 7.6 on a scale of 1 (very bad) to 10 (excellent), with the majority voting in a range of 7 to 9, i.e. good to very good. The few CG members who did not respond were either too new to judge or did not feel competent to evaluate. The overall performance of OT is regarded of high quality and high standards. OT staff is seen as competent, especially in technical matters, and hard working.

CGAP's work on aid effectiveness received the highest marks from CG members. The efforts towards donor harmonization and coordination are highly regarded. Positive comments were also made on the work in the transparency, policy and technology fields.

While CG members gave high marks on *what* CGAP OT does, they were more mixed on *how* CGAP OT works and highlighted some of the tensions they feel being exposed to. While the speed and agility of OT generates quick outputs, CG members struggle to absorb and disseminate outputs. Some feel that CGAP OT often moves too fast ("chasing too many rabbits"). CG members generally acknowledge CGAP's increased openness to listen to others and work with others, compared to earlier. However, some think that partnering could be more on an equal footing and more effective, e.g. by using donors/partners to field test initiatives. For some CGAP staff, the "process approach" of involving others takes too long and is "inefficient".

Some feel that CGAP OT should be more "honest" in the sense that it should be able to say "I don't know" (rather than trying to know everything). It should be able to make mistakes (ultimately leading to innovations). It is commendable that CGAP stopped their work on Africa Financial Holdings after it didn't work.

Overall, to reiterate, CG members were very satisfied with the performance of the CGAP OT. Different from the past, the vast majority of CG members today accept and endorse CGAP as a management-driven and staff-led organization – this is a clear sign of trust and confidence.

2.2 PERFORMANCE OF CG MEMBERS: DELIVERY ON COMMITMENTS

At the outset of Phase III, the following performance indicators were determined for CG members, termed as "mandatory (obligatory) actions":

- a. Report microfinance portfolios according to CGAP III Charter
- b. Develop action plan to implement the Peer Reviews Recommendation
- c. Contribute financially to CGAP according to CGAP III Charter (minimum \$300,000 for bilaterals and multilaterals)
- d. Develop, approve, and apply revised Pink Book (Guiding Principles for Selecting and Supporting Intermediaries)

- e. Endorse and apply donor consensus-based guidelines (e.g., Financial Disclosure Guidelines, Guidelines for Donor-Supported Savings Mobilization, Guiding Principles on Regulation and Supervision)

Three of these five performance criteria are also regarded as “conditions of membership” according to the CGAP Charter, namely a, c, and d. In addition to this, the Charter includes one more membership criterion:

- f. Participate actively in the CGAP Annual Meetings with representatives who are appropriately placed within the organization and have the necessary knowledge to support mainstreaming of microfinance best practice within their respective agency.

a. Charter Reporting

Charter reporting by CG members on portfolio and staff was introduced in 2003. CGAP developed a lean reporting format of seven indicators. In 2004, only 12 CG members sent Charter Reports related to the year 2003. No Charter Reports were received thereafter. Hence, there is no systematic and complete information on the scale and scope of CG members’ operations in microfinance and how these operations have developed over the years. The absence of such fundamental monitoring data takes away the basis for an evaluation of CG members’ performance. It is planned to replace Charter reporting with the reporting related to the Aid Effectiveness Index, at least for those CG members that participate.

b. Action plan to implement the Peer Reviews Recommendation

Altogether 17 agencies from 16 CG members – or just over half of all CG members – participated in the peer reviews in 2002/03 and developed action plans to implement the Peer Review’s recommendations. The peer reviews have been well received by most CG members. They resulted in high-level intra-agency management meetings, drew quite some attention to microfinance and culminated in the high-level meeting in Paris in 2004. So far, little information is available within the CGAP system on the status of implementation of the action plans and the peer review recommendations. Only recently, CGAP OT has started to conduct Peer Review Updates with single CG member institutions. So far, only four out of a planned ten updates have been completed, partly due to insufficient staff capacity within CGAP. The first results, e.g. from IFAD and Sida, are encouraging in terms of successful action plan implementation. With more such updates being completed, CGAP will have a good basis for a solid evaluation of action plan implementation. Moreover, more systematic and comprehensive information can be expected from the measurement of the aid management index which is being implemented by at least 9 CG members..

c. Financial contribution to CGAP

All of the bilateral agencies - except USAID - fulfilled this pledge, but the World Bank, IFC and EIB are the only multilateral members that have done so. Italy and Belgium³ failed to contribute in 2006, and France has provided less than the minimum commitment of US\$ 300,000. The minimum commitment has not been consistently applied to the private foundations which are contributing only \$100,000 to \$200,000 per annum. However, most

³ Belgium reportedly intends to terminate its membership with CGAP.

striking is the fact that the major IFIs (i.e. the regional development banks), the UN organizations and the US are not contributing financially to CGAP. Some of these organizations reportedly face structural barriers to provide core funding to a global trust fund managed by the World Bank.

Overall, the bilateral donors provided 51% (up from 36% in Phase II) of the OT's revenues, the World Bank 40% (down from 64% in Phase II), the UN organizations (2%) and the private foundations (3%), see Table 1 below. Due to the one-time reserve from accumulated interest income from the World Bank's trust funds, the World Bank's annual contribution for the remainder of Phase III has been commensurately cut from \$ 5 million to \$ 0.5 million.

CGAP currently receives a total funding of USD 13 to 14 million per year, not including the funding of the technology initiative with Gates foundation amounting to \$ 26 million over the next years. The funding of the remainder of CGAP III appears to be secured. For a future phase, once decided and designed, new commitments from various funders would need to be raised.

d. Develop, approve, and apply revised Pink Book

This commitment was never defined in specific terms, nor was performance by donors monitored in any fashion. However, from the interviews and from evaluation team members' insights into single agencies, it became apparent that the Pink Book is now widely known and also applied by CG members. In many agencies, the Pink Book has become an important reference. There is anecdotal evidence that CG members are increasingly applying good practice guidelines in the design and implementation of microfinance programs.

e. Endorse and apply consensus guidelines

While the CG members endorsed the various consensus guidelines, it remains unclear to what extent these guidelines have been applied by CG members. This commitment was never systematically monitored, a fact which makes it difficult - if not impossible - to evaluate ex post to what extent the 33 CG members have fulfilled this commitment within their organizations.

f. Active participation in CG meetings

Overall, donor performance in this area is mixed. While the annual CG meetings enjoy a high participation rate in general, the issue centers around the technical expertise of the participants. Based on rough estimates by the evaluation team, between one third and one half of the CG Members focal points appear to meet the criterion of necessary financial or microfinance knowledge and expertise. Even in cases where the representative is a finance expert, there is often a lack of continuity of participation. With frequent turnover of staff at donor headquarters, the participant in the CG may lack adequate grounding in the evolution of CGAP. No information is available on whether there has been improvement in performance over time.

Table 1
CGAP Funding in Phase III – in US Dollars
(core and dedicated funding combined)

	2004	2005	2006	Total
<i>Bilaterals</i>				
Australia	338.300	338.300	338.300	1.014.900
Belgium	377.845	388.725	0	766.570
Canada	369.058	369.058	369.058	1.107.174
Denmark	423.986	520.063	476.984	1.421.033
European Commission	0	2.515.988	1.227.600	3.743.588
Finland	293.328	317.512	334.256	945.096
France	179.790	198.795	183.750	562.335
Germany	284.150	331.250	331.250	946.650
Italy	635.100	403.050	0	1.038.150
Japan	300.000	300.000	300.000	900.000
Luxembourg	434.445	440.241	421.395	1.296.081
Netherlands	200.000	400.000	400.000	1.000.000
Norway	476.190	471.143	471.143	1.418.476
Spain	0	361.830	361.830	723.660
Sweden	430.416	389.358	822.604	1.642.378
Switzerland	399.980	400.000	399.975	1.199.955
United Kingdom	400.000	474.938	474.938	1.349.876
United States	0	0	0	0
<i>sub-total</i>	5.542.588	8.620.251	6.913.083	21.075.922
<i>Multilaterals/IFIs</i>				
World Bank	6.325.000	5.525.000	5.125.000	16.975.000
IFC	0	300.000	300.000	600.000
IDB	0	0	0	0
AsDB	0	0	0	0
AfDB	0	0	0	0
EBRD	0	0	0	0
EIB	0	0	242.040	242.040
<i>sub-total</i>	6.325.000	5.825.000	5.667.040	17.817.040
<i>UN Organizations</i>				
IFAD	0	95.000	600.000	695.000
ILO	0	0	0	0
UNDP	0	0	0	0
<i>sub-total</i>	0	95.000	600.000	695.000
<i>Private Foundations</i>				
Argidius	100.000	200.000	100.000	400.000
Dell	0	0	100.000	100.000
Ford	300.000	200.000	200.000	700.000
Gates	0	0	157.500	157.500
<i>sub-total</i>	400.000	400.000	557.500	1.357.500
GRAND TOTAL	12.267.588	14.940.251	13.737.623	40.945.462

Assessment

In an overall assessment of CG members' performance, the following conclusions can be drawn:

Monitoring of CG members' performance has been weak or lacking completely within the CGAP system. Although performance indicators for CG members were defined at the outset of Phase III, these indicators have not been monitored in a consistent and systematic manner. And what is not monitored cannot be evaluated. Some performance areas and indicators cannot be assessed for the 33 individual CG members at this point.

First, there is no consolidated information on the scale and scope of CG members' microfinance operations and their evolution during Phase III; there was only one such report for 2003 from only 12 CG members.

Second, half of the CG members participated in peer reviews and developed action plans to implement peer review recommendations but how far these action plans have been implemented is only now being unearthed through peer review updates; so far, only four out of ten planned updates have been conducted, too early to draw conclusions.

Third, all CG members have endorsed the pink book and the other consensus guidelines but, again, there has been no monitoring of how far these guidelines are being implemented and promoted within CG member organizations. The absence of such information posed a major challenge to the evaluation. However, anecdotal evidence from discussions and interviews with CG members and the OT in Paris allows, on the one hand, the preliminary conclusion that CG members are increasingly applying good practice guidelines. On the other hand, many structural weaknesses persist in CG member organizations and negatively influence their performance within CGAP: the disbursement pressures, the disconnect between the focal point and operational departments, or between headquarter and the field, to name a few.

The contribution to core **funding** – one of the performance criteria - has been unequal across CG members. Most bilaterals except the US have fulfilled their commitments over the past three years, while the IFIs outside the World Bank Group and UN organizations do not provide any funding at all due to structural barriers. Some pay less than others, e.g. the private foundations. Going forward, CGAP should harmonize its policy on funding contribution.

The four membership criteria have not been **enforced**. Had they been enforced consistently, CGAP would have been left with very few members, and perhaps missing out some of the relevant ones. For example, the IFIs provide no funding but have recently become the most active players in microfinance. On the other hand, the bilateral funders have been consistent in providing core funding but many of them are not active in microfinance nor do they second a technically competent focal point. Which criteria shall decide on the inclusion resp. exclusion of members? Going forward, CGAP clearly needs to review the conditions of membership, decide on the criteria to be strictly applied as *conditio sine qua non* and then consistently enforced.

This raises the fundamental issue of CGAP **membership**. Membership includes both obligations and rights. Obligations or responsibilities comprise (i) funding, (ii) application of standards and principles, (iii) reporting, and (iv) active participation. As discussed above,

most members have not fulfilled these obligations. Membership rights and benefits haven't been explicitly defined in the Charter but would presumably include (i) access to services and (ii) participation in governance. Looking at access to services, CGAP is a public good and many of its services in form of publications, technical tools, training, are anyhow openly available to all stakeholders including CG members. In addition, there have been customized services to CG members, e.g. technical advisory to individual members, but to a limited extent. Participation in governance as the other major membership right has not been without tension. One problem is that the Council of Governors, as the CG was renamed in Phase III, comprises many representatives who (i) have little technical know how on microfinance and who (ii) represent organizations whose relevance in microfinance development has comparatively declined. This particular setting poses a considerable challenge to the governance of a cutting-edge institution like CGAP that needs to be at the forefront and even ahead of major developments in the sector. It has left weaknesses in the governance which have been compensated by a strengthening of the Excom in Phase III and by the fact that CGAP is essentially driven by management and staff. Going forward, CGAP should review both the obligations and the rights of membership, and define different degrees or tiers of obligations/rights combinations.

2.3 EFFECTIVENESS OF WORKING GROUPS

Working groups are formed by CG members to address key topics related to CGAP's work. The Excom ensures that these working groups are consistent with CGAP's overall strategic priorities, focus on specific tasks and dissolve once the tasks are completed.

Microinsurance. The CGAP Working Group on Microinsurance seeks to promote the development of insurance services for low-income persons through knowledge development, stakeholder coordination and information sharing. The group was established in 2001 and today has over 40 members. Chaired by the ILO, it is organized into several subgroups each with its own chair, e.g. on demand, operation, regulation & supervision, dissemination, capacity building, etc. The Working Group is very active, productive and effective. It has generated over 20 case studies, organized landmark conferences, drafted a Microinsurance Compendium, launched a multi-country research project, and cooperates with the international regulatory body IAIS. The group maintains a microinsurance resource center hosted on the Microfinance Gateway. The inclusive approach of engaging numerous public and private sector organizations in active participation and cooperation should be highlighted as a model example within CGAP. Overall, the outputs of the Working Group represent a high value for the CGAP system that deserves greater recognition, for example by presenting its outputs and achievements in the CGAP annual report where the CGAP Working Groups are not mentioned at all, or by integrating the Working Groups into an overall CGAP Work Plan . Similar to savings services, microinsurance is an essential financial service for the poor and the poorest.

Social performance. The *CGAP Donor Working Group* on social performance appears to be an active and increasingly relevant working group for CGAP members. It was instigated by CGAP and the Ford Foundation at the same time as the establishment of the industry-wide Social Performance Task Force to bring together donors with an interest in this area. The working group started out with six CG members involved (Argidius Foundation, Ford, IFAD, ILO, SDC and USAID). However, judging by the large number of participants at a task force meeting in Cotonou, this is a 'hot topic' which has generated considerable interest and growing participation among CG members. This working group laid out a clear set of objectives at their first meeting including supporting the spread and practice of pro-poor

Social Performance Management through financing of specific training courses and action-research, supporting the establishment of industry social performance standards and integrating SP reporting system into the MIX with a view to make double bottom line reporting to an international platform a regular practice in the MF industry. The working group works closely with and supports the work of the multi-stakeholder Social Performance Task Force.

Housing Microfinance. The CGAP Working Group on Housing Finance for the Poor was established just one year ago at the initiative of SIDA. Habitat for Humanity was contracted by SIDA to coordinate and administer the working group process. First meetings were held with potential members and the group is still in the process of being established.

Overall, the effectiveness of the CGAP Working Groups varies. The Microinsurance group is very effective, produces high value outputs and represents a model example of cooperation within the CGAP system. The Social Performance group is popular but could do with defining its outputs viz a viz those of the Social Performance Task Force. The Housing Finance group is still in the process of being constituted and it is too early to judge its effectiveness. A shortcoming for the CGAP system as a whole is that the working groups are rather disconnected and unrelated to the Operational Team's work program, perhaps with the exception of the Social Performance working group. Going forward, clear procedures and rules for the set up of working groups should be established. Only those working groups following these rules should be connected to the CGAP system in order to avoid any misuse of the CGAP brand.

2.4 OVERALL ASSESSMENT OF EFFICACY

The CGAP Operational Team has produced high quality outputs during Phase III. With a few exceptions, the team is on-track to produce all outputs by the end of Phase III and in some cases will exceed original expectations. These outputs have significantly contributed to achieving Phase III objectives. Particularly in the area of transparency, CGAP has contributed to tangible improvements in industry performance for the benefit of microfinance institutions and ultimately low-income clients. Most areas will require more time and effort to fulfil objectives. Suggestions as to areas of focus during the remainder of Phase III are provided in Section III.

There is more mixed performance among CG members in terms of meeting their Charter commitments. However, among CGAP's members are the leading funders of microfinance who have spurred innovation and good practice in their own right. Greater impact could potentially be achieved by better connecting and integrating the elements of the CGAP system – Operational Team, CG members and the working groups.

3. ACCOUNTABILITY

This section assesses the accountability of CGAP. The key question posed was *to what extent is CGAP's governance and management clear, transparent, fair and accountable?* This was broken down into specific questions about governance and management, the role of the Excom and the Investment Committee, CGAP's monitoring and evaluation systems, and the trade-offs CGAP faces (see Annex 1 – TORs). Below we present the views of the CG

members (including Excom and Investment Committee members) and the OT perspective before providing our overall assessment.

CG members' perspective

Overall governance and structure. The general view among CG members is that, overall, the current organizational set-up and governance structure is appropriate and seems to work well. Many think that governance has improved in Phase III and is more “systematic” and “better structured” than in Phase II. Some aspects remain to be improved; and these are addressed in the following sections. Overall, CG members rated the area of accountability on average 6 on a scale of 1 (very bad) to 10 (excellent) which is somewhat lower than relevance or efficacy.

Executive Committee (Excom). Most CG members acknowledge the Excom as “strong” and “proactive”, and effective in guidance and supervision of the Operational Team. The Excom is seen as accountable to the CG members and CG members generally feel represented by the Excom. The interaction between Excom and CG member seems to vary and depend much on the individual representative and his/her constituency. The composition of the Excom with both development agency/donor members and non-donor members (industry practitioners) is generally perceived as favorable. Hence, the reorganization in 2003 has proven to be the right decision. Some members would like to see a broader scope of the Excom vis-à-vis the management when it comes to staffing issues, while others think that this should remain within the authority of management as currently practised.

