

ANNUAL REPORT 2005



CONSULTATIVE GROUP TO ASSIST THE POOR

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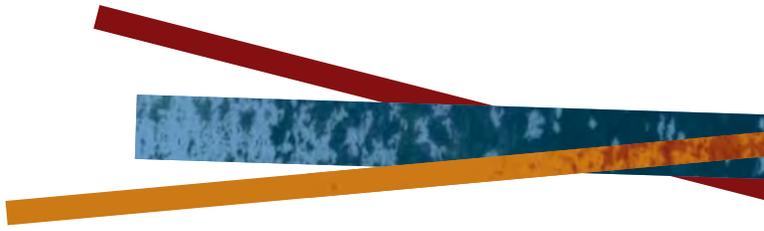
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LETTER FROM THE DIRECTOR

In a world where more than three billion poor people lack access to financial services, it is the microfinance industry that is shaping the future of retail banking.

According to a recent analysis conducted by CGAP, the compound annual growth rate of the world's leading microfinance providers over the last five years has been a staggering 15 percent. Worldwide, these leading microfinance institutions are nearly twice as profitable as the world's leading commercial banks.

The trend is not new. In fact, in the last decade in emerging markets, microfinance has consistently been a more stable business than commercial banking. But there is really no mystery. Microfinance—financial services for the poor—is really just retail banking for low-income people, people who are reliable, smart customers, who will pay for the services because they value them, and who will perform. The services are the same: loans, deposit facilities, money transfers. So what makes microfinance different?

If anything, the major difference may be that poor people need and value financial services even more than the traditionally “banked.” With nongovernmental organizations and more formal financial institutions—including postal, state, rural, and some commercial banks—serving only a fraction of the estimated three billion people living on less than \$2 a day, integrating microfinance into the mainstream financial sector is about much more than profits. At the same time, those in the financial mainstream must be disabused of the notion that microfinance somehow means lesser finance.

We at CGAP predict that commercial banks will become the dominant players in microfinance. Around the world, commercial banks are moving down market. Driven by competition and the quest for market share, and inspired by the stability and profitability of microfinance as well as the promise of cost-reducing new delivery technologies, they see attractive opportunities to leverage their existing infrastructure to reach new client markets. We see that as an encouraging trend because it will address the most pressing challenge before us today: scaling up microfinance to reach the billions of people who lack access to the most basic financial services.

At the same time, we know that it is the non-commercial microfinance institutions—the NGOs, rural cooperatives, and state-owned banks—that provide the bulk of financial services to the poor today. Their commitment to the “double bottom line” of sustainability and social development is helping unlock the potential of microfinance for those billions who lack access and for the many commercial players who are now showing an interest in participating.

Throughout this fiscal year, harnessing that interest and channeling it has become increasingly important, especially as we seek to build self-sustaining domestic markets for microfinance. That is why we have continued to serve as a resource for players at all levels of the financial system.

We have worked with retail financial institutions to assess their clients’ demand for savings and the potential for small-balance deposits to fund microfinance operations at the retail level. Also at the retail level, through our Retail Advisory Service, we have begun working with several commercial banks that intend to downscale their services to include lower-income clients. Through the first annual CGAP Financial Transparency Award, we have worked with world-class auditing firms to further develop accounting and transparency standards among microfinance providers, more than 40 of which now comply with International Financial Reporting Standards, or IFRS. And we have continued to work with governments to help them develop sound approaches to microfinance regulation and supervision.

All of our work is driven by a vision to massively scale up access to financial services for the poor. Getting there will require ever more expanding cooperation—with our existing members and partners, but also with a broader set of commercial actors. Interest in microfinance from all quarters is only growing, and we at CGAP are committed to continuing to serve as a respected resource for microfinance standards, services, and advocacy.

Sincerely,

Elizabeth Littlefield



05 DATE	0500 PARTIC	0500 WITHDRAWALS	0500 DEPOSITS	0500 BALANCE	0500 TELLER
05 02 15			5000 -	5000 -	
		5000 -		NIL	
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OUR MISSION

CGAP works toward a world in which microfinance is no longer viewed as a marginal or niche sector—a world where poor people are considered valued clients of their country's financial system. To this end, we serve financial service providers, funders, and governments through our:

- Advisory services
- Research and innovation
- Standards and good practices
- Training and knowledge dissemination

For more on CGAP's work, please see www.cgap.org or email cgap@worldbank.org for a copy of our brochure.



ABOUT THIS REPORT

This Annual Report outlines CGAP's work in fiscal year 2005. This work is described according to the themes set forth by our members for the period 2003–2008:

Promoting Diverse Institutions and Delivery Channels is essential to achieve the kind of scale and sustainability that will make a durable impact on poverty. This requires the engagement of a broad range of institutions and delivery mechanisms to deliver financial services to the poor.

Developing Diverse Pro-Poor Financial Services is necessary because different segments of the poor need different kinds of financial services. The emphasis is on identifying and learning from innovative products and services that reach the very poor.

Building Supporting Policy Environments is accomplished through the dissemination of consensus guidelines on appropriate microfinance regulations and strategic advice requested from policy makers and regulators.

Improving the Effectiveness of Microfinance Funding entails deepening technical support to donor agencies, building funder staff capacity, and updating donor good practices.

Building Financial Market Infrastructure creates the information infrastructure needed to support scaling up microfinance services to the poor.

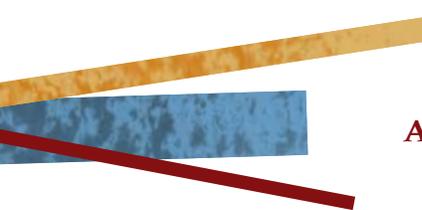
In addition, there are four sections on the means of achieving these goals.

Regional Initiatives are an integral part of CGAP's efforts to build greater linkages with local partners and learn from the ground as well as disseminate useful tools and guidelines, information about CGAP's services, and learning about good practices.

Training is provided to all our client groups and helps build the technical capacity of staff and management working in retail institutions, governments, and funder organizations.

Grants and Monitoring details the approval and monitoring of CGAP's financial commitments in grants to external institutions and support for initiatives.

Communications and Publications is a critical component of CGAP's role as a key knowledge center and convener for the microfinance industry.



ACTIVITIES AND ACCOMPLISHMENTS

Promoting Diverse Institutions and Delivery Channels

CGAP is focused on overcoming the lack of sufficient retail capacity as perhaps the single most important bottleneck in scaling up of microfinance services for poor people across the world. To this end, we have continued to work with a variety of institutions and delivery channels in fiscal year 2005.

Review of Formal Financial Institutions and MFI-Bank Linkages. Following on a 2004 CGAP review of 227 formal financial institutions, ranging from institutions with established microfinance services to those with the potential to enter the microfinance market, CGAP analyzed a short list of 30 institutions with promising microfinance operations. In FY 2005, we completed this research (published in CGAP Focus Note 28, “Commercial Banks and Microfinance: Evolving Models of Success”) and identified six discrete approaches banks use to enter the microfinance market. These include providing services directly through an internal microfinance unit, a specialized financial institution, or a microfinance service company working through existing providers by outsourcing retail operations, providing commercial loans to microfinance institutions (MFIs), or providing infrastructure and systems.

Retail Advisory Service. Through the Retail Advisory Service (RAS), CGAP advises commercial banks on leveraging their existing branch and back-office infrastructure to serve microfinance clients. CGAP was an early leader in the approach of working with existing banks, and has more recently folded this work with a number of

banks under this new umbrella service. The RAS offers banks and other commercial retail providers a package of technical assistance, co-financed between the bank and CGAP and put together and overseen by a CGAP senior staff member. In addition to CGAP’s aim of bringing large commercial players into the market, the RAS will also serve to build capacity and markets for local consultants, who are given priority wherever possible. The RAS also works with local and international networks and technical assistance providers. RAS services include:

- Training in good practice microfinance and lending technologies
- Marketing for target-group oriented campaigns, product design, new product launches, and image building
- Assistance in designing procedures, creating guidelines, and integrating microfinance into existing services
- Strategic planning and development and human resource management
- MIS assistance to customize each bank’s existing IT capacity to fit microfinance specifications

In FY 2005, building on its work as part of the Middle East microfinance initiative (please see Regional Initiatives), CGAP partnered with Cairo-Amman Bank to help boost its microfinance services, including in the West Bank and Gaza. In addition, work continued with Africa International Financial Holdings, a consortium of investors that seeks to facilitate the acquisition of state-owned banks in Africa by international commercial banks with a



commitment to providing microfinance services.

Social Performance. In fiscal year 2004, CGAP worked with key stakeholders, including Ford Foundation and Argidius, to develop a reporting format for MFIs that will enable institutions to track their social performance: from effecting positive change in clients' economic conditions to school attendance, literacy, access to health care services, and women's empowerment. In FY 2005, we focused on building demand for this reporting format, partnering with more than 30 leading microfinance networks, financial service providers, rating agencies, and donors to draft a joint statement affirming their common commitment to regularly assessing, reporting on, and better managing the social performance of their organizations and the organizations they support.

Pro-Poor Innovation Challenge. One of the biggest challenges facing the microfi-

nance industry today is developing financial products and methodologies for very poor or difficult-to-reach populations. The CGAP Pro-Poor Innovation Challenge (PPIC) gives immediately disbursed and flexible awards up to \$50,000 to microfinance organizations that have developed innovative methodologies to deepen poverty outreach and impact. Of particular interest are microfinance providers that implement new and innovative services or that work with clients who are marginalized in geographic, economic, or other ways. To date, CGAP has granted PPIC awards to 44 leading-edge microfinance organizations from Asia, Africa, Latin America, and Eastern Europe. The FY 2005 round of the PPIC was conducted in partnership with the International Fund for Agricultural Development (IFAD) and focused on organizations breaking new ground in financial services for rural clients.

While microfinance alone is not a panacea for poverty, it has been proven to increase poor people's economic self-determination.

Developing Diverse Pro-Poor Financial Services

To encourage the development of financial markets and financial services that are valuable to poorer clients, CGAP promotes the development of strong and dynamic domestic financial markets that provide quality services meeting the needs of a wide range of poor clients, especially poorer clients than those currently reached by microfinance. In FY 2005, CGAP significantly scaled up its savings initiative and expanded its work on money transfers. It also continued focusing on reducing transaction costs through the use of e-payment technologies, to ensure that delivery of ever smaller financial transactions can be made cost-effectively.

Savings. The CGAP Savings Initiative gathers, generates, and disseminates information and tools designed to improve the supply of small-balance deposit facilities. It also aims to systematically integrate the savings mobilization agenda into the full spectrum of CGAP's activities, helping build financial systems that work for the poor. In FY 2005, CGAP launched country-level savings assessments to provide donors, governments, international networks, and technical service providers with a systematic methodology for analyzing opportunities and constraints to savings mobilization at the country level. So far, assessments have been completed in Mexico, the Philippines, Benin, and Bosnia—all meant to road-test the methodology before its publication in the form of a toolkit in 2006. Our knowledge dissemination work is centered on a dynamic online portal: the Savings Information Resource Center (SIRC). Found at www.cgap.org/savings, the SIRC offers a user-friendly and accessible way to obtain cutting-edge information about small balance deposit mobilization, including a

searchable database of over 200 articles, a "virtual study tour" of savings case studies around the world, and original research and information on ongoing initiatives, including those funded by CGAP member donors.

Money Transfers. Despite the increasing attention on remittances in certain markets, the poor still lack access to affordable and reliable money transfer services. Recent increases in competition have lowered the price of money transfers and multiplied service options between Latin America and the United States and Europe. However, similar developments have not yet occurred in other transcontinental, regional, and especially domestic money transfer markets. CGAP has undertaken a range of activities designed to enable pro-poor financial institutions to enter this market in a strategically and financially sound manner. In FY 2005, CGAP worked with MFIs involved in domestic and intraregional money transfers—from Haiti to India to Mongolia—to document the opportunities and constraints of linking with formal money transfers systems. The findings, published in Occasional Paper No. 10, "Crafting a Money Transfers Strategy: Guidance for Pro-Poor Financial Service Providers," call on microfinance providers to negotiate agreements carefully, phase in the commercial relationship, and avoid the pitfalls of inflexible and exclusive contracts. CGAP also conducted a market study on domestic money transfers in China and a study on domestic and intra-regional transfers in Southern Africa with Finmark Trust. Available upon request, both studies provide the foundation for potential pilots to increase competition in those markets, lower costs, and improve quality of services.

Cell Phone Banking Services. Finmark Trust and CGAP worked with a leading cell

To encourage the development of strong domestic markets, CGAP has expanded its work on money transfers and significantly scaled up its savings initiative.

phone operator and major bank in Southern Africa to develop a joint business plan for unbanked citizens. The initiative recently launched a banking product designed for low-income market segments based on this business plan. The product uses cell phones, which are extremely widespread among lower-income residents of Southern Africa, to initiate, confirm, and keep records of typical banking, payment, and transfer transactions (e.g., cash-back point-of-sale mechanisms in retail shops). Since its launch, this initiative has attracted enthusiastic response from three major retail financial service providers and from policymakers. CGAP will work with Finmark Trust in FY 2006 to capture and disseminate learning from this program. This work will feed into CGAP's ongoing research and advocacy around e-payments technologies.

How Indian Self-Help Groups Link with Banks. CGAP's interest in financial models that can provide widespread coverage to poorer people prompted a detailed research project on self-help groups (SHG) in India. CGAP's research in FY 2005, which focused on case studies of different SHG models, has helped us gain a better understanding of the sustainability and quality of financial services being delivered by SHGs, as well as the impact and added value of financial intermediation through SHGs. NABARD (National Bank for Agriculture and Rural Development), SHG promoting institutions, and leading microfinance institutions in India advised CGAP on this research, which is slated for publication as a Focus Note in late 2005.



Agricultural and Rural Microfinance. Agricultural microfinance remains a significant challenge to financial institutions that serve the majority of the poor. Unpredictable weather conditions, macroeconomic instability, and lump-sum returns at harvest time have made it difficult to adapt conventional microfinance methodologies to the needs of this sector. CGAP conducted a global review of promising agricultural lending operations that culminated in seven case studies, which provide insight into good practice methodologies in Kyrgyzstan, Thailand, Mali, Peru, Mozambique, and Kenya. In FY 2005, these case studies formed part of the basis for CGAP Occasional Paper No.11, "Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model."

Building Supporting Policy Environments

Experience shows that government can play a positive role in microfinance as an enabler and facilitator. CGAP promotes and explores the appropriate role of government as well as advocates for avoiding inappropriate government behavior that hinders financial services for the poor, such as interest rate ceilings or subsidized lending to specific target groups. In FY 2005, CGAP stepped up its work in this area. We have expanded our work beyond advising and disseminating standards on regulation and supervision to include expanding the supply of qualified consultants in this area and conducting research on topical issues.

Regulation and Supervision Database.

With the IRIS Center, a research institute affiliated with the University of Maryland, CGAP launched a global database of microfinance-related regulation and supervision for more than 50 developing countries in FY 2005. The database has proven to be one of the most popular resources on the CGAP Web site and the affiliated Microfinance Gateway, drawing over 8,300 discrete visitors each month.

International and Country-Level Policy Consultations. Upon specific request, CGAP also engages in country-level consultations with government agencies seeking to improve the policy environment for pro-poor financial services. Priority is given to policy work that concretely contributes to the establishment of appropriate enabling environments or has the potential to preempt the establishment of policies or programs that might undermine the development of microfinance. In FY 2005, CGAP continued to provide policy inputs, contribute to workshops, and review drafts of microfinance legislation for a number of

countries, including Madagascar and China. We also completed several country-level policy diagnostics, including in Jordan, Yemen, Morocco, and Tunisia. CGAP also continued its longstanding collaboration with BCEAO, the West African Central Bank. In addition, CGAP selectively participates in high-level policy conferences that offer opportunities to directly influence policy change. On an ongoing basis, CGAP also engages in multilateral policy consultations with the World Bank, the IMF, and other international financial organizations, which in turn work directly with national authorities responsible for designing better policies to promote financial services for the poor.

Anti-Money Laundering and Combating the Financing of Terrorism. Recent moves to fight money laundering and the financing of terror could directly impact the poor. The increased costs of institutions' compliance and tighter restrictions may have the unintended consequence of driving low-income clients out of the formal sector. In FY 2005, CGAP worked with experts from the World Bank to publish a Focus Note summarizing the implications of the international framework for anti-money laundering (AML) and combating the financing of terrorism (CFT) for financial service providers working with low-income people. The paper, which has sparked wide interest in this previously little understood subject, urges regulators to strike a careful balance with microfinance providers as they work toward compliance with AML/CFT measures. The key, say the authors, is to implement new regulations gradually, adopting a risk-based approach that could include exemptions for lower-risk services to the poor.

At present, at least 50 countries are discussing or implementing new arrangements for regulation and supervision of microfinance.

Consumer Protection. CGAP's earlier work on interest rate ceilings identified consumer protection (along with promoting competition) as a better policy alternative to controlling interest rates. Many observers question whether increased attention to microfinance could attract lenders that might not care as much about social objectives, and might even engage in predatory lending practices that take advantage of poor clients. For this reason, consumer protection has become a hot topic in microfinance, covering a range of

measures related to clear disclosure of the true costs of lending, guidance on lender practices, mechanisms for handling complaints and disputes, and consumer education. CGAP's research into these measures shows that there is no clear consensus on how to protect microfinance consumers, especially in developing countries, and urges policymakers not to rush to apply measures without a thorough evaluation of their costs and benefits, both to consumers and the larger financial sector.



Improving the Effectiveness of Microfinance Funding

More than US\$1 billion is committed annually in international financial and technical resources on microfinance. These funds have the potential to help or hinder the realization of inclusive financial systems. Though some support is well-designed and managed, still too many of the resource flows for microfinance do not follow good practice. In FY 2005, CGAP began extending its aid effectiveness work beyond bilateral and multilateral public sector donors to include a broader range of funding organizations—foundations, international financial institutions, domestic apex institutions, private in-

vestors, and multi-sector nongovernmental organizations.

Guidelines on Good Practice in Microfinance. These revised guidelines (better known as the “Pink Book”) provide practical advice to funder staff on how to best support the various actors in microfinance. In FY 2005, the first version of these revised guidelines was actively disseminated through presentations and workshops at over 20 donor agencies, numerous conferences, and in-country donor groups. CGAP invited users of the guidelines to use them and submit their feedback, offering suggestions on how the guidelines could be more



practically applied. This feedback will be incorporated into the next version, to be published and disseminated in FY 2006.

Country-Level Effectiveness and Accountability Reviews (CLEARs). Building on CGAP's Donor Peer Reviews, the CLEAR process engages national governments, practitioners, and donors to examine aid effectiveness at the country level. The process has already proven effective in reorienting funder programming and providing a catalyst for policy dialogue on the most pressing issues facing the microfinance sector in several countries. The first CLEARs—in Uganda, Cambodia, and Nicaragua—involved in-depth interviews with hundreds of government officials, aid agency representatives, and practitioners and culminated in specific recommendations for building inclusive financial systems. Lessons on the role of external funders in either serving as catalysts for the private sector or hampering domestic deposits are also emerging. More CLEARs are planned for FY 2006—including in Sri Lanka, where CGAP hopes to shed light, in part, on the tsunami reconstruction effort one year on.

Strategic and Technical Advice. CGAP provides advisory support, brokering services, and technical assistance to help individual agencies to improve their microfinance operations. To this end, CGAP works with management, focal points, and operational staff on an array of policies, projects, and reviews to provide feedback, input at the early design stages, systems implementation, supporting internal learning, and identifying training needs. For both the World Bank and the United Nations Development Program, CGAP conducted a complete portfolio review. The findings, recommendations and management actions taken following these reviews will be published in

a Focus Note in FY 2006. In addition, together with the European Union and the Group of African, Caribbean and Pacific states (ACP), CGAP launched the EU/ACP Microfinance Framework Program. CGAP also assisted in issuing an EU/ACP call for proposals to improve the capacity of microfinance actors in ACP countries.

Donor Information Resource Center (DIRECT). CGAP provides tailored information to staff and management of donor agencies, governments, and NGOs through this online resource center, which includes two-page briefs, presentations, case studies and training modules. New in FY 2005 are an updated Donor Helpdesk designed for staff from donor agencies, social investors, and international NGOs that design, implement or monitor microfinance programs; an interactive section on the new *Guidelines on Good Practice in Microfinance*, which invites online user feedback; and six Donor Briefs covering topics such as housing microfinance and microfinance technology.

Donor Thematic Workshops. The first thematic workshop on Social Performance was held in Paris to help define a common understanding and identify information needs of donors and practitioners. It set a foundation for future work, culminating in the creation of the CGAP Working Group on Social Performance. During the Asian Development Bank microfinance week in Manila, CGAP delivered a workshop for donor staff on the Role of Government in Microfinance. The course was built around a desk study on donor programs involving governments, a Donor Brief, and an inspiring speech by the former Minister of Finance of the Philippines. In addition to these multi-donor workshops, tailored training was also delivered at individual agencies throughout FY 2005, in response to specific requests.