Excom - CG relationship. CG members acknowledge that tasks have been largely delegated to the Excom and that the CG rather maintains a hands-off approach to governance. However, different views persist as to when and to what extent the CG should be consulted or get involved. For example, some CG members feel that reviewing and commenting the OT workplan is not really their task. (*“I have not reviewed the workplan in detail and I really wouldn't.”*) The CG members' interest is less on workplans and operational issues but more on policy and strategy, and with regard to achievements the interest is less on outputs but more on outcomes and impact.

CG membership. CG members are mixed about a reorganization of constituencies. While some, especially the representatives from IFIs, would see a clear benefit in more homogenous constituencies based on type of organization, others regard heterogenous constituencies as a learning opportunity. CG members also noted that some of their peers are “silent” or have little time due to multiple tasks while others are more active and engaged, and that some organizations are more involved in microfinance and others less. This could be a case for different tiers of membership.

Management. CGAP is a management- and staff-led organization, appropriately monitored by the Excom with checks and balances. The majority of CG members accept and acknowledge this fact. They appreciate the strong management by the Director and the senior management team and have trust in the leadership of the Director.

OT – CG Interaction. The proactive Excom has somewhat reduced the direct interaction between the OT and the CG members. For some, the annual CG meeting – which is highly appreciated – is the only platform for dialogue and discussion. Some members feel a “gap” in communication and interaction. This gap could be reduced through a regular telephone

conversation, e.g. twice a year. Also, a visit by CGAP staff once a year or every two years would be highly appreciated. Such visits would provide a good opportunity for the focal point to put microfinance on the agenda within his/her organization. Where this occurred, it was highly appreciated by the respective CG members. OT could give more recognition to the CG members' organizations; as one CG member put it: *"Is it really important for CGAP OT to have us as a member?"*

Investment Committee (IC). The IC serves as the custodian of CGAP's investment fund and plays the fiduciary function of the World Bank as administrator of CGAP. The IC decides on expenditures for key grants and initiatives and reviews and approves any project above \$100,000. The IC is composed of senior World Bank and IFC experts and an observer from the CG and the Excom. Most CG members feel that the IC is needed and that it fulfils its fiduciary functions in an appropriate way. However, some questioned why the IC is composed of World Bank staff only and why there is not stronger involvement of the Excom in investment decisions.

Planning and Monitoring. Many CG members feel that reviewing and discussing the operational workplan at a CG meeting seems to be petty and a waste of time. The annual CG meeting could be better used. The CG members should not have to be involved in the details of the annual OT workplan. The focus should rather be on the overall CGAP policy and strategy, and rather on outcomes and impact than on outputs. The link between outputs (to be achieved by OT) and outcomes (to be achieved by CGAP system) is not clear. So far, monitoring and reporting is confined to outputs by the Operational Team, but the crucial question remains: to what extent have outputs *contributed* to the achievement of outcomes? Despite attribution problems, CGAP should make an effort to ensure accountability for results and outcomes.

Listening and Learning. The CG members acknowledge that CGAP OT's openness, its listening and learning capacity have improved, by taking into account different views and opinions. However, about one third of the CG members feel that more could be done in learning lessons and sharing, from its own initiatives as well as from its members and that a "more honest reflection" and "more self-critical" stance of CGAP would be helpful. Some claim that evaluations are not widely enough disseminated.

Trade-offs. Some members feel that the speed-versus-quality trade-off needs to be better managed, also for CGAP's own credibility. CGAP OT is very content- and output-driven but in some instances CGAP should take more time. Process matters – especially when CGAP intends to effect a change in behaviour and attitude.

Operational Team perspective

Role of Excom. The OT appreciates the competence and guidance provided by the Excom. Since the reorganization in 2003, the Excom has become more of a "real Board". The Excom has found a good balance of providing direction to and exerting control over the OT.

CG Membership. The OT struggles with the heterogeneity of CG members. In many organizations, the assigned focal points are technically not competent in microfinance. Often the relationship between the CGAP OT and the member organization is much more intense with technical or field staff. Very rarely do CG members respond to offers and proposals by CGAP except when they relate to governance functions.

Investment Committee. From an OT perspective, the Investment Committee is wanted and needed for a number of reasons:

- Gives senior World Bank and IFC staff insight into CGAP
- Serves to integrate microfinance into the WB
- Provide important feedback and inputs to the team
- Vetting process increases quality of initiatives,
- Fiduciary function: gives task managers discipline to stay within the budgets.

Monitoring and evaluation systems. The OT feels that monitoring and evaluation systems are quite robust but learning and dissemination could still be improved. A consultant has been contracted and is currently working on enhancing the monitoring framework.

Tradeoffs and tensions. CGAP faces a number of trade-offs and tensions and is confronted with a permanent challenge of either finding a good balance or making the right choice. OT management believes that it has done fairly well in coping with these challenges.

Overall, the OT perceives the CGAP system's accountability to be "sufficient but not overwhelming".

Overall assessment

In our assessment, CGAP does have adequate governance and management systems that are transparent and thorough in providing information about the program. The Charter and the Phase III Strategy with a logframe of objectives, outcomes, outputs and respective performance indicators provides a solid framework. This is a significant improvement compared to Phase II. The restructuring in 2003 has definitely improved the governance system.

We come to the conclusion that the Excom provides adequate strategic direction and oversight to the work of the Operational Team. The composition of the Excom – combining CG representatives and industry practitioners – has contributed to a good balance of guidance and control functions. Also, the Excom is fairly responsive to the needs, views, and concerns of the CG members, although this depends on the person and the relationship with the respective constituency.

Accountability, however, is a two-way street: not only should management and Excom be accountable to CG members but the members in turn also need to do their job as governors. And here lie some shortcomings. The gradual expansion of membership from initial 16 to now 33 members has widened the spectrum of types of member institutions and increased the heterogeneity in the membership. There is a large group of CG members – more than half according to our assessment – which are less active, with microfinance or financial systems development not playing a significant role in their organization, and with focal points who are generalists rather than specialists in the field. For this group it is an increasing challenge to assume a governing role for a highly technical organization like CGAP. It might be more appropriate for these members to hold a kind of "non-voting shares" in CGAP in a tiered membership structure.

CGAP is a management-led and staff-driven organization, and this is perhaps reinforced by the relatively passive role of the CG as governing body. With a clear strategic framework in place and with checks and balances implemented by the Excom, this model has worked

remarkably well during Phase III. The Phase III Strategy, including the priority objectives and the performance indicators has provided a framework which ensures accountability for results on the one hand and which leaves enough space for agility, flexibility and opportunities on the other hand.

Compared to previous phases, CGAP's organizational structure is more clearly defined, functional and effective. Management systems and teamwork have improved and work plans are better structured with clearer identification and monitoring of performance targets.

CGAP's monitoring and evaluation systems are well developed with regard to activities and initiatives and at the level of outputs. However, with regard to measuring, monitoring and evaluating outcomes, more needs to be done. CGAP OT should be able to monitor and report to what extent they *contribute* to achieving *outcomes* and *priority objectives*.

CGAP should develop a concept for measuring its own overarching key objective, i.e. building inclusive financial systems. When is a financial system "inclusive"? What are the criteria? Conventional measures of "financial deepening" (M2 over GDP) do not give the full picture, they are based on "amounts" and not on "number of people". The World Bank's work on measuring and monitoring access to finance is a first step in this direction. CGAP should closely collaborate with the Bank's initiative.

Beyond that, CGAP should do more conceptual work on *impact* and generate evidence on the impact of inclusive financial systems on broader development as stated in the Millennium Development Goals (MDGs). To be clearly understood, it is not meant that CGAP itself get involved in comprehensive studies of impact on microfinance nor of measuring the impact of its own work. What is rather needed is some generic demonstration of the alleged contribution of inclusive financial systems to poverty alleviation and improvements in the real sector of the economy. The question is being raised in countries with active and mature microfinance markets, such as Bolivia, Bangladesh, Uganda or Bosnia: After two decades of microfinance development and investment, has there been a real and measurable impact of poor people's increased access to microfinance services on poverty reduction and on improvement of living standards? An if yes, in what way? CGAP should be leading the way towards a *new impact methodology* which – from our point of view – should be some combination of the academic rigor of previous longitudinal impact studies combined with the pragmatic and client-focused approach of social performance measurement. CGAP should serve as convening platform for practitioners, academics and policy makers.

It seems necessary to clearly demarcate the division of tasks between the Excom and the CG members, especially with regard to the workplan. Instead of having a 3-hour session in the annual CG meeting on OT workplan and outputs, there should rather be a policy and strategy discussion and a focus on outcomes and impact. This may include an annual review of the desired outcomes and priority objectives, their relevance and progress made towards the overarching objective of building inclusive financial systems for the poor. Taking it a step further, a more thorough discussion may be warranted on the role and contribution of inclusive financial systems to the overall goals of poverty alleviation and other MDGs.

The Investment Committee is adequately serving its fiduciary role, and it should retain this function as the custodian of CGAP. In our view, the Excom should be more involved – at least with regard to technical contents – in investment decisions which are in any case closely linked to the workplan. Selected Excom members could become members of the IC, and/or the IC a sub-committee of the Excom.

The CGAP Operational Team learns from its external and internal evaluations and monitoring systems. A 2006 review found that CGAP is a learning organization and OT staff demonstrate a high degree of responsiveness to the findings of monitoring and evaluation reports⁴. However, sometimes CGAP can be slow to recognize the need to take action. For example, it took three years for management to be prepared to spend the money to hire a dedicated project manager as suggested by an external evaluation. This suggests that CGAP needs to create decision-making structures and processes that help to quickly transform insights into action.

External evaluations play an important role in assessing the performance of CGAP's investments and providing strategic recommendations. The OT makes all evaluations available to CG members. However, it may need to highlight learnings more as some CG members felt that the OT was not good at learning lessons and being self-critical.

Managing trade-offs and tensions

CGAP has to cope with a number of tradeoffs. The major ones are the following:

Content vs. Process

In activities which aim at changes in behaviour, there is an innate tradeoff between technical content and process. In the past, CGAP staff - as subject matter specialists - have generally been oriented towards technical content and achieving outputs, and less on process. The speed and agility that characterize CGAP's work style help ensure technical contents and outputs while *process* work requires more time and patience, and may seem "inefficient" to those used to the former work style. This has changed considerably in Phase III. In many initiatives CGAP staff have balanced content and process remarkably well. The trade-off has been managed particularly well by the donor team in the work on aid effectiveness but also by the transparency team. The work on Social Performance is an example for choosing process over content.

Nimble leader vs. neutral facilitator

This tradeoff is closely related to the content versus process tension. Should CGAP take leadership and send messages and opinions, or should CGAP be a neutral facilitator engaged in building consensus among various stakeholders? In fact, CGAP has done both, and moreover, it has done both well. On the one hand, CGAP has done tedious work with numerous stakeholders in generating consensus guidelines on many relevant aspects of microfinance, e.g. the Pink Book, on regulation and supervision, savings and financial disclosure. This is a remarkable achievement. On the other hand, CGAP – at times – has taken a position, expressed its opinion and sent messages. In the past, CGAP has frequently been perceived as being "dogmatic" and "preaching". However, as CGAP's messages have been phrased in an increasingly nuanced and balanced way, CGAP has become the widely accepted "voice of the industry". CGAP should continue to do both: be a neutral facilitator driving for consensus and be a leader to the industry by presenting different views and voicing an opinion in an undogmatic fashion.

⁴ Performance Analysis and Lessons Learned from CGAP's Investments, Sarah Forster, March 2006

Field-building organisation vs. service provider to members

CGAP is a hybrid organization – it is both a membership organization and a knowledge-building center of excellence for the entire microfinance field. Stated another way, it has two sets of clients – its donor members and the entire field. It is a membership organization but it is not member led. Rather, it is “driven” by the issues facing the field. Although this could present tensions, the reality is that CG members recognize the hybrid nature of CGAP and appreciate and value its role a field-building organization. They and other stakeholders recognize this as its primary role, as evidenced by CG member interviews and the client survey where the majority (52%) of respondents identified CGAP as a knowledge resource center with only 15% identifying it as a donor consortium. When tensions do arise it is more about *how* CGAP works than a tension between field-building and providing member services. There are calls by some of the more active CG members for CGAP to work more in partnership, as described below.

Setting the agenda vs. working in partnership

Should CGAP set the agenda and take clear leadership, or should it work in partnership with others and negotiate a joint agenda? CGAP’s Operational Team has been strong in setting the agenda and taking leadership in many technical fields. Again, this has yielded outstanding products and technical outputs. The shift from grants to initiatives has brought a shift towards working more in partnership with others, at least rhetorically. The management’s credo now is: “*Everything we do, we do in partnership.*” However, taking a closer look, many - if not most - of CGAP’s initiatives are in fact principal-agent relationships but not true partnerships. In many initiatives, CGAP decides on the agenda, selects and invites others and delegates tasks and components based on ToR. Going forward, there is scope for translating rhetoric into action. Again, CGAP should do both and find the right balance. There are certain areas where CGAP should clearly set the agenda and take leadership, and others where working in partnership and leveraging others is more appropriate and more effective. Clear criteria for either would help.

Agility and Speed vs. Depth and Quality

CGAP faces a trade-off between the speed of getting things done on the one hand, and the quality of outputs on the other hand. The latter usually requires more time and effort. This trade-off is particularly felt in the publications area. When the Focus Notes were created in the first phase of CGAP, they were strictly confined to four pages carrying key messages, oftentimes based on research done by others. Lately, the Focus Notes have grown to 15 pages each and are generally based on CGAP’s own in-depth research which is then followed by an extensive review process. This means publications can take a long time to get out in the public domain. CGAP should consider returning to the initial approach of getting short and simple messages out quickly, based on research, pilots and studies done by either itself or by others, including its members.

Poverty outreach vs. financial sustainability

The challenge in microfinance is to manage the delicate balancing act of reaching out to the poor in a financially sustainable way. We know that this is possible, however, the pressure on lending rates in competitive markets (and the ability to charge cost-covering interest rates) presents an increasing challenge. This tension is valid for CGAP’s work as well. Although CGAP has made serious efforts to balance this dual objective in terms of resources and staff inputs, CGAP is more associated with the financial sustainability agenda, i.e. focusing more on financial performance, accounting and financial techniques than on social performance and outreach to the poor. More needs to be done in the latter field to achieve a greater balance.

Conclusion

Some fundamental tradeoffs and tensions exist. CGAP has managed these tradeoffs fairly well. The point is not for CGAP to make a choice of either-or. In most cases, CGAP is doing both, often successfully, and should continue to do both. The challenge rather is finding a good balance, and the right nuance on either side. For example, CGAP has very well balanced its role as nimble leader in certain areas, e.g. the sustainability paradigm, with its role as facilitator in other areas, e.g. the consensus guidelines. Working in *true partnerships*, focusing more on *process* in addition to technical contents and engaging more visibly in *poverty outreach* remain as challenges for the future. Overall, CGAP has made considerable progress towards achieving the right balance in managing these tradeoffs.

4. EFFICIENCY

This section assesses the efficiency of CGAP. The central question posed was *to what extent does CGAP provide value for money?* In addition this is broken down into specific questions on efficiency of CGAP with regard to its organizational structure and location within the World Bank, level of centralization, funding arrangements and relative effectiveness of activities. Below we present the views of the CG members (including Excom and Investment Committee members) and the OT perspective before providing our overall assessment.

Efficiency is a difficult area to assess posing serious methodological challenges. An effective assessment depends not only on the outputs but the value attached to these outputs. In addition the unique differences of development assistance programs or initiatives make them difficult to compare, while it is not obvious what are appropriate benchmarks.

CG members' perspective.

Cost Effectiveness. Slightly less than half of the CG Members interviewed commented on the efficiency of CGAP, with those who refrained from providing their assessment sighting the difficulty of assessing efficiency. The responses however, were overwhelmingly positive with CG Members certain that CGAP offers – ‘excellent, enormous, great, significant’, value for money. Some members compared CGAP to their own agencies – singling CGAP for its numerous valuable outputs every year. A recurring comment by CG members was that CGAP was immense value for what they pay alluding to what one member termed as the ‘global utility’ of CGAP. Less active member in the area of microfinance consider CGAP an efficient and appropriate for contributing to the broader global agenda. Overall the quantity and quality of CGAP’s outputs are considered commensurate with the level of funding that it receives.

Organisational Efficiency. Overall CG members consider CGAP’s organizational structure appropriate for achieving CGAP’s mission. In particular CG members consider the Washington and Paris offices as adequate and advise against any further decentralization or establishment of regional offices. Members appreciate the creation of the Paris office and the strong team of staff who focus on Aid Effectiveness, in addition to a presence in Brussels, all of who are now closer to a significant number of CG members.

CGAP was noted as managing its resources well with particular note that the level of direct funding has decreased.

CGAP’s link and relationship to the World Bank is generally considered by CG members to be good and valuable. Notably CGAP is able to use established World Bank financial, legal

and administrative structures. This has not only saved on the need for the development of these structures by CGAP, but are key in facilitating certain operation aspects such as travel and key relationships with governments, amongst others.

Funding Arrangements. CG members in general are happy with the funding structure of CGAP. Some highlighted their internal agency challenges limiting their financial commitments. Member's particularly noted the structure of CGAP as a consortium and a trust fund of the World Bank made it possible for them to contribute to CGAP, and doubted if it would be possible for them to make regular annual contributions if the structure was otherwise.