Building Financial Market Infrastructure

A sound financial system for the poor requires mechanisms to process small transactions at low cost, and to share transactional and institutional data that is accurate and comparable. Managers, regulators, auditors, domestic and international lenders and investors, and, indeed, poor clients themselves use this information to make sound decisions. CGAP invests in innovative technology-based approaches to reducing transaction costs and producing standardized performance data. It also supports market-based programs to encourage transparency.

Delivery Technologies to Reduce Transaction Costs. By moving cash transactions out of branches and automating them, technology can reduce the costs of serving poor people. Hi-tech devices are already very much a part of poor people's lives: in Africa alone, growth in cell phone use has been most dramatic among the rural poor. Yet few successful applications of technology to deliver financial services to poor people exist. In FY 2005, CGAP began to tackle the two key challenges. The first is operational, such as managing liquidity and the security of cash handled outside of the branch environment, and ensuring adoption among poorer and excluded populations. The second challenge is to encourage commercial banks and MFIs to experiment further with using technology to reach unserved areas. In FY 2005, CGAP completed a customer acceptance study of WIZZIT, a mobile phone banking startup in South Africa. It also partnered with India's largest private bank, ICICI Bank, and VISA Asia-Pacific to test the use of rural merchants to handle microfinance cash transactions. In FY 2006, CGAP will conduct a deeper analysis of the transactions costs involved in reaching

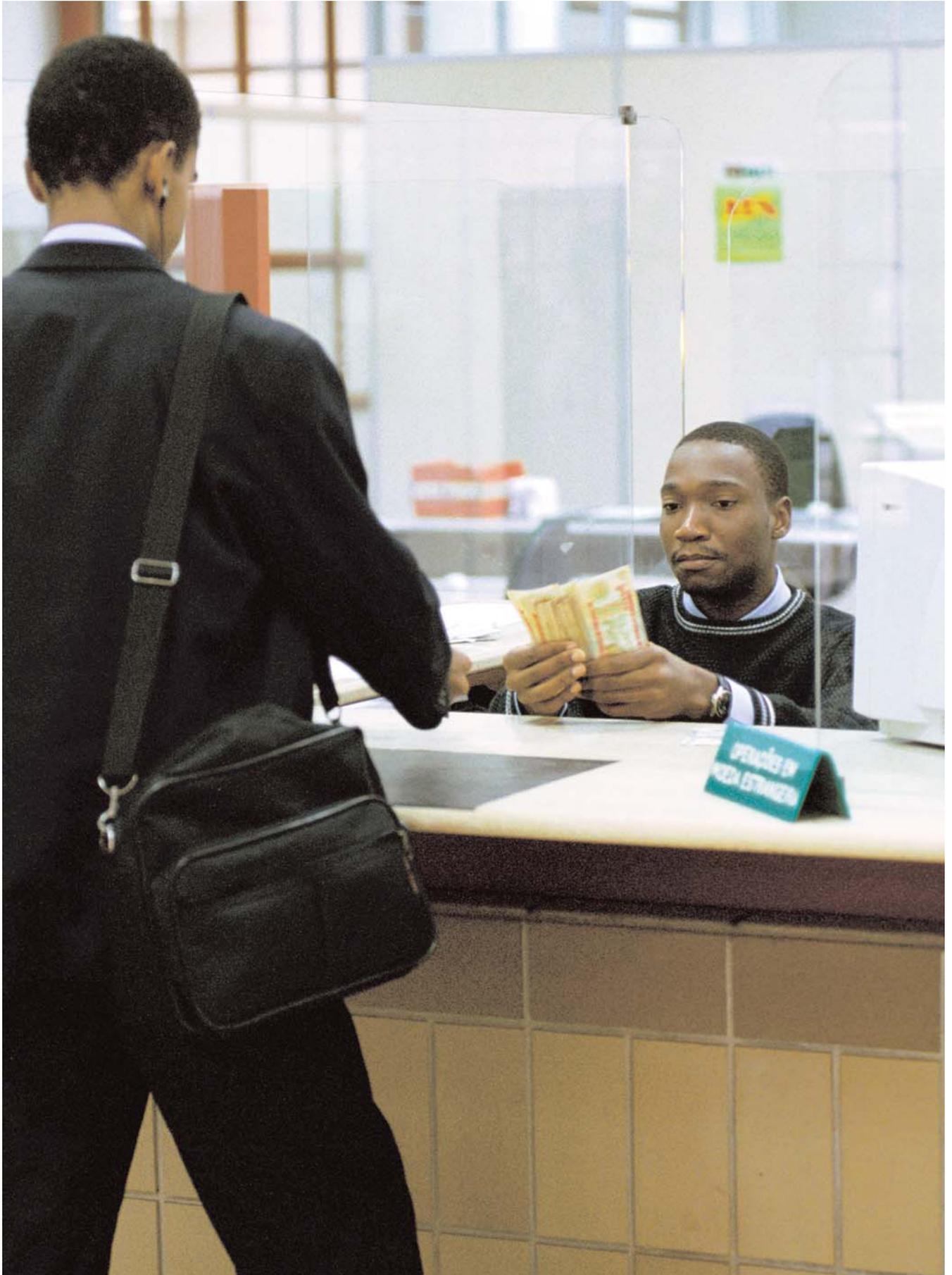
poorer populations, and the design factors that must be considered if technology is to truly reduce the costs of serving the poor and if such technologies are readily taken up and used by the poor.

Information Systems (IS) Fund. Many institutions require professional expertise to help them analyze their business and technology needs, select a software package, or improve their existing information system. CGAP created the Information Systems (IS) Fund in May 2004 to improve the capacity of MFIs to make better IS investment decisions, offering them co-financing to hire specialized IS consultants pre-qualified by CGAP. In FY 2005, CGAP helped finance 25 detailed assessments of different microfinance institutions' IS needs.

Technology Resource Center. This web-based service offers information on technology issues to guide MFI managers in selecting software that best suits their information needs. In FY 2005, the resource center increased to 57 the number of software products with detailed profiles that are available to MFIs. In FY 2006, 40 of these software products will be independently reviewed. These reviews are the only independent assessments of IS software for microfinance and are increasingly used by MFIs and network associations to evaluate available products. Since its expansion and launch at the end of FY 2005, the Technology Resource Center has become the most visited resource center on the Microfinance Gateway, with approximately 10,000 unique users per month.

Multi-Donor Rating Fund. The Rating Fund is a multi-donor initiative launched by CGAP and the InterAmerican Development Bank in 2001. In 2005 the European Commission joined the initiative. The Rating

CGAP invests in innovative approaches to better managing information about clients, institutions, and the microfinance market as a whole.





Fund offers partial financing for ratings and assessments of MFIs by pre-qualified rating and assessment agencies. The fund has three main objectives: (1) to stimulate demand for rating and assessment services, (2) to increase the amount and reach of market information, and (3) to strengthen the capacity of service suppliers to improve service delivery, product design, and marketing. By FY 2005, the Rating Fund had committed grants for more than 290 credit ratings and assessments. All of the MFIs that received funding consented to publicly disclose their performance information and made their ratings available on the Rating Fund Web site. This increased transparency has influenced funding flows to MFIs, making it easier to attract social investors' interest. Ratings are now often used by microfinance investors as part of their pre-investment due diligence and investment monitoring. In FY 2005, CGAP outsourced the Rating Fund's daily management and market activities to ADA, its project administrator, and exited from Latin America, where capital markets are more developed and ratings are recognized as a vital tool for interacting with capital markets.

The Microfinance Information Exchange (MIX). Created by CGAP, the MIX was spun off in 2002 as an independent partnership of CGAP, the Citigroup Foundation, the Deutsche Bank Americas Foundation, the Open Society Institute and the Rockdale Foundation. CGAP retains board chairman-

ship and one other board seat. The MIX Market is a global, web-based information service that links microfinance institutions, donors, and investors. On the demand side, the MIX Market provides in-depth information on the performance of over 500 MFIs, including financial statements and ratings and assessment reports of external evaluators. On the supply side, the MIX Market offers information on donor and investor funding, including terms and conditions. Traffic to the site has more than quintupled over the past two years. In FY 2005, CGAP managed the transition of leadership at the MIX and continued its active involvement and oversight of its operations.

Financial Transparency Award. Awarded to microfinance institutions compliant with the International Financial Reporting Standards (IFRS) and the *CGAP Disclosure Guidelines*, the CGAP Financial Transparency Award, presented for the first time in FY 2005, attracted almost 150 entrants from across the globe. Qualifying institutions submitted audited financial statements that were then judged by an independent panel against international reporting standards, including the IFRS and industry guidelines. The review was also designed to provide valuable feedback for entrants, with each receiving a detailed report offering concrete steps for improving their financial reporting. The one overall winner, Compartamos and 40 institutions that received honorable mention earned attention locally and regionally, with many citing the award for raising awareness of good practice microfinance in their communities and governments.

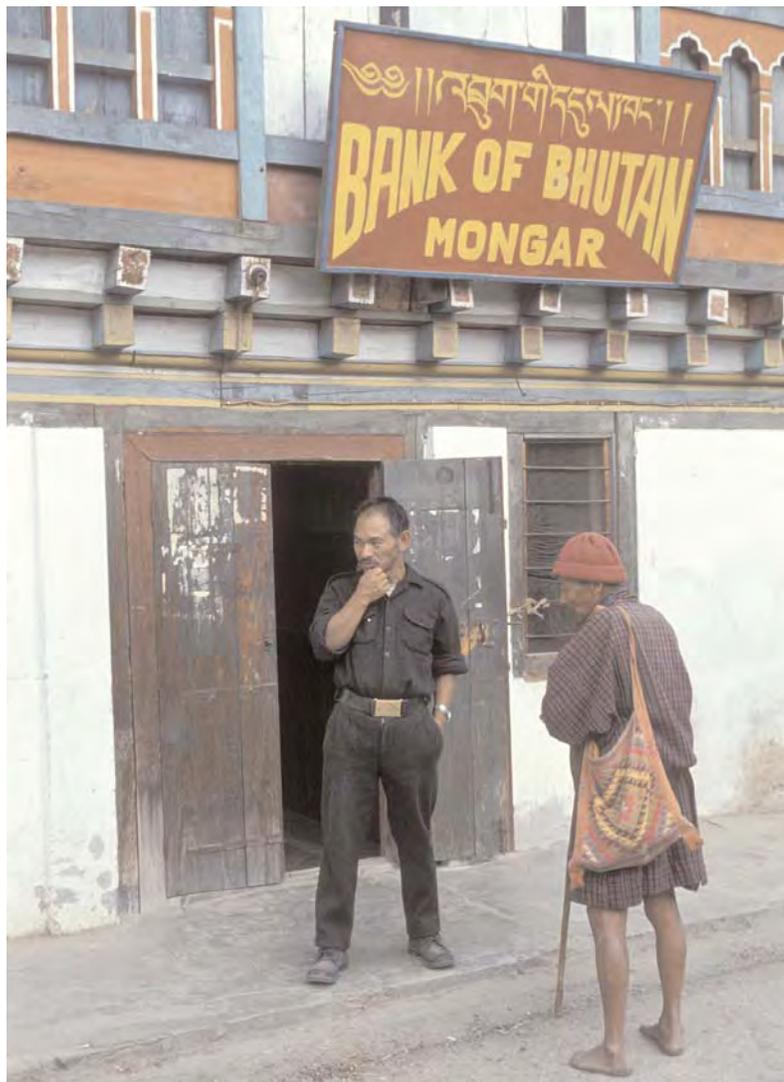
Regional Initiatives

In FY 2005, CGAP took several steps toward contributing more directly to the regional development of microfinance, particularly in the Middle East and North Africa (MENA), South Asia, Eastern Europe and Central Asia (ECA), and Africa. These regional initiatives allow for a greatly enhanced two-way learning between CGAP and its international partners and the domestic clients we seek to serve. They also enable CGAP to more effectively serve clients in the field and raise awareness of good practices, cross-border learning, and the availability of CGAP's and member donor services.

Middle East and North Africa (MENA). Building on its training and information dissemination activities in MENA, CGAP launched an initiative to scale up microfinance in the region, opening a regional office in Amman, Jordan and hiring its director. The CGAP Key Principles of Microfinance were endorsed by an executive council advising the MENA initiative, which is chaired by Queen Rania of Jordan. Several partners, including USAID, UNDP, and the Arab microfinance network Sanabel form an advisory body supporting the initiative. Together with these and other partners, CGAP completed several country diagnostics, including in Yemen and Jordan, and is working directly with the Ministry of Planning in Jordan and the Central Bank of Morocco to put recommendations into practice. We are also leading a donor mapping exercise that will help clarify the past and future role of external funding in the region.

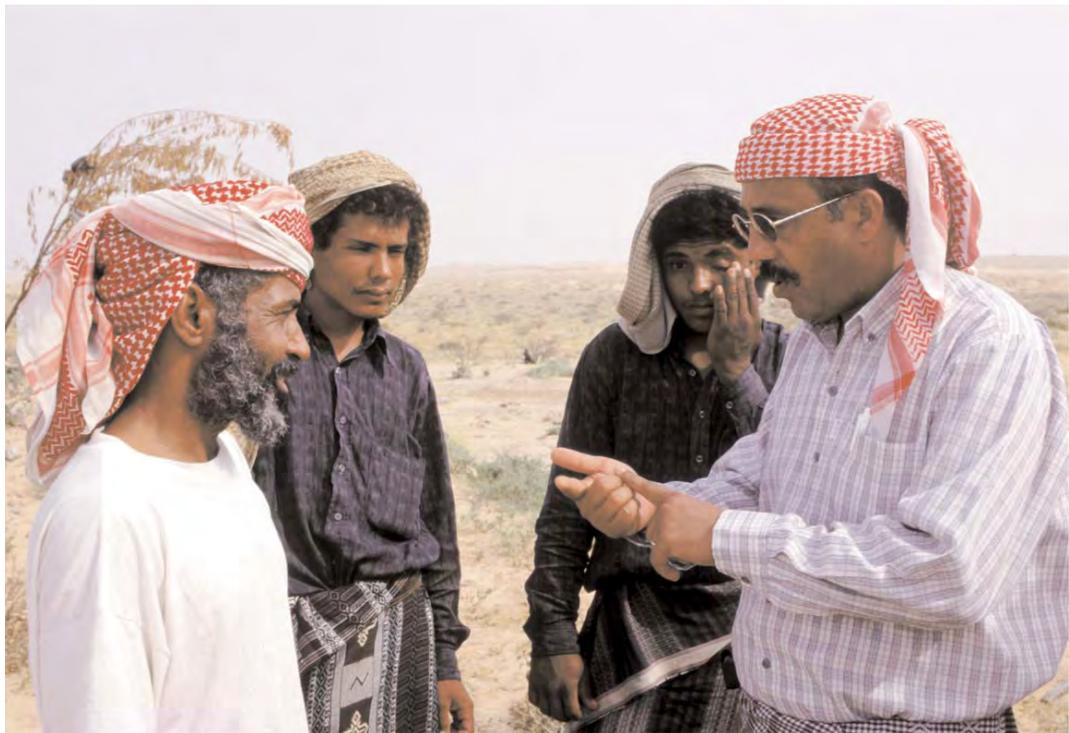
South Asia. In South Asia, CGAP has continued its work toward building a pro-poor financial sector in Afghanistan. We continued to provide oversight of the

Microfinance Investment and Support Facility of Afghanistan (MISFA). So far, MISFA has assisted 12 microfinance institutions to reach more than 100,000 clients, a number that is expected to reach 800,000 in 5 years. More than 80 percent of current clients are women. Beyond Afghanistan, we are also developing capacity and systems for the State Bank of India to allow branches to serve Self-Help Groups (SHGs) and poor clients.



Eastern Europe and Central Asia. In cooperation with the Poland-based Microfinance Centre (MFC), CGAP has launched a regional microfinance center for Eastern Europe and Central Asia based in Almaty, Kazakhstan. The center's manager was recruited in May and work is already underway to develop a comprehensive strategy for supporting the microfinance sector at all levels, from retail financial institutions to policymakers. This initiative builds on an already robust partnership with MFC, a partnership which in FY 2005 included translation, printing, and distribution of CGAP publications in Russian as well as a jointly sponsored donor training course in Almaty.

Africa. In Africa, CGAP has continued its deep involvement with and oversight of CAPAF, the regional training project working in 14 Francophone countries and cofunded with MAE/France and USAID. CGAP also worked with Sida and UNCDF to finalize a three-year regional project with the West Africa Central Bank (BCEAO) to strengthen regional regulations, supervision, and information in the eight-country monetary union in West Africa. In addition, CGAP finalized the research on African MFIs conducted with the MIX in 2004-05, and the results were published by the MIX in April 2005 as "Outreach and Financial Performance of Microfinance Institutions in Africa."



Training

A key constraint to sustainable microfinance is the limited technical capacity of staff within retail institutions and donor field agencies. CGAP is currently exploring ways to integrate all its training initiatives to give them a common governance structure, maximize efficiency and synergies among the different programs, and respond more effectively to market demand. This effort has taken on new urgency in FY 2005, as the donor training project is coming to a close and demand for CGAP-designed training programs has continued to grow.

Skills for Microfinance Managers. CGAP's global program for microfinance managers develops local capacity by providing training of trainers courses, plus course materials and guidance to regional and national training partners (which include networks, private firms, and large MFIs with training departments). To date, CGAP has developed seven "Skills for Microfinance Managers" courses on best practices in financial and operational management for MFIs. These courses address interest rate setting and delinquency management, financial analysis, accounting for MFIs, operational risk management, business planning, information systems, and new product development. The courses are available in 12 languages: Chinese, English, French, Portuguese, Russian, and Serbo-Croatian; and more recently, Arabic, Bahasa Indonesia, Nepali, Spanish, Telugu, and Vietnamese. CGAP courses have been offered more than 400 times to more than 10,000 people in 48 countries. More than 40 local training partners in Africa, Asia, the Middle East and North Africa, Latin America, and Eastern Europe teach the seven courses in their respective regions.



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Microfinance Management Institute. CGAP and the Open Society Institute (OSI) formally launched the Microfinance Management Institute (MFMI) in July 2003 to advance management capacity in the microfinance industry. Under the hallmark of the "Microfinance in MBA Programs" project, the MFMI signed agreements with six leading management schools: the University of Pretoria in South Africa, the Asian Institute of Management in the Philippines, INCAE in Costa Rica, and in India, the Institute of Rural Management Anand, and the Indian Institutes of Management in Ahmedabad and Bangalore. All have begun re-

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search and teaching in microfinance management, drawing more than 300 new students in FY 2005. In addition, the University of Pretoria launched a Centre for Microfinance in March 2005, to serve as an African hub for promoting microfinance in academia. Both the University of Pretoria and the Asian Institute of Management added microfinance specializations within their masters' programs, and the Indian Institute of Management Bangalore committed to developing a microfinance incubator to mentor start-up and fledgling institutions. Also in FY 2005, four MFMI fellowships in microfinance management were awarded. The fel-

lows work from their home institutions in Brazil, Bangladesh, Kenya and Mongolia to undertake research and develop academic materials and new courses. Thirty are slated for completion in FY 2006.

CGAP/UNCDF Donor Training Course. CGAP and the United Nations Capital Development Fund continued to offer the jointly developed course, "Financial Services for the Poor: How Donors Can Make a Difference," to non-specialist staff of donor agencies. Taught from the perspective of project task managers, the one-week course focuses on the role of donors in supporting financial systems that work for the poor and is based on regional/local case studies. In FY 2005, CGAP offered the course in three countries to 77 donor staff.

Grants and Monitoring

In 2003 CGAP's member donors directed the CGAP management to shift efforts from financial resource-intensive support at the retail level to more human-resource intensive, market-building work. This has meant fewer grants to institutions. CGAP still monitors and advises financial institutions, networks, and other partners that have received CGAP grants as well as monitors the performance of CGAP initiatives. Grants and technical assistance have been provided to more than 60 micro-finance institutions and networks (in addition to funding MFIs through the Pro-Poor Innovation Challenge, the Information Systems Fund, and the Rating Fund). Currently there are only six grants with outstanding commitments to MFIs or networks, most of which are co-funded with other donors and/or benefit more than one institution through a network or other leveraged structures.

To monitor outstanding grants, CGAP staff analyze semester or quarterly reports against the minimum performance thresholds in the partnership agreement, review overall operations and performance, and conduct monitoring visits over the life of the grant. CGAP staff are also available to the grant recipients to provide technical guidance, consultant referrals and advice, and often play an active role. In addition to the direct grants, CGAP has 39 outstanding commitments to initiatives such as the Retail Advisory Services Fund, the Savings initiative, the Rating Fund, the MIX, and the Microfinance Gateway. Summaries showing current status of investments are posted on the CGAP Web site and disseminated regularly to the CGAP Investment Committee and the Council of Governors (please see back of this report for more on CGAP's governance structure and for a full list of current commitments).