Relative Effectiveness. The general view among CG members is that CGAP's activities are relatively more effective than their individual activities. This is in part to the objectives and focus of CGAP on global issues in microfinance. In particular, members see no comparable organization that has the attention of so many engaged funders in microfinance. The recent 2nd High Level Better Aid Meetings in Paris was repeatedly cited as an example of the commitment and clout that CGAP enjoys, making it unrivalled in influencing significant worldwide investment by these funders in microfinance.

In conclusion, CG members acknowledge limited or no competition in certain areas in the industry for example policy, technology and aid effectiveness. This underscores their high rating of the OT's relative effectiveness, but also the difficulty of comparisons. The inclusion of efficiency as an evaluation criterion was welcomed among the CG Members and further refinement by OT with regard to methodology to determine efficiency including identifying appropriate proxies to benchmark its own efficiency will be further welcomed.

OT Management's perspective.

Cost Effectiveness. The OT generally considers CGAP to be cost-effective. The team however, recognizes the challenge of identifying comparable organizations and appropriate benchmarks for cost-effectiveness.

The OT is increasingly cost conscious with clear efforts to reduce and contain operational costs such as IT, communication, administration, and travel. Significant leverage is achieved by complimenting OT initiatives with the use of external consultants where feasible and appropriate. Hiring consultants directly from amongst a cadre of individual consultants versus consulting firms yields considerable savings.

The cost structure of CGAP OT compares favorably with other 'similar' programs, based on an review of internal metrics and organizational comparisons undertaken by the OT during this evaluation. Capturing these metrics and comparisons by was an impressive effort by the OT and could provide a good basis for more work and standardized metrics in creating a framework or methodology for measuring efficiency. Highlights of these comparisons from the OT note are offered below.

Comparison of comparable organizations' budgets and staff numbers. From an initial review of ten organizations similar to CGAP in mission and function (such as Accion, Grameen Foundation, and Cities Alliance), the average annual budget per staff is \$533,640. CGAP falls just below the average at \$484,848.

CGAP by the numbers. CGAP has a solid track record at leveraging, coordinating, and producing leading industry information and resources in a timely manner. In FYO6, CGAP produced 6 case studies, 3 technical guides, 4 CGAP Briefs, 1 Donor Brief, an Occasional Paper, 3 Focus Notes, and 14 Country-level reports.

Programmatic Comparisons. Over the last 5 years, CGAP has shifted its emphasis from external grants to internally managed initiatives. Developing in-house expertise has yielded efficiencies in shorter investment cycles.

The creation of a dedicated communications team during Phase III has resulted in a more coordinated and structured effort in dissemination of CGAP publications and messages. However, certain publications – Focus Notes and Occasional Papers, are considered to be taking too long by staff and some stakeholders. Management attributes this to the rigorous editing process established and the need to maintain the editorial quality. A clear trade-off exists here between speed and quality of certain key publications.

OT appreciates that a full cost/benefit analysis would need to be undertaken in order to accurately assess their overall efficiency of CGAP's hubs structure. Such a detailed study is already planned by the OT.

Based on comparisons by CGAP OT the full cost (salary, benefits, taxes, etc.) of CGAP Staff are relatively comparable to other development groups at the senior levels, and slightly lower at junior and middle levels.

Relative Effectiveness of Activities. CGAP OT is careful to ensure that initiatives and activities undertaken are the best use of resources. To ensure this, OT subjects all initiatives through five criteria: 1) Does CGAP have a comparative advantage to undertake the initiative, 2) does the initiative have leverage – benefit many, 3) is the initiative considered to be value for money, 4) is there real demand, and 5) does the initiative have significant potential impact.

Overall Assessment

In our assessment, CGAP is a cost-effective and competitive organization. Some of the work of CGAP is singularly unique e.g. aid effectiveness in microfinance, or has limited comparables, significantly underscoring the value of such work. Despite having sufficient funding and commitments for its initiatives, CGAP OT have a strong desire to be first in class or compare favorably against key internal efficiency metrics amongst organizations similar to CGAP in mission and function. We conclude that CGAP will continue to be a good investment for the benefits it offers.

The organisational structure of CGAP in our view contributes to the overall efficiency of CGAP. The level of centralization – Washington office and Paris, is in our view ideal. This limited decentralization contributes significantly to team work and more importantly strategic alignment of the organization, contributing to increased outputs.

Regional 'hubs' of CGAP operate under different models. The optimal structure for these would need to be reviewed after a detailed cost-benefit analysis and strategic review of the programs. We therefore fully support OT's recommendation to undertake such a study to better understand how these hubs contribute to GCAP's overall objectives.

The link and relationship with the World Bank has appreciable cost-savings for CGAP. Access to key back-office services and systems in finance, administration and legal, is valuable for CGAP. In our view CGAP staff are keenly aware of how to leverage this relationship when necessary in their day to day work.

The shift in CGAP's emphasis from external grants to internally managed initiatives has improved efficiency. A performance review of CGAP's investments in 2006 concluded that 'CGAP initiatives perform better than its grants'⁵. These were judged to achieve greater impact, a conclusion that we agree with. The constant peer review and discussion of initiatives internally within the OT and senior management, appears to ensure standards are maintained and helps to keep initiatives on track so that objectives are achieved. On the other hand, CGAP's organizational efficiency is underpinned by a learning culture and flexibility. Initiatives that are off-track are closely monitored and halted where necessary. The comprehensive workplan framework adopted in this phase of CGAP has contributed to this tracking discipline.

The funding arrangements that CGAP has with its members seem appropriately structured for its activities. CGAP displays unique flexibility in working with its partners and its members, managing both designated and undesignated funds. The new Technology initiative is a good example of how CGAP achieved an appropriate balance in the structure of funding. We recommend that CGAP maintain flexibility in structuring and managing its funding arrangements.

CGAP has a flexible and dynamic work structure that leverages the full resources of the OT in teams. The result is high quality but varied outputs. This framework approach to work – themes and teams, has made it possible for CGAP to work almost seamlessly between the various office and hubs, and increasingly with partners. The result is a heightened level of discipline and focus on planning, tasks and execution – contributing to overall efficiency.

Efficiency and cost-effectiveness are relatively new dimensions in development program evaluations. As such key internal metrics have not been developed for which we can monitor. We are however, confident that CGAP represents value for money and it compares favourably with other organizations with similar activities and mission.

⁵ Performance Analysis & Lessons Learned from CGAP's Investments, March 2006 Sarah Foster

III. CONCLUSIONS AND RECOMMENDATIONS

1. AREAS FOR IMPROVEMENT FOR THE REMAINDER OF CGAP III

CGAP is currently more than midway through Phase III and a little over one year remains until June 2008. Below we present some areas for improvement derived from the performance assessment in the previous chapter, and organized along the five priority objectives.

Objective 1: Diverse financial institutions

CGAP has clearly made progress towards promoting greater institutional diversity in microfinance as one its priority objectives in Phase III. CGAP has widened the spectrum of microfinance providers beyond the NGO MFI model. Through the RAS as the major initiative in this area, the emphasis so far has been on private commercial banks.

To reach the Phase III objective, the following recommendations are made:

- The RAS should move to a higher level, by distilling and synthesizing lessons on commercial bank downscaling jointly with CG members which have long experience in this field, and by developing a toolbox for wider dissemination.
- CGAP will need to expand the diversity of microfinance service providers beyond the NGO MFIs and the private commercial banks. A nuanced publication on the self help groups movement in India is forthcoming after years of research and drafting. This will be important for CGAP's image in a large and important country like India. Furthermore, CGAP should provide recognition of other microfinance service providers such as state banks and cooperatives which play a dominant role in many parts of the world.
- Towards the end of Phase III, CGAP should prepare an assessment on its contributions to achieving the four desired outcomes under the priority objective (as this evaluation was asked to do). So far, monitoring and reporting stops at the output level.

Beyond Phase III, the following activities are recommended:

- It may be worthwhile to consider the development and implementation of pilot or demonstration cases (more focused, more efficient, with local consultants) in partnership with IFIs in a follow-up initiative to the RAS.
- More needs to be done on cooperative models and state banks. Both types of institutions play a dominant role in Asia and cannot be ignored. For example, the cooperatives in India and China have hundreds of millions of members and are probably the largest microfinance structures in the world.

Objective 2: Diverse pro-poor financial services

To reach Phase III objectives and be judged as effective in this area, CGAP will need a strong focus on this area during the remainder of Phase III. The following specific recommendations are made:

- Commit the staff and resources required to translate the money transfers, savings, PPIC and graduation work into action, and bring the social performance work to center stage.
- Contract additional expertise on specific areas – such as savings, monitoring and evaluation – if necessary to ensure quality project design, implementation and evidence collection.
- Send a strong message to IFIs and DFIs about their role in helping formal financial institutions to expand savings services for the poor as part of their commitment to inclusive financial sector development. Use the RAS as a vehicle to pioneer new approaches to facilitating savings service development and to encourage more investment in savings projects, not just credit projects.

Objective 3: Transparency

This is an area where CGAP has performed well and is on track to achieve its objectives by the end of Phase III. For the remainder of CGAP Phase III we offer a number of suggestions:

- Run the annual Financial Transparency Awards through to the end of CGAP Phase III. More effort should however be directed towards profiling the winners and sharing their stories through CGAP's communication platform, including deliberately highlighting the winners in different CGAP forums throughout the year.
- CGAP's Information System Fund should be expanded. Execution remains the biggest challenge in microfinance IS projects. The IS fund should consider some level of support for implementation.
- The Multi-Donor Rating Fund is scheduled to end in December 2007. We do not see a need to extend this further. While a vibrant market for ratings and assessments has not developed in the industry, the changing market dynamics should be allowed to support the development of specialised ratings and market infrastructure, or otherwise.
- CGAP should continue to support the MIX. The need for credible information clearing houses in the industry remains key, especially with the entry of new actors – Investments Funds, new Funders etc. Collaborative work such as the Capital Markets Update should continue.
- Lastly CGAP is strategically placed to work with the increasingly important Investment Funds to improve their transparency, reporting and linkages to the market. Working with these suppliers of capital should be a priority. However, CGAP should make sure it does not crowd out private sector players which may emerge as information and support providers to this segment of the financial market.

Objective 4: Sound Policy and Legal Framework

With the launch of the policy initiative, CGAP has become more actively engaged in policy work than in the previous phases. To reach the Phase III objective, the following recommendations are made:

- CGAP should utilize its close link to the World Bank as one its major comparative advantages. The CGAP policy team should engage in more systematic working with the World Bank and the IMF as the major organizations involved in financial sector policy work. CGAP can significantly contribute to making Financial Sector Assessment Programs (FSAPs) more inclusive and conducive to microfinance, for example by developing tools and templates on financial inclusion/access beyond the FSAP manual, similar to the templates available for the stability dimension.
- CGAP should increase its presence at mainstream policy fora (IMF/WB annual meetings, Basle Committee, World Economic Forum etc) and make the case for building inclusive financial systems.

Some more general recommendations are as follows:

- CGAP should make a gradual shift in the policy work from damage control (“averting something bad”) to a more proactive approach (“creating conducive environment”).
- CGAP should develop a clear and consistent policy message. For example, if savings are regarded as an important service especially for poor people (Priority Objective 2), it requires institutions that accept microsavings. These institutions must be regulated. Making its policy work more “savings-based”, CGAP should proactively support the prudential regulation of deposit-taking MFIs.
- CGAP should involve CG members more actively in policy work/country diagnostics. In certain countries, CG members have been engaged in policy work for many years.

Objective 5: Aid effectiveness

This is an area where CGAP has significantly improved its performance during Phase III and is on-track to achieve its objectives. However, a number of suggestions are made as to how CGAP could improve its work in this area for the remainder of Phase III:

- Tie in aid effectiveness work more systematically to content areas. This is already happening to a certain extent. During its first two years, the donor team worked practically in isolation from the rest of the OT. Now there is far more interaction and cross-working. This trend is to be encouraged. In the evaluation team’s view the OT should consider reorienting its focus of “fixing donor systems” to a more positive approach of identifying and working with donors where they have a comparative advantage to achieve the overall goals of Phase III.
- Consider if and how best to work with the IFIs.
- Consider whether and how best to work with other funders – apexes, investment funds – and develop a work plan for the remainder of Phase III.

Some more general recommendations are as follows:

- Carry out a mapping exercise of donor comparative advantages and activities on a country level. This is basic knowledge that would be both useful to OT staff and CG members. Such a mapping exercise could help inform where CGAP should be working in partnership with its members and where they could best leverage CGAP's efforts at the regional and country level. Consideration of the usefulness of such an exercise could be made as part of the follow-up to the CLEARs.
- Develop a web-based Donor Information Exchange on which this information is shared and which provides a platform in which donors can update their own information on what they are doing where. This idea was suggested by some CG members. However, experience suggests that most members would, in practice, not use such an information exchange. So, the real demand and feasibility of this idea would need to be properly tested if taken any further.

2. FUTURE OF CGAP BEYOND 2008

There are several building blocks which provide a context and guidance for thinking about CGAP's future: (i) the recently published Pink Book which contains a final section on frontier issues, (ii) the outcome of the scenario-building exercise which was conducted by CGAP, (iii) the views of the CG members as the current owners of CGAP, (iv) views from selected industry stakeholders, including those captured on a recent on-line discussion and, finally, (v) the thoughts of the evaluation team.

2.1 FRONTIER ISSUES

The Good Practice Guidelines for Funders of Microfinance, the so-called Pink Book, published as 2nd edition in October 2006 identified a number of core frontier issues that remain unresolved and require attention in the future.

Reaching remoter rural poor. Farmers and rural households require a full range of financial services including agricultural credit and microfinance. The vast majority of the world's poor live in rural areas with poor infrastructure, limited law enforcement and depend on agriculture. The few rural finance service providers that operate in these areas have weak institutional capacity and very high transaction costs. In many parts of the world, member-owned financial institutions, including savings and credit cooperatives, as well as state-owned banks are often omnipresent in rural areas. Reaching these frontier populations requires well designed interventions across the micro, meso and macro levels that support innovation, learning and partnerships.

Measuring and improving accountability on social performance. There is growing interest in tracking the social performance of financial institutions that serve the poor. However, social performance indicators have not been standardized and financial institutions lack the tools and systems to collect and analyze this data.

Applying delivery technology to reduce costs. Technology is widely seen as the key to reducing transaction costs of financial providers and clients, enhancing security of

transactions and enabling financial institutions reach frontier populations. Various technologies and business models are yet to be proved while policy-makers and regulators need to understand technology-based delivery channels. Supporting innovation and providing funding for experiments, that could lead to new delivery models and channels, is key.

Tapping domestic funding markets. Vibrant financial markets are crucial if pro-poor financial institutions are to meet their liquidity needs and successfully intermediate funds. The integration of these institutions in domestic financial systems is far from adequate, while some international financial institutions and foreign social funds could be crowding out domestic funding. A financial systems approach to supporting interventions and support should be encouraged.

Graduating the poorest into microfinance. Microcredit often does not reach the poorest, who typically need social services such food, health assistance and training. The poorest often require guidance and assistance to transition from such social grants to running microenterprises and accessing other financial services. Experimenting with programs and models that link social safety net support and microfinance remains a top priority if the industry is to see more of the poorest assisted out of poverty.

2.2 RESULTS FROM THE SCENARIO-BUILDING EXERCISE

The scenario-building exercise was a future looking exercise aimed at helping to anticipate and prepare for the global demographic, political, and technological forces that will shape the future of microfinance. Two global developments were highlighted:

- ***Emergence of the BRICs (Brazil, Russia, India, and China)***, home to 40 percent of the world's population, as economic superpowers. Increasingly the performance of these countries, more than the G6, will influence overall global growth prospects, including that of low-income countries where they play an increasingly important role as economic leaders and providers of aid.
- ***Seismic shift in demography***: Current demographic trends mean that the client base for financial services will be younger, more urban and more connected and informed.

The scenarios report presented four trends and alternative extreme scenarios, one positive and one negative focused on the implications for the international community promoting financial access.

1. ***Wireless Technology: Connecting or dividing***

- Scenario 1: Massive outreach. Wireless technology revolutionizes the way financial institutions and other businesses offer financial services to low-income people. Hundreds of millions of poor and unbanked clients gain access to finance as a result.
- Scenario 2: Deeper digital divide. Technology is adopted mainly to serve the easier-to-reach, wealthy clients and the substantial middle class in BRIC countries. Most of the poor are left out of the financial system.

2. ***Activist Governments: Friends or foes?***

- Scenario 1: Successful state involvement. A few governments take an informed, long-term approach to the use of their massive state bank infrastructure to offer sustainable financial services or motivate private banks, for instance by entering into

public/private compacts to extend access. Fuelled by massive injections of start-up capital, access skyrockets.

- Scenario 2: Flood, distortion and collapse. BRIC and populist governments reject so-called international “good practice.” These governments create unsustainable microcredit institutions – banks for the poor – as a poverty alleviation strategy. Poor people have access to financial services only as long as the subsidy and political interest lasts.

3. *New International Players: Dealing with Popularity*

- Scenario 1: Making good on the promise. New international funders bring a fresh perspective and support innovations and activities that traditional donors cannot easily handle, such as the application of technology to pro-poor finance. Their expertise and business-like approach accelerates innovations that lead to hundreds of millions more people accessing financial services.
- Scenario 2: Backlash. The supply of new funding exceeds the absorption capacity of local MFIs, encouraging imprudent lending, even attracting irresponsible lenders that take advantage of poor clients. Consumer lending expands rapidly and over-indebtedness becomes a major problem. Anti-predatory lending regulations are brought in which, rather than protecting consumers, restrict access to finance, for instance by imposing interest rate ceilings that make sustainable delivery of microcredit impossible.