Communications and Publications

The UN Year of Microcredit, a higher level of interest in the poverty agenda, and new entrants in the field, have coalesced to focus broader interest on microfinance as a development tool. The communications challenge is to harness that interest and energy to promote good practice, not just among traditional donors, but also among a broader range of funders and supporters of microfinance. In FY 2005, CGAP significantly bolstered its communications capacity to effectively deliver CGAP's messages.

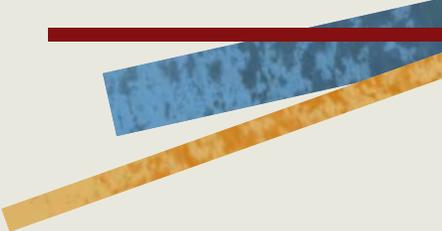
Outreach. In FY 2005, CGAP implemented a new communications strategy which embraces a broader audience. The focus has been on increasing outreach and deepening understanding of microfinance; advocating to affect changes in policy in developing countries; clarifying messages to have greater impact; fostering partnerships; and encouraging debate. As a result, CGAP's communications efforts have been boosted dramatically, as with the dissemination of CGAP publications, which has increased tenfold over the past year.

Microfinance Gateway. The Microfinance Gateway is a neutral public forum that facilitates the exchange of different perspectives, viewpoints, and microfinance information. In FY 2005, the Gateway made great strides to increase outreach in developing countries through the development of two new language sites, in Arabic and French. Each month, the English site is visited by about 19,000 users from all over the world who download approximately 340,000 pages.

Media Relations. CGAP provided background information and interviews that contributed directly to more than 50 articles in major news outlets, including the *Financial Times*, *Economist*, *The Banker*, and several regional and local newspapers and magazines. Through proactive media relations, these articles, in many cases, coincided with CGAP events, such as the presentation of the CGAP Financial Transparency Award or the publication and dissemination of a country-level assessment.

Translation. CGAP has worked with regional partners and networks to translate scores of publications into Arabic, French, Portuguese, Russian, and Spanish. This effort has led to the development of microfinance glossaries in these languages, a key step toward formalizing microfinance terminology and practice at the regional level and, more importantly, across regions. In the next year, all major CGAP publications will be translated into the above five languages.

CGAP Portfolio. *Portfolio* has become a strategic vehicle for CGAP communications. All of the contents are written in non-technical language, providing primers on compelling issues and helping push CGAP messages to those who would not necessarily read our more technical publications. To date, these issues have included consumer protection, anti-money laundering regulation, money transfers, and foreign exchange rate risk. *Portfolio* is distributed in French and English (by email and in hard copy) to more than 5,000 readers and in partnership with regional networks worldwide.



NEW PUBLICATIONS

FOCUS NOTES

- No. 29 AML/CFT Regulation: Implications for Financial Service Providers That Serve Low-Income People (July 2005)
- No. 28 Commercial Banks and Microfinance: Evolving Models of Success (July 2005)
- No. 27 Protecting Microfinance Borrowers (May 2005)
- No. 26 What Is a Network? Diversity of Networks in Microfinance Today (July 2004)

OCCASIONAL PAPERS

- No. 11 Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model (July 2005)
- No. 10 Crafting a Money Transfers Strategy: Guidance for Pro-Poor Financial Service Providers (April 2005)
- No. 9 Interest Rate Ceilings: The Story So Far (October 2004)
- No. 8 Financial Institutions with a Double Bottom Line: Implications for the Future of Microfinance (July 2004)

CONSENSUS GUIDELINES

- Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance (December 2004)
- Developing Deposit Services for the Poor (June 2005)
- Disclosure Guidelines for Financial Reporting by Microfinance Institutions (August 2004)

DONOR BRIEFS

- No. 24 Building Capacity for Retail Microfinance (June 2005)
- No. 23 Funding Microfinance Technology (April 2005)
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- No. 21 Supporting Microfinance in Conflict-Affected Areas (December 2004)
- No. 20 Housing Microfinance (August 2004)
- No. 19 The Role of Governments in Microfinance (June 2004)

PORTFOLIO

- No. 2 Redefining "Risk": What do new measures to fight terror and money laundering have to do with the poor? (June 2005)
- No. 1 Beyond Survival: How today's tsunami aid can help fight poverty in the long run (May 2005)

OTHER

Breaking Down the Walls between Microfinance and the Formal Financial System
(June 2004)

CGAP Brief: Sustaining Microfinance in Post-Tsunami Asia

TECHNICAL TOOLS

Due Diligence Guidelines for the Review of Microcredit Loan Portfolios (June 2005)

No. 7 Format for Appraisal of Network Support Organizations (DRAFT), (October 2004)

No. 6 Product Costing Tool (July 2004)

DONOR GOOD-PRACTICE CASE STUDIES

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No. 17 How the Netherlands Government Fostered Successful Public-Private
Partnerships for Financing MFIs (December 2004)

REPORTS

Uganda Country-Level Effectiveness Assessment Report

Cambodia Country-Level Effectiveness Assessment Report

Nicaragua Country-Level Effectiveness Assessment Report

Mexico Country-Level Savings Assessment

EDPYME Confianza, Peru, Agricultural Microfinance Case Study

Equity Building Society, Kenya, Agricultural Microfinance Case Study

Bai Tushum Financial Foundation, Kyrgyzstan, Agricultural Microfinance Case Study

Caja Los Andes, Bolivia Diversifies into Rural Lending, Agricultural Microfinance
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Small Farmers in Mozambique Access Credit and Markets through Forming
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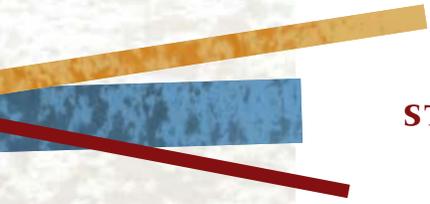
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Gisele Fernández, *Research Assistant*. Gisele Fernández joined CGAP in 2004. She provides research support to the director and CEO. She contributes to CGAP activities in Latin America and works on the Savings Information Resource Center. Before joining CGAP, she worked as a public policy assistant at the Council of the Americas in New York and interned at the International Latino Cultural Center in Chicago. Fernández has a Bachelor's degree in Economics and International Relations from Lake Forest College. She speaks English and Spanish and is proficient in Portuguese.

Evelyne Fraigneau, *Director's Assistant*. Evelyne Fraigneau joined CGAP in 1999. She provides assistance to the director and CEO, handles information requests, and plans meetings for CGAP and its stakeholders. Before joining CGAP, Fraigneau worked in the World Bank's Africa Region and at the French mission to the United Nations office in Geneva, Switzerland. She studied translation at St. Bénigne Institute in Dijon, France, and Georgetown University.

Zoë Gardner, *Program Assistant*. Zoë Gardner joined CGAP in 2003. She supports CGAP staff in its Paris office, including support on the effectiveness of funding, savings, and the Middle East/North Africa initiative. Before joining CGAP, Gardner worked as an office manager in the film production and publishing industries in Australia and has also worked in the media sector in the United Kingdom and for Texaco, Inc., in Bermuda.

Jasmina Glisovic-Mezieres, *Research Assistant*. Jasmina Glisovic-Mezieres joined CGAP in 2004 to work with the savings team in CGAP's Paris office. She manages the Savings and Information Resource Center and participates in country and institutional savings assessments and other research activities. Before joining CGAP, she worked as a credit manager for the Danish Refugee Council (Serbia and Montenegro) and

for the Micro Development Fund, and she spent 2 years as a loan officer for poor refugees from Bosnia, Croatia, and Kosovo. She has a Master's degree in Marketing and Business Administration. She speaks English and Serbo-Croatian and is proficient in French.

Natasa Goronja, *Microfinance Analyst*. Natasa Goronja joined CGAP in 2001. She manages the CGAP/United Nations Capital Development Fund joint donor training initiative, the Donor Information Resource Center (DIRECT), and DIRECTConnect (a help-desk service for donor staff). Before joining CGAP, Goronja worked in the microfinance sector in Bosnia as a loan officer, microfinance trainer, consultant, and policy adviser. She has a Master's degree in European Studies, a joint program of the London School of Economics, University of Bologna, and University of Sarajevo. Goronja speaks English, Serbo-Croatian, Italian, French, and some Russian.

John Gutin, *Research Assistant*. John Gutin joined CGAP in 2005. He researches a variety of policy-related issues, including microfinance regulation and supervision, and works with CGAP's Middle East/North Africa initiative. Before joining CGAP, Gutin worked at Development Alternatives, Inc., in the Banking and Financial Services group. Gutin has an Master's degree in International Relations from the London School of Economics. He speaks English and is proficient in French.

Gretel Guzman, *Research Assistant*. Gretel Guzman joined CGAP in 2005 to conduct research with the financial institutions team. Previously, she worked as the Latin America relationship manager from Women's World Banking. She has a Master's degree in Public Affairs from Princeton University. She speaks English, Spanish, and French and some Dutch and Portuguese.

Idawati Harsongko, *Team Assistant*. Idawati Harsongko joined CGAP in 2003 as a member of the budget and administration team. She helps process consultant contracts and payments and does other administrative tasks. Previously, Harsongko worked as a team assistant for the World Bank Indonesia Country Office Human Development Unit. She received a 3-year diploma in accounting from the Institute of Economics (STIE Perbanas) in Jakarta.

Syed Hashemi, *Senior Microfinance Specialist*. Syed Hashemi joined CGAP in 1999. He concentrates on identifying pro-poor innovations and

disseminating best practice lessons related to poverty outreach and impact. He developed the CGAP poverty audit for financial institutions and has worked extensively on assessing poverty levels of microfinance institution (MFI) clients. He is currently involved in developing social performance indicators for tracking changes in the social and economic levels of MFI clients. Before joining CGAP, Hashemi directed the Program for Research on Poverty Alleviation at Grameen Trust and taught Development Studies at Jahangirnagar University in Bangladesh, where he conducted research on microfinance, non-governmental organizations, and gender subordination in rural Bangladesh. Hashemi has a Ph.D. in Economics from the University of California at Riverside. He speaks English, Bangla, and conversational Hindi.

Brigit Helms, *Lead Microfinance Specialist*. Brigit Helms joined CGAP in 1996 and is based in CGAP's Paris office. She founded CGAP's Donor Team to improve aid effectiveness and recently launched the Savings Initiative. She has worked on microfinance capacity-building training for donor staff and practitioners at the Microfinance Training Program in Boulder, Colorado. Helms has written numerous CGAP publications, including *Access for All: Building Inclusive Financial Systems*. Before joining CGAP, Helms worked for the Latin America and the Caribbean Division of the International Fund for Agricultural Development and for the U.S. Department of Commerce as a desk officer for Central America. She has worked in more than 35 countries in Latin America, the Caribbean, Africa, and Asia. She has a Ph.D. in Development and Agricultural Economics from Stanford University. She speaks English and Spanish and is proficient in French and Italian.

Martin Holtmann, *Lead Financial Specialist*. Martin Holtmann joined CGAP in 2003 to co-manage its cooperation with commercial banks and large retail organizations and to be part of the faculty at the Boulder Microfinance Training Program in Boulder, Colorado. Before joining CGAP, he was managing director of Internationale Projekt Consult for 5 years, where he provided advisory assistance to banks and credit-granting non-governmental organizations in Eastern Europe and the newly independent states, Africa, and Latin America. In addition, he was program manager of the European Bank for Reconstruction and Development's Russia Small Business Fund and taught Financial and Personnel Economics at Trier University. He has

authored several publications on microfinance in the area of staff incentives. He has a Master's degree in Economics from Trier University and a Master's degree in Public Administration from Harvard University. He is currently completing his doctorate in Finance at the Goethe Universität in Frankfurt a. Main, Germany. Holtmann speaks English, German, Spanish, and Russian and is proficient in French.

Jennifer Isern, *Lead Microfinance Specialist*. Jennifer Isern joined CGAP in 1996. She leads CGAP's financial institutions team, which focuses on new institutional models (such as bank-microfinance institution linkages), money transfers, and institutional strengthening through investments, training, and technical assistance. In addition, Isern coordinates CGAP's work in Francophone Africa and China and has written several CGAP publications on money transfers, anti-money laundering, bank entry in microfinance, African microfinance, informal finance in India, and the role of international networks. Before joining CGAP, Isern was the regional technical adviser for economic development in West and Central Africa with Cooperative for American Relief Everywhere International and worked for the U.S. Agency for International Development in Costa Rica and Senegal, United Nations Development Program in New York, and AT&T's international division. She has a Master's degree from Princeton University and is a Chartered Financial Analyst. Isern has worked in more than 45 countries worldwide. She speaks English and French and is proficient in Spanish.

Gautam Ivatury, *Microfinance Analyst*. Gautam Ivatury joined CGAP in 2003. He manages the Microfinance Technology Program and works on issues related to investment in microfinance, linkages between microfinance institutions and commercial banks, and several CGAP initiatives in India. Before joining CGAP, Ivatury was vice president of Finance and Administration at SKS Microfinance in India; as an investment analyst at International Finance Corporation, he co-founded a startup education technology venture; and he worked as an investment banker at Donaldson, Lufkin & Jenrette (now Credit Suisse First Boston). He has a Master's degree in International Affairs from Johns Hopkins University. He speaks English and is proficient in French and Hindi.

Antonique Koning, *Program Coordinator*. Antonique Koning joined CGAP in 2004. Her

work focuses on the European Union/African, Caribbean, Pacific States Microfinance Framework Program—a capacity-building program for microfinance actors in sub-Saharan Africa, the Caribbean, and the Pacific. Koning is seconded to the European Commission and is based in Brussels. Before joining CGAP, she worked with the World Savings Banks Institute, where she managed a microcredit program in El Salvador for 3 years. She began her career as a research fellow of the Overseas Development Institute and European Centre for Development Policy Management. Koning has a Master's degree in International Trade Management and Policy from the University of Birmingham. She speaks English, Spanish, French, and Dutch.

Alexia Latortue, *Senior Microfinance Specialist*. Alexia Latortue joined CGAP in 2002 and works in CGAP's Paris office. She leads CGAP's work on improving aid effectiveness in microfinance and provides strategic and technical services to development agencies. In 2002, she managed the Microfinance Donor Peer Reviews. She has written and co-authored several reports on aid effectiveness in microfinance. Before joining CGAP, Latortue was a development specialist with Development Alternatives, Inc., based in Haiti. She has a Master's degree in Development Economics from the Fletcher School of Law and Diplomacy at Tufts University. She speaks English, French, Creole, and German and has rudimentary Spanish.

Sarah Manapol-Brown, *Budget Assistant*. Sarah Manapol-Brown joined CGAP in 2000. She works on the administration of CGAP's trust funds, donor and grant agreements, consultant contracts, and general office needs. Before joining CGAP, Manapol-Brown worked for the World Bank's Private Sector Department and Aon Risk Services/HTB Insurance Agency.

Caterina Meloni, *Research Assistant*. Caterina Meloni joined CGAP in 2005. She works with the Industry Team and focuses on the various initiatives to promote transparency in the microfinance industry. Before joining CGAP, she worked at the World Bank's Operations Policy and Country Services department. Meloni has 2 years of field experience in Mozambique where she worked for Save the Children/United States microfinance program and for the Department of International Development as part of a multi-donor direct budget support group. She has a Master's degree in International Relations and Economics from Johns Hopkins. She speaks

English, Portuguese, French, Italian, and intermediate German.

Patricia Mwangi, *Microfinance Specialist*. Patricia Mwangi joined CGAP in 1999. She manages the Rating Fund, works with initiatives designed to promote and support the development of transparency in the microfinance industry, provides technical support to microfinance institutions on financial performance and reporting quality and standards, and has been involved in financial management training. Before joining CGAP, Mwangi worked as an external auditor and management consultant with Price Waterhouse, Kenya, on small business finance and microfinance projects. She has a Master's degree in Administration from the Australian Catholic University and is a Certified Public Accountant.

Mark Pickens, *Research Assistant*. Mark Pickens joined CGAP in 2005. He is responsible for a range of assessment, monitoring, and research activities for CGAP's savings mobilization initiative and Retail Advisory Service for commercial banks. His prior experience includes consultancies with the Bank of Africa Madagascar, a leading Cambodian microfinance institution, Pact, and the U.S. Agency for International Development–Bosnia. Before joining CGAP, he worked at Development Alternatives, Inc. He has a Master's degree in Microfinance from Columbia University. He speaks English and is proficient in French and Malagasy.

Xavier Reille, *Senior Microfinance Specialist*. Xavier Reille joined CGAP in 1999. He leads the CGAP industry team, is responsible for the Middle East/North Africa region, manages the Microfinance Gateway, and is chairman of the Microfinance Information Exchange board. Before joining CGAP, he was the regional microfinance adviser for Southeast Asia with Catholic Relief Services (CRS), where he set up an investment company for rural banks in Indonesia and developed a rating methodology. Before joining CRS, he was operations director at Société d'Investissement et de Développement International, where he helped create Profund and helped develop Centenary Bank (a commercial bank in Uganda). Reille has a Master's degree in International Finance from the University of Paris. He speaks French, Spanish, English, and Bahasa Indonesia.

Richard Rosenberg, *Senior Adviser*. Richard Rosenberg joined CGAP in 1995. He has written or contributed to the Consensus Guidelines on Microfinance Regulation and Supervision and

various papers on financial disclosures, interest rates, and auditing. He is a core faculty member of the Microfinance Training Program. Before joining CGAP, Rosenberg was deputy director of the U.S. Agency for International Development's (USAID) Center for Economic Growth and spent 9 years in Latin America, managing investment promotion, privatization, pension reform, and development finance. Before joining USAID, Rosenberg practiced antitrust and contract law with Boodell Sears in Chicago, Illinois, and private investment management. He has a Doctor of Law degree from Harvard University. Rosenberg speaks English and Spanish.

Ousa Sananikone, *Senior Private Sector Development Specialist*. Ousa Sananikone joined CGAP in 2000. She is responsible for external reporting and reviewing CGAP publications and key documents. Before joining CGAP, Sananikone worked in the Small and Medium Enterprise Development Department of the World Bank. Sananikone has a Master's degree in International Affairs from Georgetown University. She speaks Lao, Thai, French, and English.

Neeran Saraf, *Web Project Manager*. Neeran Saraf joined CGAP in 2005. She is currently working on CGAP's technology platform and Web strategy. Before joining CGAP, Saraf worked with several large consulting companies on local and international projects and co-founded several information technology companies, including SARAF Solutions, Inc. She has a Master's degree in Computer Science from George Mason University. Saraf speaks English, Arabic, and French.

Hannah Siedek, *Research Assistant*. Hannah Siedek joined CGAP in 2003. She works in the Paris office managing the Donor Information Resource Center, supporting implementation of Country Level Effectiveness and Accountability Reviews, and helping disseminate donor guidelines on good practice in microfinance. Before joining CGAP, Siedek completed internships with the investment bank NM Rothschild & Sons in London and the branding agency Momentum in Madrid. She has a Master's degree from ESCP-EAP, Paris, and has studied in England, Spain, and France. Siedek speaks German, English, French, and Spanish.

Ira Singh, *Microfinance Gateway Manager*. Ira Singh joined CGAP in 2004. She manages the Microfinance Gateway, the leading industry portal on microfinance, as well as its French and Arabic affiliate sites. Before joining CGAP, she managed projects, conducted applied research, and provided technical assistance and marketing support to the finance and banking practice of Development Alternatives, Inc., an international economic development consulting firm. Singh has a Master's degree in Public Administration and International Relations from Syracuse University. She speaks English and Hindi.

Jeanette Thomas, *Communications Manager*. Jeanette Thomas joined CGAP in 2004 as the manager of the Communications Team. Before joining CGAP, Thomas was news editor in the BBC's Washington Bureau. She started her 10-year tenure at BBC in London, producing radio documentaries and *Start the Week with Melvyn Bragg*, BBC Radio 4's longest running discussion program. She also co-produced *On Giants' Shoulders*, a 12-part science series. In 2003–2004, she took a sabbatical from BBC to produce a series of films for the World Bank on development projects in the Middle East. She has a Master's degree and a Ph.D. in English Literature from Oxford University. She speaks English and some French and Spanish.

Tonia Wright, *Operations Manager*. Tonia Wright manages CGAP's day-to-day business and administrative functions, including budget and finance, human resource management, and administrative services. She coordinates CGAP's Research Assistant and Internship initiatives and manages the annual meeting preparation process. Before joining CGAP, Wright worked in local government training, technical assistance, and capacity-building, both domestically and internationally. As a contractor, Wright managed a regional local government support program for the U.S. Agency for International Development/Pretoria, supporting local authorities in Zimbabwe, Zambia, South Africa, and Swaziland. Wright has a Master's degree in Public Administration from the University of Delaware and a Bachelor's degree in Political Science from North Carolina A&T State University.