4. *International Regulation: Safety vs. access*

- Scenario 1: Achieving balance. After an initial debate on the tradeoffs between security on the one hand and access on the other, an international consensus emerges around the importance of balancing both. Countries introduce exceptions for small-value accounts and transactions and other polices so that financial institutions can afford to work with poor clients.
- Scenario 2: Clampdown. In an increasingly unstable world, AML/CFT rules become even stricter. Rigorous documentation, such as proof of residence, and clampdowns on branchless banking increase banking costs and effectively block a large proportion of poor people from obtaining bank accounts and access to financial services.

2.3 CG MEMBERS’ VIEWS ON CGAP’S FUTURE

How do the founding organizations and current owners see CGAP’s future? Almost all CG members see a need for CGAP services beyond 2008. The job is not done. CGAP has not yet achieved the priority objectives and overall goals.

The **future role** of CGAP could include the following:

- Broker between donors and the private sector
- Broker to engage governments and make them adopt “access for all” as a policy
- Facilitator and innovator
- Think tank and information clearing house
- Centre of excellence
- Knowledge gathering and dissemination for the industry

In doing so, CGAP should adhere to the **principles** of complementarity, additionality and subsidiarity.

CG members listed the following **content and focus areas** for the future (in order of priority):

- **Aid effectiveness** (10 responses): The work with donors should be continued, perhaps in a “light” version. It should engage with new funders. As more and more donors shift their aid programs towards budget support as a popular instrument, CGAP may need to look at what to do with donors which provide budget support. It may need to reorient its work towards working with funders which have the highest levels of investment in microfinance and reduce work with others.
- **Inclusive financial systems** (6 responses). Financial systems development and access to finance will become more important, in particular developing domestic markets but also the management of exchange rate risk (diversification options, structured finance). A clarification of institutional roles, public donors versus private sector, and Public Private Partnerships (PPP) which are seen as a key area for the future, will all be important.
- **Technology** (6 responses). Technology will be a main driver for outreach. Priority roles for the future are testing out viable business models. Supporting incubation, demonstration, linking MFIs with IT companies, and financial – technology brokerage.
- **Policy** (5 responses). Policy work is an important field that is not yet well enough integrated with the WB/IMF. CGAP should continue the work together with IFIs/MDBs. It should encompass the role of governments.
- **Poverty focus** (4 responses). The poverty focus should get more attention. The poverty agenda needs to be strengthened. CGAP’s work in the future should clearly contribute to achieving the MDGs.
- **Transparency** (4 responses). Market intelligence – have a role here, possible spin-off affiliate opportunity or add to MIX. Engage with data efforts of the WB. Focus on global issues. evaluation methodology (benchmarking of donors through index)
- **Frontier areas** (3 responses). CGAP should work on new frontiers/innovations: rural finance/outreach, role of government. It should focus on the low end of the market and on existing gaps.

With regard to the **organizational set-up**, the CG members had following suggestions:

- According to the vast majority of CG members, CGAP should – not surprisingly - remain a donor/funder consortium and a membership organization. Some expressed the view that CGAP should remain a consortium of *public* funders.
- CG members do not see a broadening of the membership base. Already today, the diversity of members makes it difficult to find common ground under one roof. Some suggested introducing a tiered membership to reflect the diversity. New governments (China, India) may come in over time.
- CGAP should be working with private investors, developing information platform and tools, but not necessarily as members.

- Some would like to see a greater role for practitioners, perhaps in a gathering around the annual CG meeting. The Africa day in the recent CG meeting in Cotonou was a good example.
- Should CGAP stay in the World Bank or rather become independent? The CG members are mixed on this question. About half of the CG members would like CGAP to remain in the World Bank while the other half would opt for independence.
- The opponents of the World Bank link claim that CGAP has enough name recognition and is a strong enough brand to stand alone. The World Bank is not needed anymore to provide clout. Moreover, CGAP's neutrality is compromised through its association with the World Bank, and in many quarters the World Bank doesn't even add to brand value. While some would vote in favour of separating from the World Bank, others would need to be convinced of reasons why CGAP should remain within the World Bank.
- The proponents provide an equally long list of advantages and benefits of staying in the World Bank. For many bilateral donors, the structure as World Bank trust fund facilitates the funding of CGAP as a global initiative. The fiduciary responsibility and the professional trust fund management by the World Bank provides comfort to donors and funders. OT management has done a great job in managing an arms-length relationship with the World Bank. Some argue that the World Bank link facilitates CGAP's work in the policy arena. On practical grounds, the Operational Team can make use of the World Bank infrastructure and facilities, not only in Washington but also abroad through the World Bank country offices. Furthermore, CGAP still gets a large share of its funding from the World Bank.
- However, even among proponents there is some fear that CGAP is being "captured" by the World Bank as CGAP is now being listed as the microfinance service point in the World Bank/IFC Access to Finance Unit. There is a risk that CGAP is replacing World Bank staff which would not be possible under trust fund rules. CGAP's independence should be ensured and its relationship with the World Bank clarified.
- What could be the alternative? Independence of CGAP as an international NGO? Most CG members do not favour this. "*CGAP must not become an NGO or it will lose its stakeholders. No NGO could have gathered as many heads of agencies and at that level as we saw in Paris.*" Privatization of CGAP? One respondent compared this option to the experience with the FIRST initiative which has been managed by London consulting firm at considerable cost and will now be transferred back to a World Bank trust fund. The World Bank trust fund is not a bad option as long as there is no better solution.

2.4 INDUSTRY STAKEHOLDER VIEWS

The majority of industry stakeholders interviewed also see a future for CGAP beyond 2008. The few dissenting voices wondered if CGAP didn't exist others would move in to fill its role. However, most felt there is need for a global focal point on microfinance and they could not see anyone else taking on this role.

There were differing views as to how CGAP should position itself. Some, mainly private sector players, had strong views that CGAP should stick to its core comparative advantages – aid effectiveness work, information-gathering and knowledge sharing, standard setting, policy work, and thought leadership and advocacy– and play no direct role in market development e.g. funding pilots and innovation, technology, transparency.

The majority felt that CGAP did have a role to play in market development. As one commentator put it *“in the context of an increasingly competitive and fragmented marketplace, there is the risk of a fragmentation of knowledge and shared knowledge drying up. It is important to have an institution which can be a knowledge broker.”* These stakeholders felt CGAP had an important role to play in providing bridges between private and public players and informing solutions for scaling-up microfinance. However, this role could only be played if CGAP was a trusted intermediary which could help facilitate coordination, cooperation and maximize opportunities for players to work together.

The following areas were mentioned by one or more stakeholders as areas where CGAP should continue work beyond 2008:

- Information clearing-house/communications, including being a clearing house for debate. It was felt that right now CGAP is not a forum that was open to all to debate and it did not bring enough voices around the table.
- Aid effectiveness, including providing guidance to new funders.
- Policy work
- Market infrastructure/technology work – provided there is a serious evaluation and monitoring aspect that aims to understand impacts and disseminate learning.
- Market intelligence – have a role in understanding demand and supply and providing industry-wide data at a big picture level (bigger than the MIX). “Be the story teller”, the relevant responder which produces quick, reasonable quality pieces rather than only publications which take a long time to produce. Link in with country-level exercises to map the depth of financial exclusion at the household level.

In the client survey, stakeholders were also asked to identify services and resources that are still needed and that CGAP should provide. The following services/resources topped the list across stakeholder groups:

- Standards, guidelines and operational tools (top priority for funders);
- Country policy and sector diagnostic assessments (top priority for governments/policy makers);
- Piloting new technology to lower costs (top priority for financial institutions; and,
- Funding pilots and innovations to help develop financial market infrastructure.

In terms of the structure of CGAP, most had no problem with it remaining as a membership body. However, some advised the CGAP draw the line at including private funders as members.

2.5 EVALUATION TEAM'S THOUGHTS AND MESSAGES

The evaluation team was not asked to map out CGAP's future beyond 2008. It is understood that the evaluation's findings and suggestions will feed into a process of consultation among CG members and other stakeholders to decide on CGAP's future. Here we raise a few questions which we believe to be fundamental to mapping out the nature of CGAP's future.

The Spectrum: to whom do you want to be relevant?

The microfinance industry is developing fast and the spectrum of players is increasing. On one side of the spectrum you have multi-service NGO-MFIs that are engaged in livelihood projects with destitute households, such as Jamii Bora in Kenya; on the other side you have MFIs issuing bonds in local capital markets and participating in international securitization transactions. CGAP has tried – and managed fairly well – to be relevant to the broadest possible spectrum. There is the graduation program on the one hand, and the performance standards of microfinance investment funds on the other. Covering such a span has not been without tensions.

Some players which found CGAP extremely relevant in the past, find them less relevant today. Some of the high performing MFIs are looking to learn, not from CGAP, but the mainstream financial markets. Other less developed MFIs still find CGAP's original technical tools and resources invaluable. At the same time, the relative importance of different actors is changing. Bilateral donors' aid flows to microfinance are declining, while the funds available from new players are increasing.

Going forward, CGAP may need to clarify to whom it wants to be relevant. The greater maturity and complexity of microfinance means that more market segmentation and definition of CGAP's services and audiences is required for CGAP to maintain its relevance.

CGAP potentially can be relevant to all groups provided it has a clear message and underlying set of values and beliefs which are relevant to the financial sector as a whole. As microfinance develops and financial markets become more competitive, there are increasing risks that such development will not be in the interests of the poor. One needs only to look to the United States and Western Europe. Despite the highly developed financial markets, financial exclusion is an important social problem with millions of low-income people lacking access to basic financial services, in part, because mainstream lenders, using traditional credit scoring methods, have too little information on them to evaluate risk and extend credit. A flourishing alternative commercial lending market has developed providing low-income people with access to credit but often at extortionate rates (the typical APR for so-called predatory lenders in the UK is 200%). Such commercial lenders are already building businesses in some of the more mature markets where MFIs operate, such as in Latin America and Eastern Europe. The risk is that some do this in the guise of providing microfinance.

Given the nature of market development, CGAP could have an important role in advocating the need for *ethical* finance. In such environments, new policy issues arise such as consumer protection, truth in lending, bank disclosure and dealing with extortionate credit. These are all future areas related to ethical standards in financial service provision where CGAP could play an advocacy role of relevance not only to microfinance practitioners but to the financial sector

as a whole. This also points to the potential benefits of greater dialogue and knowledge-sharing between the developed and developing world in the future.

The Balancing Act: managing tradeoffs and tensions

CGAP faces considerable tradeoffs and tensions but overall it has managed these tradeoffs fairly well: content versus process, being a field-building organisation vs. a membership organisation, a nimble leader versus a neutral facilitator, setting the agenda versus working in true partnership, to name the major ones. In most cases, the exciting challenge is not about making choices in either direction – which is often more simple – but rather to engage actively and with great sensitivity in a balancing act of both ends. As a general message, CGAP should continue to be and do *both*.

In the future, the tradeoffs and tensions will remain, and may even increase. The extreme scenarios developed in the scenario-building exercise illustrate the scope of these tensions. Going forward, CGAP should be aware of the tradeoffs and tensions and built them into the future strategy. Most of CGAP's work will require a delicate balancing act that needs to be managed well.

CGAP comparative advantages: developing a “third generation”

For a future phase of CGAP it will be crucial to identify and strategically utilize CGAP's comparative advantages. CGAP was born with certain comparative advantages innate in its structure, e.g. being a consortium of all major donors, or the link to the World Bank. On this basis, CGAP has successfully developed “second generation” comparative advantages, e.g. its credibility to the entire industry, or its brand name.

We think that the future of CGAP will be influenced by how it builds on these achievements and how it develops its “third generation” comparative advantages. For example, there is room for further development of and leverage of the World Bank relationship in the policy arena. The PPIC and the Transparency Awards clearly indicate the value of the “CGAP seal”. Using the CGAP seal proactively can be a powerful, effective and efficient tool. A thorough identification and analysis of CGAP's comparative advantages will be an important step in developing a future strategy.

The Matrix: intertwining contents and services

Recently, the CGAP OT has been using a matrix – similar to the one outlined below – to structure its work. The content areas, i.e. *what* to engage in, are presented on the vertical axis while the types of activity, i.e. *how* to engage, are plotted on the horizontal axis.

There is a fairly broad consensus among different stakeholders on certain content areas where CGAP should be involved in the future: policy and technology are cases in point. Aid effectiveness, or continuing the successful work with donors or funders, is the third area. A fourth area is the work on social performance and its integration in what we term “double bottom line accounting” as a working title. This perhaps should be considered as CGAP's first area of work as it provides the meaning and underpinning to the rest of CGAP's work. A fifth area is market intelligence, but here CGAP will need to analyze carefully what existing and

planned information sources exist on both the demand and supply side. CGAP’s best role is likely to be in packaging rather than producing primary data and analyzing and communicating big picture trends.

How should CGAP work? Undoubtedly, by highlighting “good practices and setting standards” for the industry (field 2 on the horizontal axis) and through “communications and advocacy” (field 4). We pose a question mark in the area of “research and innovation”; others have clearer comparative advantages. This is an area where CGAP may be best off developing closer links with universities and other researchers to ensure any of its initiative with a research angle are appropriately designed and implemented. “Training and advisory” is another area where CGAP should analyze whether it leverages its own resources to the maximum extent. The decision to spin-off training in a separate institute may be a reflection of this. Providing advisory services, especially at the retail level, is clearly not one of CGAP’s comparative advantages. In its actions, CGAP should be guided by “creating a demonstration effect” to the industry. Only then would it be justified to engage in field-level work, TA and the like where CG members with their presence on the ground have a clear comparative advantage.

Future strategic framework

	Research & Innovation?	Standards & Good Practices	Training and Advisory?	Communications & Advocacy
Policy				
Technology				
“Double-bottom line accountability” – social performance & access				
..... Market intelligence?				
Aid effectiveness				

In the past three to four years, the core of CGAP’s work on aid effectiveness has been working with funding agencies to improve their internal systems and procedures for better microfinance funding. The peer reviews, the CLEARs, the Aid Effectiveness Star, and now the Index have all been addressing the more fundamental – or generic – aspects and weaknesses of funding agencies. Following the high-level meeting with heads of agencies in Paris, this work will certainly continue with a selected number of agencies.

A complementary strategy would be to work in partnership with funding agencies on specific content areas and improve donor programs “on the job” by doing them jointly in a better way, by creating demonstration effects and good practice examples. We think that aid effectiveness and technical contents should be much more intertwined and donor work should be clearly seen as a *mode of working* as well as a content area.

Future strategic framework

	Research & Innovation ?	Standards & Good Practices	Training and Advisory?	Communications & Advocacy	Donor work
Policy					
Technology					
“Double-bottom line accountability”					
Market Intelligence?					
Aid Effectiveness					

Future Membership and Organization: enhanced Status Quo

The current organizational structure serves CGAP’s purpose and operations well. CGAP has gained credibility with this institutional set-up. We think that CGAP’s location in the World Bank is favourable in principle. However, boundaries vis-à-vis the World Bank’s financial and private sector unit may need to be clarified. Furthermore, CGAP should leverage the World Bank link more effectively in the policy area.

The future membership of CGAP is one that needs re-examining. There are two issues: one is the current membership structure which needs reorganization and strengthening, the other issue is the future expansion of membership.

Improvement of current membership structure. The current membership structure must be improved. Membership criteria are not being adhered to and are not being enforced either; this clearly needs to change. First of all, membership criteria should be clarified, streamlined and possibly simplified.

- Which institutions should be **eligible** as members?

CGAP is and should remain a public good. Hence, as a fundamental principle, we think that membership should be confined to institutions with a clear public interest.

- Which should be the **main membership conditions** and criteria?

Paying the membership fee is probably the most straightforward condition. In the CGAP context, this translates into a minimum contribution to core funding.

A second condition could be that member representatives in the Council of Governors must fulfil minimum requirements in terms of qualification and competence in microfinance, in order to ensure good governance.

Both criteria, **funding** and **good governance**, are currently not adhered to by some members. Some donors face difficulties to fund staff and administrative costs of a global trust fund operation like CGAP. Designated funding of defined projects or countries/regions is more in line with donor policies and procedures. CGAP should consider using designated funds strategically like it has done with designated funds from Gates Foundation in the technology initiative, or with Ford Foundation in the Social Performance field. Donors and CGAP should agree on a standard administration and reporting framework for designated funding. If contribution to core funding were made a *conditio sine qua non*, some of current members would have to be excluded. These members could be accommodated if CGAP adopt a more flexible stance on co-financing of initiatives and investments.

Implementing and enforcing the second criterion, **good governance**, is more difficult. Some of the current CGAP members do not have the prerequisites for seconding competent microfinance specialists as CG representatives because microfinance operations are limited and are overseen by generalists who have little time to devote to CGAP affairs. It may well be that some CG members would themselves refrain from an active governance role in CGAP because – due to its highly technical nature - it requires specialist know how. Hence, some CG members would probably be happy to be a member of CGAP and provide core funding but not take an active role in governance.

One option to solve these problems and improve the current membership structure could be to create a **tiered membership**, consisting of at least two tiers (Tiers A and B or “silver” and “gold”) with different degrees of obligations and responsibilities on the one hand and rights and benefits on the other hand.

Tier A – “silver club members” – may include on the obligations side (i) a base level of funding (core and/or designated), (ii) adoption and endorsement of standards and consensus guidelines, on the benefits side (i) the recognition of support to CGAP as a public good for the wider microfinance industry, (ii) ready access to CGAP publications and outputs, (iii) participation in annual meetings and other CGAP events, but (iv) no role or only limited role in governance, e.g. adopt consensus documents, approve extension or disbandment of CGAP, amend CGAP Charter.

Tier B – “gold club members” – may include additional obligations such as (i) a higher level of funding, (ii) annual reporting on performance and adherence to standards, preferably through the Aid Effectiveness Index, (iii) active and competent participation in relevant meetings (with focal points fulfilling fit and proper criteria), and would provide additional benefits in the form of (i) customized member services (to be defined), (ii) extended role in governance and voting right, incl. set policy and strategy, select Excom, confirm appointment of Executive Director of CGAP OT and (iii) strategic partnerships with CGAP OT on designated initiatives. The conditions of membership should be consistently enforced.

A second option – or even additional to the first option above - suggested by the OT management could be to create a dual structure of **members and affiliates** and to use core funding or no core funding as the main and simple decision for membership or for different tiers -members and affiliates.

- **Members.** The criterion for membership would be making at least the minimum contribution to CGAP core funding. Members have a vote and are eligible to serve on the Excom. Members would have to commit to annual reporting of microfinance support

amounts. Some of the current members would need to gear up in funding contributions in order to retain membership.

- **Affiliates.** These are the organizations that are considered as non-members. The requirement for such affiliate status would be that they be major funders of microfinance. They would be invited to most CGAP meetings and have access to information.

The compliance with good practice standards – a further one of the current membership criteria – would be captured through the aid management index now being piloted. If the aid management index acquires momentum, it's probably a better tool for this purpose than the requirements of the present CGAP charter. CGAP could create some kind of "Gold Circle" or other branding to highlight members that do meet the standards of transparency on performance.

Further thought needs to be given to this second option. First, CGAP needs to assess the implications of the core funding vs. no core funding as the main membership criteria. A rigorous enforcement of this criterion may lead to exclusion of some current members. With some of them, like the IFIs, being major and influential players in microfinance, the question is whether this is wanted. Second, the concept of affiliates needs further thought with regard to the benefits. What would make affiliates different from other partners with whom CGAP currently collaborates and will collaborate in the future?

Expansion of Membership. We believe that CGAP should extend its membership (or affiliation in case of the second option outlined above) for two main reasons. First, in order to achieve its mission it needs to include those funders which are the most influential and provide the most funds to microfinance. Second, CGAP needs a secure financial base to carry out its work. Given the difficulties of securing funding from some of the current members, it makes sense to expand the membership to organisations interested in being members and willing to pay.

The question is based on what criteria should membership be expanded given there are hundreds of other funders, including commercial banks, investment funds, developing country governments, apex funds, and international NGOs.

An overarching principle could be that CGAP remain a public good and membership should be confined to institutions with a clear public interest. Based on this understanding criteria for extending the membership could include:

- Do the funder's objectives include a development purpose, as demonstrated by the nature of its track record of providing resources that the commercial markets are not yet willing to provide? Membership should not be extended to funders who are only providing refinancing at commercial rates.
- Is the effectiveness of the funder's work important to the advancement of microfinance? Given the large number of funders, here a size criteria could be introduced to reduce the pool of potential new members. For example, above x amount of funds available.
- Does the funder see membership in CGAP, and CGAP services and other work, as useful enough that it is willing to contribute to the budget?

Beyond its membership, CGAP may engage in partnerships or develop programs targeted at private sector institutions, apex institutions, international NGOs etc. It could also potentially sell services to private sector funders e.g. consulting services and information products. We would be wary of this option at this stage.

We do not advise the extension of membership beyond funders. However, we would ensure the Excom retains its current practice of having leading practitioners on the Board. Excom representation could potentially be extended to other stakeholder groups.

Overall, CGAP is a powerful and pivotal force in the field, which is playing a critical role in helping others to build inclusive financial systems. It produces high quality, high value work which is universally respected. CGAP provides good value for money and has earned a highly coveted brand. It has long moved from being a “program” to being an organization of central importance to helping achieve the vision of “access for all” in terms of financial services.

LIST OF ANNEXES

- Annex 1 – Terms of Reference
- Annex 2 – Interview Guidelines
- Annex 3 – List of persons consulted
- Annex 4 – Operational Plan for CGAP Evaluation
- Annex 5 – CGAP Publications in Phase III
- Annex 6 – CGAP in Francophone Africa
- Annex 7 – Bios of evaluators
- Annex 8 – Survey Questionnaire
- Annex 9 – Survey Results (separate pdf document)
- Annex 10 – Types of CGAP Partnerships

CGAP Phase III (July 2003 – June 2006)
Mid-Term Evaluation
Terms of Reference

I. BACKGROUND

CGAP is a donor consortium and resource center whose vision is to build inclusive financial systems that work for the poor. Its 33 members – including bilateral, multilateral, and private funders – have committed to a common strategy to realize this vision during CGAP’s third phase (July 2003 – June 2008). This strategy, referred to as the “CGAP III Strategy” entails five priority objectives: (i) supporting a diversity of financial service providers; (ii) promoting greater diversity in the range of both poor clients being served and financial services being offered; (iii) improving transparency on the performance of microfinance providers; (iv) fostering a sound legal and regulatory framework; and (v) improving the quality of donors’ support to microfinance.

To carry out this strategy, CGAP works with stakeholders at all levels of the financial system: (1) retail financial institutions; (2) organizations that are part of the financial market infrastructure; (3) governments in developing countries; and (4) public and private funders. CGAP provides a variety of services to these stakeholders: advising on legal and regulatory issues; researching, publishing, and disseminating good practices and standards; delivering tailored change-management support to funders who wish to improve their effectiveness; and developing and funding experimental initiatives that can make financial services accessible to more of the world’s poor. CGAP also serves as a convening platform for a broad range of stakeholders to interact and develop consensus on standards and guidelines for the microfinance industry.

CGAP is currently in its 10th year of operation. It was initially created in 1995 as a three-year program at the instigation of the World Bank, other major development institutions, and leading microfinance practitioners to build a sustainable microfinance industry. Following independent evaluations, it was renewed for a second, five-year phase in 1998, and was extended to a third five-year phase in 2003 (2003-2008). An evaluation of CGAP Phase III is planned for 2006-7 in order to assess performance slightly more than mid way through CGAP III .

II. OBJECTIVE, SCOPE AND CONCEPTUAL FRAMEWORK

Objective. The purpose of this evaluation is threefold:

- to evaluate CGAP’s performance so far under Phase Three (III) in relation to its five priority objectives;
- to glean lessons learned and areas for improvement over the remainder of CGAP III, including the adjustment of priority areas based on its comparative advantage in the rapidly evolving microfinance landscape; and
- to serve as an input to a broader reflection among CGAP’s members about the need and future directions for CGAP or a like entity (post June 2008).

Scope. The evaluation should cover the whole CGAP system, which includes the following components:

1. The Council of Governors of member agencies (CG) are the owners and funders of CGAP. They form the General Assembly and are either bilateral or multilateral development agencies, governments, or private foundations.
2. The Executive Committee (Excom) is the Board and executive governing body. It is composed of both development agency/donor members and non-donor members (industry practitioners) as well as the CGAP CEO as ex-officio.
3. The Operational Team (OT) is responsible for implementing CGAP's work. It is based in Washington DC, with an office in Paris. CGAP also has regional hubs and partners that intensify its presence on the ground. The Operational Team is led by the Director and CEO of CGAP, who reports to the CG through the Excom. For administrative purposes, the Director and CEO also reports to the Vice President of the World Bank's Financial Sector Department.
4. The Investment Committee (IC) serves as the custodian of CGAP's investment fund and plays the fiduciary function of the World Bank as administrator of CGAP. The IC decides on expenditures for key grants and initiatives and reviews and approves any project above \$100,000. The IC is composed of senior World Bank and IFC experts and an observer from the CG and the Excom.

As noted in CGAP's Charter, each component of the CGAP system has its own role and mandate, and the interaction of the system as a whole is critical to CGAP's success.

Key Evaluation Issues and Questions.⁶ The evaluation of CGAP's performance should focus on four main criteria: relevance, efficacy, efficiency, and accountability. The following paragraphs offer examples of questions that should be asked about the CGAP system for each of these criteria.

Relevance (To what extent is CGAP pursuing the right objectives in the right way?):

- Is the CGAP III strategy clear and coherent?
- To what extent does the CGAP III strategy and CGAP's annual workplans reflect the main global challenges related to financial inclusion and microfinance?
- Has CGAP adapted its priorities to respond to emerging trends and issues? What is CGAP's comparative advantage to address these issues relative to other actors in the field of microfinance?
- What is the value added of CGAP above what individual members could do on their own?
- To what extent is CGAP's work valued by external stakeholders?
- Is there a need for further global collective action and, if so, would CGAP be an appropriate organization to take this additional action?⁷

Efficacy (To what extent is CGAP achieving its priority objectives as measured by the quantity and quality of its outputs and outcomes?):

⁶ This conceptual framework draws on the most recent World Bank Evaluation Department guidelines for reviewing global programs (April 26, 2006), as well as CGAP's own work on aid effectiveness in microfinance.

⁷ A key resource in addressing these questions will be the results of the scenario building exercise conducted by a consultant for CGAP in 2005/2006.

For CGAP's five priority objectives (for the Operational Team and member donors separately), the evaluators should answer this question: Has the CGAP system attained (or is likely to attain) the outputs and outcomes envisaged in the CGAP III Strategy, Performance Indicators and annual workplans (in the case of the operational team)?

Other questions to be examined here include:

- Has CGAP's Operational Team and members delivered on their workplan commitments under CGAP III?
- Have CGAP members delivered on their commitments under the CGAP III strategy and performance targets? [Note: Attributing observed outcomes and impacts to CGAP's Operational Team or to CGAP members may be challenged by the number of partners and stakeholders, the levels and connectedness of activities, externalities, and cross-border spillovers.]
- Are the CGAP working groups effective?
- Has the Operational Team's aid effectiveness work resulted in improvements in the operations and practices of the CG members reviewed?
- Does CGAP add value to the work of its members by producing outcomes that might not have been achieved by the members acting individually?

Efficiency (To what extent does CGAP provide value for money?):

- To what extent does CGAP achieve benefits on a relatively cost-effective basis?
- Is CGAP an efficient use of aid resources relative to other actors?
- Are its specific activities an efficient use of aid relative to similar activities of others? (e.g., Microfinance Gateway vs. Development Gateway; PPIC vs. Development Marketplace; Aid Effectiveness Initiative vs. similar donor working groups, etc.)
- Does CGAP as a regional and global initiative complement country-level work by its member donors?
- How are funding arrangements affecting, positively or negatively, the strategic focus, governance and management, agility and sustainability of CGAP?
- Does the CGAP Operational Team have the relevant funding instruments, knowledge management tools, and staffing to achieve its mission in the most efficient way?
- Is the CGAP system's organizational structure, fit within the World Bank, level of centralization, etc. appropriate for achieving CGAP's mission?

Accountability (To what extent is CGAP's governance and management clear, transparent, fair, and accountable?):

- To what extent does the CGAP system have adequate governance and management systems that are transparent and thorough, yet pragmatic, in providing information about the program?
- Has the 2003 restructuring of the governance system improved it?
- Is the governance and management accountable to CGAP's members and appropriately calibrated to the organization's real needs and risks?
- Does the Excom provide adequate strategic direction and oversight to the work of the Operational Team?
- Is the Excom responsive to the needs, views, and concerns of the CG members?

- Do CGAP’s monitoring and evaluation systems provide the right balance of thorough and yet pragmatic?
- What types of tradeoffs has CGAP had to make and how well has it managed the tradeoffs?
- Does the CGAP Operational Team learn from its external and internal evaluations and monitoring systems?
- Are CGAP members compliant with their responsibilities under the CGAP Charter and performance indicators?
- Is the Investment Committee adequately serving its fiduciary role, delegated by the World Bank of ensuring that CGAP’s investments are consistent with the CGAP strategy set by the CG members?

The evaluators will work with CGAP’s Excom and Operational Team to further refine and assign priorities to these questions and to finalize the approach to answering them.

III. METHODOLOGY

In addition to consultation with CGAP’s CG, Excom, Management and Staff, the evaluation should include, as much as is practical within the funding and time constraints, the views and perspectives of other stakeholders and partners, including microfinance providers, networks, government policymakers, and private sector providers such as wholesaling banks and investment funds. Also, the evaluators may wish to consult with a cross-section of staff within member agencies. Given the constraints of the evaluation, these views may be garnered directly or via existing external surveys and independent evaluations, or a specially contracted one.

The methodology for the review should include (but not be limited to):

- Review of key CGAP documents, including the Phase III Strategy, CGAP Charter, annual workplans, the paper presenting the results of the scenario building exercise, annual reports, financial statements, minutes from Excom and CG meetings and Investment Committee meetings, project monitoring reports, “client listening” assessments and project evaluations, ‘Back-to-Office’ reports from CGAP staff, and communications between the CG and/or Excom and the Operational Team.
- Review of content and delivery mechanisms of CGAP products and services. In addition to reviewing documents and obtaining feedback from clients, the evaluators may wish to attend one or two activities, such as participating in the CG meeting, High Level Meeting on Better Aid, EXCOM meetings, a training course, or a donor coordination meeting. The evaluators may also wish to attend one or two other regional or international events that gather several partners and stakeholders.
- In-depth interviews with members of the CGAP system: the CGAP management team, other members of the Operational Team, the CG, the Excom, and the Investment Committee. Also, the evaluators may choose interview former staff, Excom or PAG members.
- In-depth interviews with selected financial industry stakeholders.
- An in-depth, web-based survey that is open to all stakeholders (possibly).

IV. TIMEFRAME

This mid-term evaluation should cover the first three years (July 2003 – present) of CGAP III. The consultant(s) would be contracted in the Fall of 2006 and preliminary findings and recommendations should be ready for discussion with the Excom in early February of 2007, with a final draft to be presented to the full CG in April of 2007. The evaluation report and suggestions will feed into a process of consultation among CG members and other stakeholders to decide on CGAP's future. This consultation will take place during the spring of 2007, culminating in an extraordinary meeting in June/July 2007. The strategy emerging from this process would be approved by the CG at its annual meeting in the Fall of 2007.

V. REPORTING

The evaluators will report directly to the Excom, which has appointed a committee to oversee the evaluation. This committee consists of Frank DeGiovanni, Carlos Cuevas, Carlos Labarthe, Brian Branch, and Gabriella Braun.

At the beginning of the assignment, a briefing will be organized with the consultants and the committee. On-going status updates are expected from the consultant team. A second briefing will be organized in mid-January to debrief the committee on findings prior to the writing of the initial draft report.

Reference Documents

- 1) CGAP Charter
- 2) CGAP Organizational Chart
- 3) Findings and recommendations of last evaluation (conducted Fall 2002- Spring 2003)
- 4) CGAP Phase III Strategy
- 5) CGAP Phase III Performance Indicators and reporting on progress
- 6) Client feedback report (June 2005 – Sarah Forster)
- 7) Annual Workplans
- 8) OED Evaluation Framework
- 9) OED Case Study of CGA P and response from Excom and CG
- 10) Review of CGAP Initiatives and Investments (February 2006 – Sarah Forster)
- 11) Feedback/Recommendations from scenario-building workshops (March 2006 – David Porteous)

Annex 2

CG MEMBERS SURVEY – LONG VERSION –

Introduction

Explain that this evaluation has been commissioned to assess CGAP's performance slightly more than mid way through CGAP Phase III. We are a three-person team of independent consultants.

The evaluation has three main objectives:

4. to evaluate CGAP's performance so far under Phase III in relation to its five main objectives:
 - i) supporting a diversity of financial service providers;
 - (ii) promoting greater diversity in the range of both poor clients being served and financial services being offered;
 - (iii) improving transparency on the performance of microfinance providers;
 - (iv) fostering a sound legal and regulatory framework; and
 - (v) improving the quality of donors' support to microfinance.
5. to glean lessons learned and areas for improvement over the remainder of CGAP III; and
6. to provide input to a broader reflection about the need and future directions for CGAP or a CGAP-like entity post June 2008.

The final draft report will be presented to the full CG in April 2007.

The questions during the interview will focus on four criteria against which we will be measuring CGAP's performance – relevance, accountability, efficacy and efficiency. At the end of the interview, we would also be interested in your views as to whether you think there is a need for CGAP or a CGAP-like entity beyond June 2008.

QUESTIONS

RELEVANCE

(i.e. To what extent is CGAP pursuing the right objectives in the right way?)

1. Is CGAP focused on the right challenges? More specifically, to what extent do you think the CGAP III strategy and CGAP's annual workplans reflect the main global challenges related to financial inclusion and microfinance?
2. Is CGAP's strategy clear and coherent?
3. Has CGAP proved itself able to respond to emerging trends and issues?
4. Does CGAP add value to what CG members could do on their own?
5. What do you see as CGAP's comparative advantage?

ACCOUNTABILITY

(i.e. To what extent is CGAP's governance and management clear, transparent, fair, and accountable?)

6. To what extent does CGAP have adequate governance and management systems that are transparent and thorough, while allowing the system to be sufficiently responsive and nimble?
7. To what extent do you feel that the ExComm is accountable to CG members?
 - a. Has the 2003 restructuring of the governance system improved CGAP's governance?
 - b. Does the Excom provide adequate strategic direction and oversight to the work of the OT?
 - c. Is the Excom responsive to your needs, views and concerns?
 - d. Are you satisfied that you are being consulted enough by your Excomm constituency member?
 - e. What things do you want to be consulted more on? Less on?
8. Is the Investment Committee serving its fiduciary purpose? Is it needed?
9. Is there sufficient learning within the CGAP system? Does the Operational Team learn from its internal and external evaluations and monitoring systems?
10. What types of tradeoffs do you think CGAP has had to make and how well has it managed these tradeoffs? For example, the tradeoff between working in partnership or independently; between speed and quality?