CGAP FINANCIAL STATEMENTS

Year Ending June 30, 2005 (Unaudited)

CGAP is a trust-funded joint venture of a group of funders aimed at improving the access to financial services by the world's poor. It is housed in the World Bank which, on behalf of other member donors, has legal, financial, and administrative oversight of CGAP. In accordance with its mandate, CGAP's grants, projects, and most of its initiatives span more than one fiscal year. CGAP follows the World Bank's fiscal year, which ends on June 30.

These financial statements include a Statement of Revenues and Expenses, a Balance Sheet, a Statement of Cash Flows, and accompanying notes. They are unaudited.



KEY HIGHLIGHTS

- **Donor Contributions.** Core and designated contributions and pledges from donors for 2005 totaled \$15.6 million, an increase of \$3 million over 2004 (\$12.6 million). This increase was brought by new contributions from Spain, the IFC, and the EC. Eighteen other donors continued their support of CGAP, with DFID increasing its contribution and the World Bank continuing to scale down its contribution by \$400,000 a year. Advance contributions drastically rose by \$11 million due to an unexpected cash inflow from the World Bank. The World Bank's legal department determined that interest income that had accumulated on the CGAP trust fund over the last ten years belonged to CGAP and transferred these funds to CGAP in May 2005. As a result of this unexpected inflow, the World Bank reduced its future allocation to CGAP to \$500,000 per annum, recognizing that the interest income can fund the balance of its pledge.
- **Grant Commitments.** In 2005, CGAP continued to invest in initiatives where there was great demand, comparative advantage, and where it would make a significant impact on the industry. CGAP committed \$10.8 million in new grants and initiatives (see annex 3). It continued to leverage donor co-financing, including \$1.2 million from Sweden for the (BCEAO) Regional Regulation and Supervision initiative in Africa. In response to the demand from governments and funders for more focus on policy issues, the Policy Initiative was launched this year with a commitment of \$2.3 million. An additional \$1.7 million was committed for the continuation of CGAP's greatest communication tool, the Microfinance Gateway. CGAP also continued its work on transparency (\$745,000) and accountability (\$568,000) and launched the Savings Initiative (\$600,000).

- **Operating Expenses.** Operating expenses were up slightly at \$6 million (\$5.2 million in 2004). This was projected in the workplan as CGAP starts to implement its communication strategy and increase its dissemination efforts.
- **Financial Position.** CGAP's financial position is good. At the end of fiscal year 2005, operating reserves are at \$8.2 million, slightly down by \$1.4 million compared to 2004. These reserves are meant to smooth the planning and execution of ongoing CGAP activities and cushion and the effect of delays in donor contributions.

1. Basis of Accounting

CGAP changed its financial reporting to accrual based accounting in 2003. This basis gives the reader a fuller understanding of CGAP's financial position by showing funds approved for commitments separately from funds available for ongoing operations and future commitments. Resources are expensed when committed to projects.

Revenue from donor pledges is recognized when written notification of a donor's intent to process the grant is received. In most cases, pledges are fulfilled during the fiscal year they were made and, in a few instances, they are received in the following year(s).

These (unaudited) financial statements are prepared on a historical cost convention and are denominated in U.S. dollars.

2. Restatement of FY04 Financial Statements

The FY 04 financial statements have been restated to show administration fee expense (previously netted out of investment income) of \$162,525. This accounts for the difference in total revenue and total expenses in the Statement of Revenue and Expenses and the total inflows and operating expenses in the Cash Flow Statement.

3. Contributions from Donors— Core & Designated

Donor contributions (including pledges that have not yet been received but are being processed by the donor), interest income, and foreign exchange gains comprise CGAP's revenues. Donor contributions can be unrestricted (core) or limited to a specific purpose (designated). Amounts of donor contributions to CGAP's core funds can also be found in the table on page 48, CGAP Member Donor Contributions and Pledges, Fiscal Years 2004–2006.

The Statement of Revenues and Expenses captures donor contributions allocated for fiscal years 2004 and 2005. The Statement of Cash Flows/Inflows, on the other hand, shows all donor contributions received regardless of the fiscal year to which they relate.

4. Interest Income and Foreign Exchange Gains

Interest Income is the interest received in the fiscal year on cash balances held. Foreign exchange gains are the difference between the estimated U.S. dollar equivalent of donor contributions appearing in previous years' financial statements and the actual U.S. dollar value of the contribution when it was finally converted to U.S. dollars. Interest income and foreign exchange gains increased to \$777,663 in 2005 due to the increase in cash balances.

5. Grants and Initiatives

This expense category relates to CGAP's work program via grants to MFI networks, as well as initiatives focused on policy issues, transparency, accountability, IT development, savings, and other projects managed by CGAP

staff. Project-related commitments for consultants and travel are in this category. Approved commitments that are not fully disbursed when they are closed are returned to the original trust fund where the commitments were derived. Commitment amounts are therefore reported net of returns.

6. Operating Expenses

Operating Expenses include:

- Staff Salaries and Benefits include salaries and benefits of direct-hire CGAP staff.
- Office and Occupancy Costs include space, equipment, communications, supplies, and other overhead expenses.
- Service Providers include costs that are not related to grants and initiatives (CGAP strategy meeting facilitators, presentors, and trainers of CGAP staff, etc.)
- Travel includes airfare, subsistence, and hotel costs incurred by staff and consultants that are not related to grants and initiatives (i.e., liaison with external organizations, external training travel, recruitment travel, etc.).
- Communications, Publications, Translations, and Web sites include commitments for publishing, printing, translating, editing, Web site development and maintenance, publications and Web site managers, Associates Program with MFC, and the Microfinance Gateway.
- CG and ExCom Meetings include travel facilities, food services, and other expenses connected with the CG and ExCom meetings.
- Administration fees are levied by the World Bank for costs related to trust fund administration (currently at 5% of contribution).

7. Operating Reserves

Reserves are funds available for ongoing operations and future commitments. Given that CGAP is not a self-standing, permanent entity, an operating reserve is maintained to cushion the effects of delays in donor contributions and to allow an orderly wind-down of CGAP activities if and when member donors decide to discontinue CGAP's operations in its present form.

8. Bank Balances

Bank balances on hand represent CGAP's available cash balances. In fiscal year 2005, this amount rose by \$8 million over the previous year mostly from the \$11 million in World Bank interest income received this fiscal year as an advanced contribution from the World Bank (see note 11).

Bank balances representing approved commitments that are in the process of being disbursed and hence not available for new commitments were \$25,660,778 in fiscal year 2005.

9. Donor Contributions Receivable

	FY05	FY04
African Development Bank		100,000
Asian Development Bank		250,000
European Commission	1,710,104	
Finland	344,578	
Germany		284,150
IFAD	695,000	
Japan		600,000
Netherlands		400,000
Norway		409,908
Spain	366,690	
Sweden	<u>391,430</u>	
TOTAL	3,507,802	2,044,058

10. Liabilities

The undisbursed portion of Grants, Initiatives, and Communications Activities represents funding commitments approved but where disbursements are in progress and are to be made or continued beyond the current fiscal year (Annex 3).

11. Contributions Received in Advance

	FY05	FY04
World Bank	11,000,000	
Australia	338,300	676,600
United Kingdom	<u>474,938</u>	
Total	11,813,238	676,600

Donor contributions deposited in the World Bank Trust Fund for CGAP since its founding have accumulated interest of \$11 million over the last ten years. This interest was collecting in a separate account that CGAP had no knowledge of or control. This interest income is reflected as advanced contribution from the World Bank and will fund the difference between the new annual contribution and the original World Bank pledge for FY 06 and FY 07.

In the Cash Flow statement, "Donor Contributions Received" in fiscal year 2005 includes the entire \$11 million.

FINANCIAL STATEMENTS

Fiscal Years Ending June 30, 2005, and June 30, 2004

	Notes	Actual July 2004– June 2005	Restated Actual July 2003– June 2004
STATEMENT OF REVENUES AND EXPENSES			
Revenues			
Contributions from Donors—Core & Designated	3	15,615,446	12,591,435
Interest Income and foreign exchange gains	4	777,663	209,535
Total Revenues (A)		16,393,109	12,800,970
Expenses			
Grants/Initiatives Committed	5	10,753,878	13,665,160
Staff Salaries and Benefits	6	3,009,276	2,490,995
Office and Occupancy Costs	6	1,144,949	1,233,097
Service Providers	6	113,640	49,060
Travel	6	248,687	153,572
Communications, Pubs, Translations, and Web sites	6	2,275,655	1,891,080
CG and ExCom Meetings	6	153,906	142,688
Administration Fee	6	82,553	162,525
Total Expenses (B)		17,782,544	19,788,177
Excess of Revenues over Expenses for the year (A)–(B)		(1,389,435)	(6,987,207)
Operating Reserves at beginning of the fiscal year		9,606,136	16,593,343
Operating Reserves at the end of the fiscal year	7	8,216,701	9,606,136

FINANCIAL STATEMENTS, continued

Fiscal Years Ending June 30, 2005, and June 30, 2004

	Notes	Actual July 2004– June 2005	Restated Actual July 2003– June 2004
BALANCE SHEET			
Assets			
Bank Balances on hand	8	16,522,137	8,238,678
Bank Balances relating to Undisbursed Grants/ Initiatives and Communications Activities	8	25,660,778	25,211,550
Donor Contributions Receivable	9	3,507,802	2,044,058
Total Assets		45,690,717	35,494,286
Liabilities			
Bank Balances relating to Undisbursed Grants/ Initiatives and Communications Activities	10	25,660,778	25,211,550
Contributions Received in Advance	11	11,813,238	676,600
Total Liabilities		37,474,016	25,888,150
Operating Reserves	7	8,216,701	9,606,136
Total Liabilities and Net Assets		45,690,717	35,494,286
STATEMENT OF CASH FLOWS			
Inflows			
Donor Contributions received	11	21,735,299	12,339,525
Interest Income and Foreign Exchange Gains		777,663	209,535
Total Inflows		22,512,962	12,549,060
Outflows			
Cash spent against previous commitments		5,934,168	5,797,339
Grant Disbursements		4,982,925	4,768,607
Disbursements related to grants/initiatives		951,243	1,028,732
Cash spent against current year commitments		1,818,707	1,707,294
Grant Disbursements		351,604	623,362
Disbursements related to grants/initiatives		1,467,103	1,083,932
Operating expenses		6,027,400	5,324,845
Staff Salaries and Benefits		3,009,276	2,490,995
Office and Occupancy Costs		1,144,949	1,233,097
Service Providers		113,640	49,060
Travel		248,687	153,572
Communications, Pubs, Translations, and Web sites		1,274,388	1,092,909
CG and ExCom Meetings		153,906	142,688
Administration Fee		82,553	162,525
Net increase/(decrease) in undisbursed grants/ initiatives, publications, translations and websites		449,228	7,147,616
Total Outflows		14,229,503	19,977,094
NET INCREASE (DECREASE) IN CASH		8,283,459	(7,428,034)
Bank balances on hand at beginning of the fiscal year		8,238,678	15,666,712
Bank balances on hand at end of the fiscal year		16,522,137	8,238,678