EFFICACY (i.e. To what extent is CGAP achieving its objectives as measured by the quantity and quality of its outputs and outcomes)

11. To what extent do you think CGAP's Operational Team has achieved its workplan commitments under Phase III? Please rate performance on a scale from 1 to 10.
Probe: Are there areas where you think CGAP has been particularly effective? Or ineffective?
12. Are you (as a CG member) compliant with your responsibilities and commitments under Phase III? Please rate your own performance on a scale from 1 to 10. (Probe based on review of their reports to CGAP)
13. Has the Operational Team's aid effectiveness work resulted in improvements in your operations? (*For CG members who have done peer reviews or been involved in CLEARS, ask what the changes they've made and the barriers to improvements.*)
14. Are the CGAP working groups effective? (*Find out beforehand if they are members of any groups and refer specifically to that group.*)
15. Is CGAP poised to achieve its Phase III objectives (*reiterate them, if necessary*) based on results achieved to date?
16. What are the barriers or challenges to CGAP achieving its Phase III objectives?

EFFICIENCY

(i.e. does CGAP provide value for money?)

17. To what extent does CGAP provide value for money? Probe: The aid effectiveness work is very staff intensive. Do you think this area of work is good value for money?
18. Is the CGAP system's organizational structure and fit within the World Bank, appropriate for achieving CGAP's mission?
19. Does the CGAP Operational Team have the relevant funding instruments, knowledge management tools, and staffing to achieve its mission in the most efficient way?
20. Is there need for more decentralization of CGAP; more of a regional presence?
21. How are funding arrangements affecting, positively or negatively, the strategic focus, governance and management, agility and sustainability of CGAP?
22. Is CGAP an efficient use of aid resources compared to other similar types of initiatives?

LOOKING FORWARD

23. Is there a role for CGAP beyond June 2008?

CG MEMBERS SURVEY – SHORT VERSION –

Introduction

Explain that this evaluation has been commissioned to assess CGAP's performance slightly more than mid way through CGAP Phase III. We are a three-person team of independent consultants.

The evaluation has three main objectives:

1. to evaluate CGAP's performance so far under Phase III in relation to its five main objectives:
 - i) supporting a diversity of financial service providers;
 - (ii) promoting greater diversity in the range of both poor clients being served and financial services being offered;
 - (iii) improving transparency on the performance of microfinance providers;
 - (iv) fostering a sound legal and regulatory framework; and
 - (v) improving the quality of donors' support to microfinance.
2. to glean lessons learned and areas for improvement over the remainder of CGAP III; and
3. to provide input to a broader reflection about the need and future directions for CGAP or a CGAP-like entity post June 2008.

The final draft report will be presented to the full CG in April 2007.

The questions during the interview will focus on four criteria against which we will be measuring CGAP's performance – relevance, accountability, efficacy and efficiency. At the end of the interview, we would also be interested in your views as to whether you think there is a need for CGAP or a CGAP-like entity beyond June 2008.

QUESTIONS

RELEVANCE

24. Is CGAP focused on the right challenges?
25. Does CGAP add value to what CG members could do on their own?

ACCOUNTABILITY

26. Do you think CGAP has adequate governance and management systems?
27. Do you feel that the ExComm is accountable to CG members?
 - a. Are you satisfied that you are being consulted enough by your Excomm constituency member?
 - b. What things do you want to be consulted more on? Less on?

EFFICACY

28. What are the three most effective things CGAP has done during Phase III?
29. Are you (as a CG member) compliant with your responsibilities and commitments under Phase III? (Probe based on review of their reports to CGAP)
30. Has the Operational Team's aid effectiveness work resulted in improvements in your microfinance operations?

EFFICIENCY

31. To what extent does CGAP provide value for money?

LOOKING FORWARD

32. Is there a role for CGAP beyond June 2008?

Annex 3

Persons Consulted by the Evaluation Team

I. CGAP System -- 66

a. Council of Governors (CG) (34)

Mohammed Alin, African Development Bank
Cyrille Arnould, European Investment Bank (EIB)
Arthur Arnold, FMO Netherlands
Bernd Balkenhol, ILO
Caitlen Baron, Dell Foundation
Gabriela Braun, GTZ, Germany
Graig Churchill, ILO
Carlos Cuevas, World Bank, USA
Frank DeGiovanni, Ford Foundation
Hendrik Denker, BMZ Germany
Henri Dommel, Rural Finance Advisor, IFAD
David Domes, European Commission
Nimal Fernando, Asian Development Bank
Hanns Martin Hagen, KfW Germany
Terry Hills, AusAid, Australia
Arsène Jacoby, Ministry of Finance Luxembourg
Priya Jaisinghani, Gates Foundation
Annica Jansen, USAID
Marko Katila, Finland
Michael Klein, IFC (CG Chair)
Hisako Kodama, Japan
Chikako Kuno, EBRD
Birthe Larsen, Denmark
Thierry Lippart, Luxembourg
Oksana Pak, EBRD
Douglas Pearce, DFID, UK
Hansruedi Pfeiffer, Swiss Development Corporation (SDC)
Alvaro Ramirez, IDB
Jonathan Rothschild, CIDA, Canada
Ola Sahlen, SIDA, Sweden
Martha Stein-Sochas, AFD, France
John Tucker, UNCDF
Koenraad Verhagen, Argidius Foundation
Johan de Waard, Netherlands Aid Programme

b. CGAP Executive Committee (EXCOM) (6)

Frank DeGiovanni, Ford Foundation (Chair)
Gabriela Braun, GTZ, Germany
Martha Stein-Sochas, AFD, France
Carlos Cuevas, World Bank, USA
Marilou von Golstein-Browers, Triodos, Netherlands
Brian Branch, WOCCU

c. CGAP Investment Committee (3)

Elizabeth Adu, World Bank
Antony Thompson, World Bank
Deepak Bhattasali, World Bank

d. CGAP Operational Team (26)

Julia Abakaeva
Malika Anand
Carmencita Clay
Tamara Cook
Eric Duflos
Jasmina Glisovic-Mézières
Syed Hashemi
Jennifer Isern
Gautam Ivatury
Antonique Koning
Alexia Latortue
Elizabeth Littlefield
Timothy Lyman
Kate McKee
Aude de Montesquiou
Patricia Mwangi
Xavier Reille
Richard Rosenberg
Ousa Sananikone
Hannah Siedek
Jeannette Thomas
Tonia Wright

Hubs/Partners

Leslie Barcus
Natasa Goronja
Peter Wall
Ann Wessling

II. Stakeholders - 40

Donor Agencies (8)

Guillemette Jaffrin, World Bank, USA
Makarimi Adechoubou, Regional Technical Manager - W & C Africa, UNCDF/ UNDP, Senegal
André Ryba – World Bank – Lead Banking Specialist – Mali Country Office
David Quien – French Ministry of Foreign Affairs
Guillemette Jaffrin, Financial Sector specialist (Africa Financial Sector Unit - World Bank)
Makarimi Adechoubou – UNCDF (BIFSA Project)
Cerstin Sanders, KfW, Germany
Brigitte Klein, GTZ, Germany

Networks/TA Providers/Consultants (15)

Renee Chao-Beroff, Centre Internationale de Developpement et de Recherche (CIDR)
Deborah Burand, Grameen Foundation
Sylvia Wisniwski, Frankfurt School of Finance and Management, Germany
Damian von Stauffenberg, Micro Rate
Grzegorz Galusek, Microfinance Centre, Warsaw
Luc Vandeweerd, ADA, Luxembourg
Cecile Lapenu, Director, CERISE, France
Michael McCord, Microinsurance Center
Jonathan Murdoch
Polycarpe Ngaleu, Consultant, Cameroon
David Porteus, Consultant
JD von Pische, Consultant
Elisabeth Rhyne, ACCION
Axel de Ville, ADA Luxembourg
Anne Gaboury, DID Canada

Microfinance Institutions (7)

Ganhuyag Chulun, Chief Executive of XAC, Mongolia
Vijay Mahajan, Managing Director, BASIX, Hyderabad
Mayoro Loum, Director ACEP, Senegal
Ramanou Nassirou, Director, WAGES (PPIC winner), Togo
Rene Azkoli, Director, PADME, Benin
Fouad Abdelmoumni, Director, Al Amana, Morocco
James Mwangi and Winnie Imanyara - Equity Bank, Kenya

Investment funds (5)

Florian Grohs, Oikocredit
Paul DiLeo, Gray Ghost
Claude Falgon, Horus LFI
François Lécuyer, Horus LFI
Alex Silva, Profund

Policy makers/central bankers (5)

Jean-Marie Ogandaga, COBAC/BEAC, Cameroon
Eric Ekue, BCEAO, Senegal
Marie Marthe Lebughe, Central Bank, Democratic Republic of Congo
Jean-Marie Ogandaga – Microfinance specialist - Secrétariat Général de la Commission Bancaire' of COBAC / BEAC
Tafsir Mbaye, Director Microfinance, Ministère PME Entreprenariat féminin et de la microfinance, Sénégal

Annex 4

Operational Plan for CGA Evaluation

Timeline	Activity/Output	Responsible/ participants
Phase I: Preparation (14 August to 17 October 2006)		
15 August	Prioritize questions, send to ET	Excom, OT
15-20 August	Develop first outline of methodology and timelines	ET internal
21 August	Submit first outline to Excom	ET
10 September	Conclude consultant contracts with ET	OT
15 September	Provide evaluation documents and material to ET	OT
15-30 September	Review of documents	ET internal
03 October	Kick-off meeting in Paris: refine methodology and develop implementation plan, roles and responsibilities	ET, Excom
10 October	Submit refined methodology and implementation plan to Excom	ET
Phase II: Implementation (18 October 2006 to 17 January 2007)		
18 October	Briefing meeting/Paris	Excom/ET
20 October	Participation in high-level meeting/Paris	
21-25 October	CG Meeting/Cotonou: Participation/interviews of CG	
6-7 November	Meetings with OT Paris	ET/OT
4-8 December	Meetings with OT Washington and other stakeholders	ET/OT
15-16 January	Compilation and synthesis of findings	ET internal
17 January	Debriefing on findings/Paris	Excom/ET
Phase III: Report (16 January to 16 March 2007)		
16 January-11 February	Writing initial draft report	ET internal
12 February	Submit initial draft report to Excom	ET
12 February – 04 March	Review of report	Excom/OT
05 March	Feedback on initial draft report to ET	Excom
05 – 15 March	Revise report	ET
16 March	Submit final report to Excom	ET

Excom – Executive Committee

OT – CGAP Operational Team

ET – Evaluation Team

Annex 5

CGAP Publications during Phase III (July 2003 until December 2006)

1. Focus Notes

No. 39, October 2006

Financial Inclusion 2015: Four Scenarios for the Future of Microfinance

No. 38, October 2006

Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation

No. 37, September 2006

Safe and Accessible: Bringing Poor Savers into the Formal Financial System

No. 36, May 2006

Community-Managed Loan Funds: which Ones Work?

No. 35, April 2006

Aid Effectiveness in Microfinance: Evaluating Microcredit Projects of the World Bank and the United Nations Development Programme

No. 34, February 2006

Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services

No. 33, February 2006

Competition and Microcredit Interest Rates

No. 32, January 2006

Using Technology to Build Inclusive Financial Systems

No. 31, January 2006

Foreign Exchange Rate Risk in Microfinance: What Is It and How Can It be Managed?

No. 30, August 2005

The Market for Foreign Investment in Microfinance: Opportunities and Challenges

No. 29, July 2005

AML/CFT Regulation: Implications for Financial Service Providers that Serve Low-Income People

No. 28, June 2005

Commercial Banks And Microfinance: Evolving Models Of Success

No. 27, May 2005

Protecting Microfinance Borrowers

No. 26, July 2004

What is a Network? Diversity of Networks in Microfinance Today

No. 25, January 2004

Foreign Investment in Microfinance: Debt and Equity from Quasi-Commercial Investors

2. Donor Briefs

Donor Brief 25, August 2005

Working With Savings & Credit Cooperatives

No. 24, June 2005

Building Capacity for Retail Microfinance

No. 23, April 2005

Funding Microfinance Technology

No. 22, February 2005

Maximizing Aid Effectiveness in Microfinance

No. 21, December 2004

Supporting Microfinance in Conflict-Affected Areas

No. 20, August 2004

Housing Microfinance

No. 19, June 2004

The Role of Governments in Microfinance

No. 18, May 2004

The Impact of Interest Rate Ceilings on Microfinance

No. 17, February 2004

How Donors Can Help Build Pro-Poor Financial Systems

No. 16, December 2003

Microinsurance: A Risk Management Strategy

No. 15, October 2003

Financial Services for the Rural Poor

No. 14, September 2003

Microfinance and HIV/AIDS

No. 13, July 2003

The Impact of Microfinance

Occasional Papers

No. 11, August 2005

Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model

No. 10, March 2005

Crafting a Money Transfers Strategy: Guidance for Pro-poor Financial Service Providers

No. 9, September 2004

Interest Rate Ceilings and Microfinance: The Story So Far

No. 8, July 2004

Financial Institutions with a Double Bottom Line: Implications for the Future of Microfinance

Consensus Guidelines

February 2005

Developing Deposit Services for the Poor: Preliminary Guidance for Donors

December 2004

Building Inclusive Financial Systems: Donor Guidelines on Good Practice Microfinance

July 2004

Disclosure Guidelines for Financial Reporting by Microfinance Institutions

June 2004

Key Principles of Microfinance

August 2003

Guiding Principles on Regulation and Supervision of Microfinance Institutions

September 2003

Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance

Technical Guides

October 2006

Foreign Exchange Risk Mitigation Techniques

Structure and Documentation, A Technical Guide for Microfinance Institutions

October 2006

Commercial Loan Agreements

A Technical Guide for Microfinance Institutions

April 2006

Core Performance Indicators for Microfinance (DRAFT)

June 2005

Due Diligence Guidelines for the Review of Microcredit Loan Portfolios

No. 7 (DRAFT), October 2004

Format for Appraisal of Network Support Organizations

No. 6, July 2004

Product Costing Tool

No. 5, September 2003

Poverty Assessment Tool

Country-level reports

MENA initiative: Diagnostic Reports on the Legal and Regulatory Environment for Microfinance

June 2006: **Algeria**

June 2005: **Jordan**

June 2005: **Morocco**

June 2005: **Tunisia**

February 2006: **West Bank and Gaza**

June 2005: **Yemen**

Country-Level Effectiveness and Accountability Reviews

January 2005: **Cambodia**

November 2005: **Madagascar**

July 2005: **Nicaragua**

February 2006: **Sri Lanka**

October 2004: **Uganda**

Country-Level Savings Assessment Reports

August 2005: **Benin**

January 2006: **Bosnia**

December 2005: **Mexico**

August 2005: **Philippines**

April 2006: **Uganda**

Portfolio

No. 5, October 2006

One Continent, Many Solutions

No. 4, July 2006

Better Aid?

No. 3, September 2005

Protecting Microfinance Borrowers

No. 2, June 2005

Redefining 'Risk': What do new measures to fight terror and money laundering have to do with the poor?

No. 1, May 2005

Beyond Survival: How today's tsunami aid can help fight poverty in the long run

Case Studies

CGAP Agricultural Microfinance: Case Study No 5, August 2005

Small Farmers in Mozambique Access Credit and Markets by Forming Associations with Assistance from CLUSA

CGAP Agricultural Microfinance: Case Study No 4, August 2005

Equity Building Society of Kenya Reaches Rural Markets

CGAP Agricultural Microfinance: Case Study No 3, August 2005

Caja Los Andes (Bolivia) Diversifies into Rural Lending

CGAP Agricultural Microfinance: Case Study No 2, August 2005

Bai Tushum Financial Foundation, Kyrgyzstan

CGAP Agricultural Microfinance: Case Study No 1, August 2005

Confianza in Peru Overcomes Adversity by Diversifying Loan Portfolio

CGAP Agricultural Microfinance: Case Study Overview, August 2005

The Challenge of Agricultural Lending

Donor Good Practice Case Study No. 19, January 2005

Donors Succeed by Making Themselves Obsolete: Compartamos Taps Financial Markets in Mexico

Donor Good Practice Case Study No. 18, December 2004

From Project to Institution: AFD and Crédit Rural de Guinée Invest in Rural Finance for the Long Term

Donor Good Practice Case Study No. 17, December 2004

How the Netherlands Government Fostered Successful Public-Private Partnerships for Financing MFIs

May 2004

Scaling up Poverty Reduction: Case Studies in Microfinance

CGAP Phase III Mid-Term evaluation Francophone Africa

By Christine Poursat

1. CGAP's strategy in Francophone Africa

Microfinance in Francophone Africa

Most Francophone countries in Africa belong to two groups:

- West Africa Union - UEMOA (Benin, Burkina, Ivory Coast, Guinea Bissau, Mali, Niger, Senegal, Togo);
- Central Africa Union - CEMAC (Cameroon, Congo, Gabon, Central African Republic, Chad and Equatorial Guinea).

The other Francophone countries include Mauritania in West Africa and four non-CEMAC members in Central/Eastern Africa: Madagascar, Rwanda, Burundi and the Democratic Republic of Congo.

In MENA, it must be noted that three countries also use French as the professional language for microfinance (Morocco, Tunisia, Algeria) and share common characteristics with Francophone Africa in terms of legal and regulatory framework/governmental organization.

Francophone Africa is not a unified area for microfinance. It includes countries where microfinance is well established (West African countries, Cameroon, Madagascar), countries with a fairly young microfinance industry (most countries of Central Africa, except Cameroon) or smaller markets (Mauritania), and post-conflict areas (Congo DR).

Despite differences, most Francophone countries in Africa share common characteristics (legal background, large cooperative movement, impressive collection of savings). All of them face challenges at the macro (institutional) level, as well as the meso (infrastructure) and micro (MFIs) levels. Moreover, they have long remained fairly isolated from the international microfinance community, due to language barriers and weak communication infrastructure.

▷ CGAP's main activities in Francophone Africa – Phase III

1. Aid effectiveness	2. Conducive environments	3. Industry infrastructure	4. Communications
<ul style="list-style-type: none"> - Periodical donor meetings ; Annual Regional survey in 05 and 06 - Coordination of donors in DRC - CLEAR in Madagascar - Advice to WB, occasional advice to donors - Funder field staff training 	<ul style="list-style-type: none"> - West Africa Central Bank (BCEAO) project (co-funded by UNCDF/SIDA) - DRC: tailored assistance to Central Bank - Participation in FSAP on CEMAC - Review of National strategies and tailored support to governments on demand basis (Rwanda, Benin, Madagascar) 	<p><i>CAPAF:</i></p> <ul style="list-style-type: none"> - ToTs and training modules, training organized by partners ; set up of training center (Mali) - Audit seminars - IS Technofoires <p><i>CGAP's global programs:</i></p> <ul style="list-style-type: none"> - Rating fund - IS fund PPIC - Transparency award 	<ul style="list-style-type: none"> - French Gateway, CAPAF portal - CAPAF bulletin - Translations & dissemination of information/notes in French, through Gateway & CAPAF

- Field staff contact database			
--------------------------------	--	--	--

▷ CGAP's strategy shift in Francophone Africa – Phase III

There has been a shift in CGAP's strategy in the region in Phase III towards:

- More services to donors – support, donor field staff training, exchanges
- More involvement in policy and legal issues in West and Central Africa
- Less direct funding (no direct support to MFIs, and less funding to CAPAF partners)
- And generally speaking, a closer attention to the field and to improving communications in French.

2. RELEVANCE

Overall, most actors judge CGAP's action in Francophone Africa highly relevant. The shift in strategy noted during Phase III is appreciated, particularly the stronger focus on policy issues and aid effectiveness.

However, several actors feel that CGAP is 'not involved enough' in the region. Actions are judged relevant, but not sufficient considering the needs and risks faced by the microfinance industry in Francophone Africa.

Aid effectiveness

The need for donor coordination is strong in Francophone Africa. CGAP's 2006 Regional Funder Survey showed that donor funding in the region is concentrated on very few countries (Mali, Madagascar, Rwanda) while others are left behind (Congo, Gabon, Central African Republic). Huge amounts are or will be invested in small countries with limited market and capacities (ex. Togo) or in post-conflict countries such as DRC.

As a consortium of 33 donors, CGAP works with all main donors in Francophone Africa, and can legitimately coordinate them. CGAP is a well-known actor on the international microfinance scene and can also develop contacts with the private funds and banks in Africa that are getting more and more involved in the sub-region.

In this context CGAP's approach during Phase III is judged very relevant:

- Improving knowledge on donor actions (regular meetings, exchanges on the 2005 and 2006 Regional Funder Survey in Sub-Saharan Africa, contact database)
- Annualizing in-country situation and donor funding (CLEAR in Madagascar)
- Participating as much as possible in sector reviews (FSAP sector review in Senegal in 2004 – FSAP review of CEMAC zone in 2006)
- Developing training for field staff (ex. Mali in Feb. 2007)
- Providing tailored support to donors, on request (World Bank in DRC, discussions with UNCDF on BIFSA project).

Moreover, in countries such as DRC or Rwanda, the timeliness of CGAP's donor coordination efforts is important for preventing redundancies and distortions.

Policy environment

In several countries, change/definition of legal and regulatory frameworks are underway and will have a strong impact on the future of microfinance in Francophone Africa:

- Microfinance regulation was first enacted in West Africa in 1993, and initially enabled only licensing of credit unions. After considerable criticism, the BCEAO finally decided to revise the law, and has started engaging in discussions very recently. Amending the law is clearly essential to allow for the development of diversified retailers in the region (and increase outreach), and to avoid governance problems for MFIs who artificially adopted the credit union status.
- In the CEMAC region (6 countries of Central Africa), a 2002 law will be coming into effect in April 2007; microfinance is emerging and most government staff/central bankers lack skills in this field.
- Other non-CEMAC member countries such as Madagascar, Rwanda, Burundi and the Democratic Republic of Congo are constructing or finalizing their legal and regulatory framework and starting to develop their supervisory systems. In Rwanda, the law is being revised to include more institutions.

Moreover, microfinance supervision is weak throughout the region; cooperative networks face delinquency problems or fraud (ex. Rwanda – summer 2006), and risks of bankruptcies have emerged in some countries (Benin, Mali) as competition grows. It is necessary to improve supervision to mitigate these risks.

Finally, as microfinance gains visibility, the issue of interest rates is increasingly debated in most countries. Local governments recently questioned the level of interest rates of MFIs. The debate is linked to the recent set-up of state-owned “Solidarity Banks”: the BMS (Malian solidarity Bank) in Mali; the BRS (Regional Solidarity Banks) created in 2003 by the BCEAO in the 8 countries of UEMOA. The BRS refinances MFIs, but also started retail credit activities in 2006 (at a very low interest rate, 8% *p.a.*) in each of the 8 countries governed by the BCEAO.

These issues are critical for the future of microfinance in West Africa, and up to now the donor community has failed to influence BCEAO on these subjects. **CGAP’s comparative advantage** is to be perceived as the only “neutral” actor by Central bankers, with legitimacy to comment on legal and supervision issues. CGAP also has a broad perspective on what works globally, and at the same time is able to provide country-specific advisory services.

On-going actions seem highly relevant, both on legal issues and policy dialogue:

- Project with BCEAO: As indicated above, the BCEAO is a key actor in the region. CGAP has been lobbying for a revision of the law in the West African law since 1996; now, discussing and launching this common project (co-funded by CDF and SIDA, started in July 2005 for four years) is a good opportunity to advocate for changes. The main components of the project are well-defined: revise the regional microfinance law, update accounting framework for microfinance, strengthen supervision, improve information on MFIs.
- In the CEMAC zone, CGAP participated in the sub-regional FSAP and developed contacts with the Central Bank (COBAC).
- Demand-driven advisory services: in post-conflict Democratic Republic of Congo, CGAP played an advisory role to the Central Bank to help define the legal framework and reinforce supervision. Similar work started recently in Rwanda. CGAP also provided comments on the legal framework in Madagascar. CGAP reviewed on demand two “National Strategies” (in Benin and Rwanda).
- With regard to interest rates, the costing survey planned in 2007 (in Senegal) with BCEAO should be a good opportunity to raise the subject with concrete evidence from the field.

CGAP also tried to initiate exchanges/actions concerning credit bureaus (a first regional survey was made by CGAP in 2006) and “temporary administration” of MFIs in case of difficulties, but was unable to include this issues in the BCEAO project.

Despite all this, actors mention that much more is needed, including in countries with very little support from donors – which would request a stronger investment of CGAP in the region.

Industry infrastructure

- **CAPAF**

A strong financial sector includes the development of adequate services (TA providers, trainers, auditors) that can support MFIs and promote best practices and professionalism. Most actors in Francophone Africa underline that there was (and still is) a strong need to support this development, and that CAPAF’s actions are highly relevant.

Several actors also mention a very positive shift in CAPAF’s strategy:

- Adaptation in training modules – new courses are more adapted to mature MFIs (2007: governance)
- Opening of training modules to more diversified stakeholders (donors, government staff)
- More synergy with CGAP activities in Africa (ex. training to policy makers in DRC)
- Knowledge creation: CAPAF identified resources in French and developed a website in view of complementing existing portals & sites
- New approach to the market: partners are increasingly involved and less subsidized: the role of CAPAF has evolved away from direct support to more “quality control”
- Transfer of training of trainers’ capacity to other partner institutions, instead of CAPAF doing it directly (CAPAF supported the creation in Mali of *Centre de formation banque et microfinance*)
- Diversification towards external audit seminars

This shift towards a more demand-oriented approach seems relevant, since core training modules are already developed and more CAPAF partners are now autonomous.

CAPAF also increasingly serves as a hub for CGAP activities like dissemination of documents and tools, the Transparency Award, follow-up of discussions with Central Banks. CAPAF also organized the 2nd *Technofoire* (technology fair) in Senegal to encourage exchanges between MFIs and vendors of payment technologies/IS software providers. All of these actions seem relevant to increase CGAP’s capacity to inform and exchange with actors in Francophone Africa.

- **Access to CGAP global programs:**

- ▷ Rating/IS funds: both funds are seen as effective means of boosting the market. CGAP’s demand-driven and unsubsidized approach seems relevant as well.
- ▷ Transparency Award: a good move to encourage MFIs to engage into transparent reporting, and has well advertised in French. The Pro-Poor Innovation Fund is also valued in Francophone Africa as an attempt to take more into account innovation and social performance.

However, CGAP and CAPAF are perceived by practitioners as being somewhat **too “financial”**, i.e. focusing more on financial performance, accounting and financial techniques, than on social performance or outreach to the poor.

Communications

Francophone Africa has long been isolated from the international microfinance community due to language barriers. Despite a boost in communications thanks to internet access in an

increasing number of African countries and translation efforts (most of CGAP's manuals and papers have been translated), there is still a limited amount of information available in French. There is a huge demand by practitioners in the sub-region for accessing international references and information in French. Moreover, most actors feel that African experiences in microfinance (ex. in savings collection) are not valued enough by the international community.

CGAP is well positioned to produce and disseminate knowledge. CGAP did relevant efforts in Phase III to make information available in French, especially through internet:

- CAPAF has increasingly contributed in Phase III to generating knowledge and fostering exchanges in French, through its own web portal, bulletin and notes.
- A French Gateway, *Portail francophone de la microfinance*, was created in 2005 with initial technical and financial support by CGAP. The portal was developed by external partners (ADA/GRET) with co-funding by a pool of Francophone donors.

3. Performance (EFFICACY – EFFICIENCY)

CGAP's overall performance is judged "good" to "very good", in all fields. CAPAF is considered to have done very well overall. The BCEAO project raises lots of expectations, and the first results (on-going revision of the law and accounting framework) are encouraging. The skills, reactivity, personal involvement/experience of the Africa team are praised by most actors.

Limits/constraints are mainly linked to external causes or the environment (lengthy pace of Central Bankers, efforts of donors). Good results are often mitigated by the feeling that "CGAP could do much more" with a higher financial investment and stronger local presence. A few comments were also made on the need of CGAP to be less 'straightforward' in the approach, stating that CGAP should have a more 'political' and less 'technical' dialogue with all actors, especially in the field – which also implies taking more time. As one contact put it, working in Francophone Africa, especially on policy issues, is a long-term investment and "CGAP must be a marathon runner rather than a sprinter".

Aid effectiveness

- There has been a good donor participation in exchanges, meetings, surveys (ex.: 16 donors participated in the 2006 Regional Funder Survey). Donors value these opportunities to exchange and improve their knowledge on funding initiatives.
- Peer reviews have had a long-lasting effect on donors such as AFD, encouraging them to maintain their presence in microfinance and build partnerships with other donors. CGAP's "quality control" is seen as useful – *i.e.* making sure that donor strategies are consistent and in line with best practices.
- In-country coordination: DRC is a good example of a successful CGAP action in this area. CGAP recently organized conference calls with all donors involved in the country (June and October 06), at an early stage of donor involvement. The objective was to channel money and ensure that best practices are being followed with as much transparency as possible.
- Tailored support to donors: donors find CGAP both reactive and very relevant in their comments. Support from CGAP gives more weight to the World Bank in discussions with Central Bank and governments - CGAP support is used as a "quality label".

- CLEAR has been tested in Madagascar only. It enabled donors to know better about their own comparative advantage, then develop specific partnerships. The CLEAR review seemed to be a good opportunity to start a dialogue between donors and with the government.

Enabling environment

- Policy dialogue with BCEAO: As the project is only starting, it is too early to evaluate its impact or assess how the partnership with BCEAO will evolve. However, the work for the first year planned in several fields (accounting framework, supervision, revision of law) is going ahead; CGAP's comments on the draft law resulted in some changes. CGAP has taken the lead in the donor consortium associated to this project, and ensures reactivity to the BCEAO proposals.
- DRC: the Central Bank feels that CGAP's distant monitoring has been helpful. This support will lead to a more comprehensive approach to the country's legal and regulatory framework, with a policy diagnostic planned in March 2007.
- Impact of occasional advice on National Strategies (to governments, or UNCDF) is more difficult to evaluate, and less visible.

Limits/constraints :

Central Banks move at their own pace, following their own agenda. Defining common projects takes time and the political agenda of each country will always be a priority. A consortium of donors can not impose views, nor a quicker pace. For example, BCEAO has proved able of mobilizing its own resources to create the BRS in 2003, despite the opposition of all donors.

The constraints to building an enabling environment in West and Central Africa are different for each sub-region:

- The West African BCEAO is a tough stakeholder, with its own agenda and bureaucracy, linked not on one but several governments. The change in the law raises debate and strong oppositions, as big mutualist networks have strong influence over local governments.
- In Central Africa, the legal environment is less constraining, but Central Banks lack competencies and need on-going support. They appear more open to closer partnerships with CGAP: DR of Congo is a successful example of "tailored" support by CGAP. But obviously local governments need to be proactive and ask for CGAP's support.

Industry infrastructure

CAPAF

- CAPAF has contributed to training a generation of staff and individual consultants in most Francophone countries in Africa on microfinance best practices and techniques. In all, CAPAF training partners have offered courses to over 5,000 people in Francophone Africa since 2002. In the last year (November 2005 – October 2006), 39 retail training courses were organized by 16 partners.
- On the whole, results have exceeded projections in terms of number of people trained, and the quality of courses seems good. The number of people trained is greater in some countries (Benin, Senegal, Haiti, Madagascar), while some markets have proved small or difficult to penetrate (Mauritania, Niger, Congo, Burkina).

- The level of CAPAF partners, however, differ and not all of them may be capable of being autonomous. In reality, CAPAF trained many trainers who sometimes left the partner training provider and developed their own courses or work with other providers. But even then the initial objective (develop a market) is achieved.
- The market for technical support to MFIs has been more difficult to develop. CAPAF organizes seminars for auditors, but they are relatively infrequent compared to the training courses (ten audit seminars have been organized since 2003).

The shift in CAPAF's strategy over the course of Phase III has improved its efficacy. Training for government staff and Central Banks (in DRC, Madagascar, and Congo in 2007) increases the impact of CGAP's work on policy dialogue.

Limits/constraints:

Training modules have sometimes been criticized as being too generic (ex. not adapted to BCEAO accounting framework). Also, it is difficult to estimate the impact training MFI staff has on the MFIs; there is high turnover in key MFIs and Ministries, which makes it difficult to assess whether those trained really manage to implement and pass on their skills.

Rather, CAPAF's primary impact is the set-up of a sustainable training offer – partners or individuals able to offer training in microfinance in their country.

Finally, CAPAF enjoys good recognition as a program, however most African actors do not consider it as a real “hub” for CGAP – clearly separating the actions of CAPAF and CGAP.

- **Global CGAP initiatives**

- ▷ **Rating Fund:** The Rating Fund has enabled MFIs to access rating, and several practitioners mentioned that it has had a positive impact on MFIs both internally (improvements in procedures, IS, controls) and externally (ratings are attractive to funders). However, only a very limited number of African MFIs have participated to the Rating Fund until now (35 out of a total of 350 MFIs, *i.e.* only 10%), probably amongst the most mature. It could be relevant to pursue a Rating Fund for smaller MFIs.
- ▷ **IS Fund:** Three MFIs in Sub-saharan Africa accessed this fund in 2006 and a total of ten to date. The IS Fund is perceived as a good means of improving exchanges between MFIs and software providers. The approach seems right (conducting diagnostic studies and defining TORs for the technical offer). However, the real problem remains—lack of appropriate software.
- ▷ **PPIC:** Three MFIs have recently received funding (in Chad, DRC, and Madagascar), which seems to have had a positive impact on their ability to attract donors and link with banks.
- ▷ **Transparency Award:** No MFI in Francophone Africa has received this award yet. The main reason seems to be that many MFIs in the sub-region fall into two distinct categories: big, well-known institutions or smaller, rural entities with weak IS.

Communications

- CGAP's extensive research and knowledge generation activities, distilled in a variety of publications and disseminated through web sites, is considered very useful to all microfinance stakeholders. The excellent quality of publications is recognized by all actors. Some works are considered seminal, like those on loan guarantees and interest rates. An issue raised by several practitioners is the delay for translation (ex. Occasional Paper n°33 on interest rates).
- Internet has changed access to information in Francophone Africa. The French Gateway already has 15,000 visitors by month (Microfinance Gateway has 30,000 but was created

earlier and services a larger Anglophone community). The CAPAF bulletin and website are mentioned by African practitioners as truly useful. Nonetheless, despite these efforts, CGAP still has an image of an ‘Anglophone-oriented’ organization.