CGAP COMMITMENTS

1995–2005

	Commitments
I. New Commitments—FY05	9,536,624
Policy Advisory Initiative	2,310,000
BCEAO Regional Regulation and Supervision	1,913,000
MENA Initiative	890,000
Financial Transparency Award II	745,000
WOCCU CU Supervision Toolkit	742,000
Savings Initiative	600,000
CLEARs	568,000
Financial Transparency Award	245,000
DIRECT	200,000
Liaison with External Actors	166,685
Asia Money Transfer Research	140,038
Research Support	92,866
Pilot CLEAR (Cambodia)	91,928
India Capacity Building	90,000
MF Franchise Project	90,000
MicroFinance Network	90,000
Competition and Efficiency in Microfinance	88,000
Staff Incentive Schemes	84,000
In-Depth Agency Support	72,560
South Asia Initiative	68,947
Southern Africa Transfer Study	67,000
Pan-European YOM Event	52,000
Local Currency/Cleary Project	20,000
India Initiative	16,600
Regional Strategy	10,000
Portfolio Reviews	8,000
Market Research	10,000
Policy-Related Research	35,000
Apexes and Role of Government	30,000
II. Ongoing Grants and Initiatives—1995–2005	
Microfinance MBA	2,687,500
CAPAF (Phase 2)	2,344,238
Microfinance Information Exchange (MIX)	2,000,000
Retail Advisory Service	2,000,000
Pro-Poor Innovation Challenge (Phase 1)	1,864,085
Africa Bank Holdings	1,500,000
MicroSave Africa III	1,500,000
Appraisals and Technical Assistance	1,496,318
Rating Fund, Phase 1	1,225,000
Nirdhan	1,100,000
Joint WOCCU/FFH Credit Union Downscaling (SCWE)	1,065,370
Pro-Poor Innovation Challenge (Phase 2)	1,000,000
Opportunity International	1,000,000

	Commitments
Friends of Womens World Banking	1,000,000
Deepening Client Outreach	963,141
Donor Staff Training UNDP-CDF	941,744
BRI International Visitors Program	925,000
Microfinance Framework for Afghanistan (MISFA) (Phase 2)	890,000
CIDR East Africa Initiative	836,000
Rating Fund, Phase 2	800,000
SEWA Insurance	775,000
Guidelines on Regulation and Supervision	711,097
Donor Mainstreaming	704,924
IS Fund	700,000
Central Asian Microfinance Center	594,400
External Audit Capacity Building	550,000
Microfinance Technology Program	550,000
China Capacity Building Initiative	440,000
Donor Peer Reviews	381,319
New Course Development	300,000
Donor Services - Europe Office	282,486
Social Indicators	240,000
CGAP Donor Training & Thematic Workshops	220,638
Agricultural Microfinance	199,900
Processor and Trader Credit	175,000
Boulder Scholarship for Donors	162,965
Capacity Building (Global)	150,000
DIRECT Products	127,000
Review of UNDP Portfolio	125,262
Regulation and Supervision Resource Center	105,000
Diagnostic for MENA Initiative	103,860
Product Costing Tool Testing	100,000
Client Poverty Levels (form. Poverty Assessment Tools)	100,000
Poverty Case Studies	100,000
Uganda Sector Study	92,252
Donor Good Practices Case Studies	78,903
Self-Help Groups (SHG) Study	78,604
Donor Help Desk	73,500
Pink Book	73,000
Transfer/Remittance Payment	68,401
Microinsurance Resource Center	65,000
MFI Social Performance	60,860
Microinsurance (Mali)	60,000
Grants and Microfinance Clients	55,000
Donor Relationship Management	53,000
New Training Partnerships	50,000
Donor Briefs	50,000
Client Survey in Peru	45,000
New Institutional Models, Case Studies	40,000
DIRECT Presentations	37,175
Interest Rates Cap Study	20,000
MFC Regulation and Supv Videoconference	15,600
Total	34,931,482

	Commitments
III. Closed Commitments	
CAPAF (Phase 1)	2,832,323
ACCION International Gateway Fund	2,500,000
Women's World Banking Facility for Affiliate Capitalization Phase 1	2,500,000
ACODEP	2,000,000
Compartamos	2,000,000
SHARE	2,000,000
Project Dungganon (NWTF)	1,600,000
MicroSave-Africa	1,400,000
FINCA International	1,260,000
CARD	1,200,000
Microfinance Framework for Afghanistan	1,000,000
MicroBanking Bulletin (Phase 1 and 2)	947,645
SEEP Network (Phase 1 and 2)	906,100
K-Rep Bank and Kwa Multipurpose Society	900,000
Guatemala Credit Union Rating Agency (WOCCU)	900,000
Pilot Capacity Building Initiative in Africa	844,424
Women's World Banking Facility for Affiliate Capitalization Phase 2	750,000
Microfinance Network (Phase 1, 2 and 3)	694,600
Pilot Capacity Building Initiative in Asia	693,318
Kashf	600,000
ACCION International (Phase 2)	500,000
ACEP	500,000
Developpement International Desjardins	500,000
Microfinance Centre	438,000
Business Planning and Financial Modeling	323,559
CASHPOR, Inc.	323,000
Audit Handbook	293,900
China Microfinance Forum and Policy Work	267,830
West Africa High Level Policy	256,300
Save the Children, Middle East Region	250,000
Ahantaman Rural Bank	225,000
Nsoatreman Rural Bank	225,000
Centenary Rural Bank	220,000
Zakoura	220,000
Poverty Assessment Tool with IFFRI	214,160
Product Manager	204,440
Vietnam Bank for the Poor	189,400
Microfinance Credit Line Review	183,101
Promujer	180,163
Developpement International Desjardins (Phase 2)	180,000
Apex Study	156,700
Information Technology Projects for Microfinance	149,571
Information Systems Consumer Report	123,933
World Development Report Impact Study	113,800
West Africa Study of PARMEC Law	112,200
Katalysis	98,700
Africa Regional Study	95,381
XAC	95,000
Virtual Microfinance Market	94,827

	Commitments
High Level Meeting	92,690
Tools Dissemination	84,600
Third Consultative Forum	77,970
Ennatién Moulthan Tchonnebat (EMT)	75,000
Peer Review Follow-Up	73,511
Course Development for Asia	72,780
SafeSave	70,600
Evaluation of African MFIs by ADA	70,000
Prizma	65,000
Microcredit Summit Meeting of Councils Scholarships	63,000
Factory Workers in India	56,053
PRIDE Africa Evaluation	56,000
Support for Industry Conferences in Phase 1	53,100
Global Donor Portfolio Database	52,954
NABWT	50,000
Grameen Koota	50,000
Spandana	50,000
Aga Khan Rural Support Foundation	50,000
Credit and Development Forum	50,000
Doveriye	50,000
Foundation for Development Cooperation	50,000
Freedom from Hunger	50,000
INDNET	50,000
Kafo Jiginew	50,000
PHILNET	50,000
Rural Finance Facility	50,000
Zambuko Trust	50,000
Banco do Nordeste do Brazil	49,020
Training of Trainers	46,135
Microfinance Revolution Publication	44,600
SEWA Insurance TA	41,868
Network Analysis	40,450
FECECAM	40,000
Linkages to Non-Financial Institutions (S. Africa)	36,170
Microfinance Video	35,000
Microfinance Ratings Paper	32,090
Microsave Africa Evaluation	30,500
Housing Microfinance	30,000
Capacity Building in Sri Lanka	25,950
Grameen Bank Securitization	25,700
DEVCAP	25,000
Field Presence Research	21,140
Mexico Microfinance Conference	20,000
Funding for the Poor Cooperative (Operations Manual)	19,235
FORD-IDS Impact Study	19,178
Poverty Assessment - West Africa	18,685
Government Savings Bank	17,920
Centre for Self-Help Development	13,000
Credit Scoring Paper	13,000
Impact Assessment Methodologies Virtual Meeting	10,000

	Commitments
Training Modules for DIRECT	8,640
Conference on Regulation and Supervision	7,100
Business Process Mapping	5,000
III. Total Closed Commitments	36,551,014
IV. Communications, Publications, Translations and Websites	
Microfinance Gateway	3,327,655
Communications and Publications	2,849,284
Translation Project	922,500
CGAP Website (incl. maintenance & management)	288,206
Associates Program with MFC	82,000
IV. Total Communications Activities	7,469,645

CGAP MEMBER DONOR CONTRIBUTIONS AND PLEDGES

Fiscal Years 2004–2006 (in US \$)¹

	FY2004	FY2005	FY2006
Core			
World Bank	6,325,000	5,525,000	5,125,000 ²
Australia	338,300	338,300	338,300
Argidius Foundation	100,000	100,000	<i>100,000</i>
Asian Dev. Bank			
Belgium	377,845	388,725	
Canada	369,058	369,058	<i>369,058</i>
Denmark	423,986	520,063	<i>520,063</i>
European Commission		<i>638,288</i>	<i>611,625</i>
European Commission		638,288	
European Investment Bank			242,040
Ford Foundation	200,000	200,000	<i>200,000</i>
Finland	293,328	344,578	<i>344,578</i>
France	179,790	198,795	<i>184,478</i>
Germany	284,150	331,250	<i>331,250</i>
Japan	300,000	300,000	
IFAD		300,000	
IFC		300,000	<i>300,000</i>
Italy	635,100	397,500	
Luxembourg	434,445	440,241	
Netherlands	200,000	400,000	<i>400,000</i>
Norway	476,190	465,239	476,190
Spain		<i>366,690</i>	<i>366,690</i>
Sweden	430,416	391,430	<i>391,430</i>
Switzerland	399,980	400,000	400,000
United Kingdom	400,000	474,938	474,938
United States			<i>300,000</i>
Core	12,167,588	13,828,383	11,475,640
Designated	825,000	1,787,063³	1,650,762⁴
TOTAL	12,992,588	15,615,446	13,126,402

¹ Contributions not yet received are italicized.

² Of the originally budgeted World Bank contribution for FY2006, \$500,000 is the new annual contribution and \$4,625,000 is taken out of the \$11 million interest income (see note 11 to Financial Statements).

³ EC, IFAD and Argidius Foundation

⁴ European Commission, IFAD and Sweden





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