4. Conclusions - perspectives

4.1 Lessons learned and areas for improvement of CGAP III

On-going actions should be pursued

CGAP’s priorities in Francophone Africa seem well-defined at this stage; performance is good and the main actions should be pursued:

- ▷ On aid effectiveness, CGAP has done a lot to improve donor coordination; on-going efforts should be sustained, to prevent risks of overlapping in several countries;
- ▷ CAPAF’s efforts to diversify activities and establish itself as a “hub” is seen as very positive;
- ▷ Though policy dialogue and work with governments requires a great deal of time and effort — with unpredictable effects—CGAP’s action is highly relevant and has the potential to lead to major impacts on the microfinance environment in Francophone Africa. A closer presence in Central Africa would be helpful—contacts with countries like Rwanda are already on-going, with possible support. The project of an Africa Policy Forum in 2007 seems an excellent initiative to foster exchange.

▷

Competencies and skills are valued

All key contacts in Africa – central bankers, MFIs, networks — recognize the skills and competencies of CGAP’s OT members working in Africa. In particular, they value Jennifer Isern’s experience in the region.

Most are convinced that CGAP is a “clearing house” for ideas, and CGAP’s experts can bring skills on almost every subject. CGAP has also proved able of mobilizing qualified external expertise.

Overall problem of CGAP’s image

However, CGAP clearly has an image problem in Francophone Africa, especially regarding two points:

- ▷ **CGAP is perceived as “not involved enough” in Francophone Africa.**

This judgement is somewhat unfair—given that each actor has a very partial view of CGAP’s many activities, and that “lobbying” activities are often not visible.

However, a common feeling is that CGAP’s investment in Francophone Africa is too limited compared to huge needs; and that there is no real “presence” of CGAP in Africa – CAPAF has developed its own identity as a capacity building program, and is not necessarily associated with to CGAP.

Actually, at this stage CGAP’s Africa team does not have a dedicated budget and senior-level human resources are limited.

More visibility could be given to CGAP’s actions by reinforcing CAPAF’s human resources and its role as a hub.

The question of how much should CGAP invest in Francophone Africa is addressed by many actors, arguing that increasing risks for the microfinance industry in the coming years could justify a much stronger investment in the sub-region. (see 1.4)

▷Despite efforts to translate CGAP’s papers and focus notes in French, most contacts still consider CGAP as “**Anglophone-oriented**”.

This seems not so much an issue of language barrier, but rather a well-rooted feeling that CGAP’s international references in microfinance are more Asian or Latin-American than African—and that only one senior OT staff has a strong experience of Francophone Africa. Pursuing efforts of translations/dissemination of information on actions in Francophone Africa is thus necessary to improve CGAP’s image. This can include publishing more regularly surveys or case studies from the sub-region, translating notes/papers more rapidly (as well as CGAP’s homepage in French), valorizing African initiatives (*e.g.*: survey on Social Performance Indicators, PAT study in Senegal) through the Gateway, CAPAF’s portal or country portals.

To a lesser extent, CGAP is also considered to have a rather “financial” approach, to the detriment of “social” concerns. Several contacts mentioned the need to assess the social performance of microfinance, and not only financial performance.

4.2 Need for and future directions of CGAP

Risks and challenges for the microfinance industry in Francophone Africa

In Francophone Africa, and in particular West Africa, several risks are at stake:

- Current efforts to change the legal framework are laudable (ex BCEAO project), but much remains to be done.
- MFIs are developing but still fragile. There is a need to accompany their transformation *into full-fledged financial institutions? Into what?* and address governance issues, as well as reinforce supervision capacities for the sector.
- Competition is increasing in the major cities of several countries, with first effects noted in Benin and Mali (overindebted clients, rising delinquency).
- The low interest rate retail operations of the Regional Solidarity Bank (BRS) and, to a lesser extent, by its Malian equivalent (BMS), distort the market and increase pressure on MFIs. The highly political debate around interest rates is a clear risk for the sector.
- In Central Africa, risks are linked to the lack of skills and increased donor and private investment focusing on only a few countries in this subregion.

Need for CGAP

Considering the risks at stake, most actors insist that a stronger investment/presence of CGAP in Francophone Africa would be justified, including after 2008.

(a) More presence and visibility is needed, especially through CAPAF

CAPAF has shifted its orientation over the last two years to address new demands for training (introducing a new module on governance) and new actors (training for Central Bankers and government staff).

Significant training has been achieved already. Indeed, some individuals and partner organizations who have been trained are developing their own courses. To complement current capacity building efforts, some actions are still necessary:

- The development of a few modules targeting more mature MFIs: on governance (already planned) but also risk management, access to capital markets, or reinforcing internal auditing procedures.
- Adapt existing modules/ToTs to new accounting framework in UEMOA.
- Accompany policy dialogue by training Central Bank and government staff, as was done in DRC and Madagascar, and possibly strengthen presence countries where microfinance is more recent such as Central Africa especially

Apart from these activities, CAPAF should continue shifting towards more “meso” actions, including a stronger communication strategy. It should be reinforced as a real “hub” with more human resource and a higher budget, to increase CGAP’s visibility in the sub-region, improve its image and foster exchanges between actors. Communications should focus not only on CGAP’s initiatives, but also on surveys done in Africa, and other existing initiatives.

(b) Policy environment

- ▷ The political debate on interest rates is going to be a major issue in Francophone Africa in the coming years. In countries as Benin and Mali, where the Regional Solidarity Bank has started retail lending at low rates, this topic is critical for the future of MFIs.
- ▷ On policy dialogue, CGAP has been sometimes criticized for being too “technical” or too “macro” in its approach. CGAP’s proposal for a field survey on costing in Senegal seems to be a well-tailored initiative to avoid this. Examples from the field and a closer understanding of each country’s situation are necessary to convince governments. If successful, this survey could be applied to other countries (Mali, Benin).

Exchanges on this subject with MENA Francophone countries may be useful – West Africa is a more mature area, but both regions share common characteristics in terms of legal and political framework.

(c) Rural finance

Several actors insist on the need to improve microfinance outreach in rural areas. It is a concern of both donors and governments. CGAP’s role could be to encourage initiatives and exchanges on potential solutions; assess existing models of rural organizations, identify their strengths and weaknesses (is turning around rural networks, for instance, an interesting option? What lessons can be learned from attempts made? How to deal with risks of financial cooperatives? What should be the level of interest rates in rural areas?).

(d) Aid effectiveness

Risk of overfinancing: There is a need for defining indicators and coordinating donors and funders to prevent them from overinvesting if the microfinance industry is saturated.

On the other hand, several countries with almost no investment in microfinance (Chad, Gabon) should be considered in order to balance donor investment.

(e) New products/technology

- ▷ Technology: There is an increasing interest in technological advances in Francophone Africa (especially for remittances, as a potential way of lowering costs to reach rural areas).
- ▷ Housing finance: A growing number of governments are tempted by a subsidized approach – how to deal with it? How should housing finance be developed in a sustainable way? In Burkina Faso, for instance, the government just created a *Banque de l’Habitat*. Should donors react? If so, how?

(f) Credit bureaus

Credit bureaus are needed, especially as competition increases in big cities and MFIs are increasingly confronted with overindebted clients. CGAP has done a first survey on payment systems and credit bureaus in Africa, which has enabled identification of existing initiatives. In West Africa, BCEAO intends to work on a feasibility study for a regional bureau—CGAP is well-positioned to pursue surveys and dialogue on this subject.

Annex 7

Bios of Evaluation Team

Klaus Maurer has over twenty years of experience in financial systems development with particular focus on rural and microfinance. He is currently managing the European Fund for Southeast Europe (EFSE), one of the largest microfinance investment funds with assets of over €20 million promoted by KfW. Most of his professional career he worked as an independent consultant in over 25 countries for multilateral and bilateral development organizations such as ADB, IFAD, KfW, GTZ, SDC, Sida, primarily in Asia and Eastern Europe. He served as a team member on both previous evaluations of CGAP in 1997 and 2001. Prior to his work as an independent consultant, he was a staff member of KfW and later served GTZ as an advisor to the Central Bank of Indonesia. He received a doctorate in Financial Economics from the Free University Berlin.

Sarah Forster has over twenty years of experience in international economic development, with a specialisation in microfinance. Sarah is currently working as an independent consultant providing advisory and evaluation services in the areas of microfinance, social investment and enterprise-led local economic development. She is also a Director of BIGinvest, a UK social investment fund financing businesses which provide solutions to social problems. From 2001-2004, Sarah was a Director at the New Economics Foundation, a London-based ‘think-and-do-tank’. Prior to this, Sarah spent nine years working for the World Bank, including four years based in Bosnia-Herzegovina where she led the design of the award-winning Local Initiatives (Microfinance) Project. Sarah started her career working for an NGO on Afghanistan. She has a BA from Cambridge University and an MA in Economic and Political Development from Columbia University, New York.

Michael Mithika is a Principal and Director of J.M. Mantle & Co. Limited, a finance and advisory firm, which he co-founded in 1997, providing merchant banking and specialist consulting services to financial institutions and users of capital in sub-Saharan Africa. Since 1999, Michael has worked as a consultant specializing in areas related to development finance, specifically microfinance, including the analysis of financial systems and institutions as they relate to the development of financial services for low-income people. Michael’s interest to develop capacity in the microfinance sector has culminated in his launching the School of Applied Microfinance – an annual two-week training course based in Africa. Michael began his investment-banking career in 1994 as a Finance Analyst in corporate finance in Kenya and South Africa after graduating magna cum laude with a BSc. Business Administration – Finance and Accounting from the United States International University – Africa. He has Investment Banking training from Euromoney and is accredited by CGAP to train courses in the Microfinance Skills for Managers set and is a Certified Service Provider of MicroSave.

Annex 10

TYPES OF CGAP PARTNERSHIPS

(Internal typology and checklist used by the Operational Team)

CGAP's business model is unusual in the number and range of partnerships through which it works. The partnerships vary in terms of roles, leadership, attribution and risk. To ensure clarity from the outset of such partnerships, CGAP established a typology to ensure that all parties have a common understanding of roles, mutual responsibilities and expectations. To make doubly sure that expectations are clear and misunderstandings avoided, CGAP also developed a set of questions that must be addressed, in writing, at the outset of all new partnerships.

The definitions in the typology below are intended to describe relationships between partners and not the activities, investments or projects themselves. Every activity may thus have several different partnership relationships. For example, an investment in a project, such as the Ford-CGAP Graduation Program, would have a "joint and equal partnership" between Ford and CGAP, and an "investment partnership" with grantees. Clearly every partnership is slightly different and no typology can cover everyone. Therefore these descriptions are indicative only.

Main categories of partnership	Description
1. Grant partnership	CGAP provides grant to external organization. CGAP generally has no executing responsibilities, ownership or attribution. CGAP influence is limited at discretion of grantee, and except to the extent that subsequent funding is based on agreed minimum performance thresholds. In case where CGAP is on board, influence is ongoing.
2. Equal partnership	CGAP and donors or service providers are co-funders, co-organizers, co-authors or collaborators on a project on a fully equal basis. The partners jointly provide management oversight and funding. Attribution is generally shared equally between the partners.
3. Collaborative partnership led by CGAP	CGAP initiates and leads an effort, inviting other partners to join. Partners contribute financial and/or intellectual resources towards effort/project/output/risk and quality control.
4. Collaborative partnership led by others	External partners initiate and lead an effort, inviting CGAP to join. CGAP contributes financial and/or intellectual resources towards effort/project/output/risk and quality control.
5. Advisory partnership	CGAP works at the request of a donor or other organization. CGAP provides input, advice, and training to a partner at its request.
6. Contractual partnership	CGAP contracts a service provider who provides intellectual, technical or other services for CGAP. Usually ownership and control rest only with CGAP.

1. GRANT PARTNERSHIP

Typical partnership form	CGAP and grant recipient
Who provides the funds?	CGAP
Who is responsible for executing the activities?	The grant recipient
Who has ownership and control over the activities and outputs?	CGAP generally has no executing responsibilities, ownership, attribution or control. CGAP influence or input is at discretion of grantee, and except to the extent that subsequent funding is based on agreed minimum performance thresholds. In cases where CGAP serves on the board or advisory committee, influence is ongoing.
Attribution	Attribution is limited and at the discretion of the grant recipient.
Publication issues	Editorial control at the discretion of the grant recipient.
Examples	
<p>Essentially all microfinance practitioners and service providers that receive CGAP's grants fall into this category. All CGAP funds are administered as grants. Examples include:</p> <ul style="list-style-type: none"> • Rating Fund: CGAP partially fund ratings for MFIs • Pro- Poor Innovation Challenge: CGAP gives awards to microfinance practitioners for reaching the very poor through innovative delivery mechanisms. • Financial Transparency Awards: CGAP gives awards to MFIs that are compliant with International Financial Reporting Standards and industry guidelines. • MIX: CGAP created and spun off what has now become the MIX. CGAP now provides the majority of MIX funding and has 2 seats on the board. 	

2. EQUAL PARTNERSHIP (FUNDING AND OTHERWISE)

Typical partnership form	CGAP and another donor or service provider as co-investors, co-organizers, co-authors, collaborators on a joint project on an equal basis.
Who is responsible for executing the activities?	CGAP and partner roughly equally. In some cases, the project funded, or another third party, provides the day-to-day operational management. The co-funders jointly provide management oversight.
Who has ownership and control over the activities and outputs?	Ownership and executive influence usually rest in the hands of both CGAP and partner usually in the form of management committees, monitoring reports, etc.
Attribution	Attribution is shared between the partners and at their discretion.
Publication issues	Joint editorial control. Both parties would normally have the right to publish if they wished.
Examples	
<p>Recent examples of joint partnership include:</p> <ul style="list-style-type: none"> • The Graduation Program, where CGAP and Ford are jointly funding, identifying, and designing pilot programs linking social safety net and microfinance. • The Grameen-CGAP capital structure research and paper, jointly conducted and co-authored by Grameen and CGAP. 	

- The CGAP/IDB/EU Rating Fund, wherein funding, ownership and control are contributed and exercised jointly, while day-to-day management is handled by a third party.
- The IFAD/EU/CGAP Money Transfer Program.

3. COLLABORATIVE PARTNERSHIP LED BY CGAP

Typical partnership form	CGAP and donor or service provider
Who provides the funds?	CGAP and partners contribute financial and/or intellectual resources towards a project/entity/output.
Who is responsible for executing the activities?	Primarily CGAP
Who has ownership and control over the activities and outputs?	While CGAP leads the project, decisions on strategy, activities and outputs are usually shared equally between partners.
Attribution	Attribution generally shared but predominantly CGAP.
Publication issues	CGAP is responsible for publication, but with consultation.
Examples <ul style="list-style-type: none"> • CGAP regional advisory groups such as the Africa Advisory Group or the Consultative Group for MENA, where CGAP invites member donors to join, coordinate, and provide input. • CGAP advisory groups on technical issues such as the advisory group for the Money Transfer Technical Guide. • CGAP Technical Committee for Quality of Aid Management • CLEARs 	

4. COLLABORATIVE PARTNERSHIP LED BY OTHERS

Typical partnership form	CGAP and donor or service provider
Who provides the funds?	CGAP and partner contribute financial and/or intellectual resources towards a project/entity/output.
Who is responsible for executing the activities?	Primarily the partner.
Who has ownership and control over the activities and outputs?	While the partner leads the project, decisions on strategy, activities and outputs may be shared between partners.
Attribution	Attribution generally shared but predominantly the partner.
Publication issues	The partner is responsible for publication, but with consultations.
Examples <ul style="list-style-type: none"> • CGAP joining DFID's Africa Enterprise Challenge Fund board. • The World Bank's "Making Finance Work for Africa" initiative, with CGAP providing inputs. • CGAP serving on DFID/World Bank's Working Group on Money Transfers. • CGAP collaborating with the Dutch Microfinance Platform on social performance. • CGAP supporting the EU/ACP for the design and the implementation of its largest microfinance program. 	

5. ADVISORY PARTNERSHIP (CGAP PROVIDES SERVICES AT PARTNER'S REQUEST)

Typical partnership form	CGAP and donor or service provider
Who provides the funds?	CGAP and partner contribute financial and/or intellectual resources towards a project/entity/output.
Who is responsible for executing the activities?	CGAP provides input, advice, and training services to a partner at its request.
Who has ownership and control over the activities and outputs?	The partner that requested the service/activity is responsible for implementing the recommendations. CGAP may negotiate publication rights.
Attribution	Attribution may be shared equally.
Publication issues	Negotiated upfront where applicable
Examples	
<ul style="list-style-type: none"> • CGAP conducting portfolio reviews for the World Bank and UNDP. • CGAP supporting CIDA on the latter's credit line review. • CGAP collaborating with African Development Bank on its new strategy for microfinance. • CGAP joining World Bank mission to Ethiopia to conduct diagnostic of WB Food Security Project. 	

- CGAP providing inputs on design and implementation of IFC's Africa MSME program.

6. CONTRACTUAL PARTNERSHIP (CGAP CONTRACTS SERVICE PROVIDER)

Typical partnership form	CGAP and service provider
Who provides the funds?	CGAP
Who is responsible for executing the activities?	CGAP contract service provider, who provides intellectual, technical or other services.
Who has ownership and control over the activities and outputs?	Ownership control rests solely with CGAP, as agreed with contractor.
Attribution	Attribution to partner is negotiated upfront.
Publication issues	CGAP usually retains control of confidentiality and editorial rights.
Examples	
<ul style="list-style-type: none"> • Rating Fund and IS Fund: ADA provides marketing, manages RFP process, and administers the grants. • Microfinance Gateway: Forum One provides content management services Microfinance Gateway • Mark Flaming contracted to author credit guarantee paper. 	