



**CGAP ANNUAL REPORT**

**July 1998-June 1999 (FY1999)**

June 7, 1999

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
<b>BACKGROUND</b>	<b>7</b>
<b>GOAL AND OBJECTIVES</b>	<b>7</b>
<b>CGAP STRUCTURE</b>	<b>7</b>
<b>The CG and EXCOM</b>	<b>8</b>
<b>Policy Advisory Group</b>	<b>8</b>
<b>The Investment Committee</b>	<b>8</b>
<b>The CGAP Secretariat</b>	<b>9</b>
<b>CGAP ACTIVITIES FY1999</b>	<b>9</b>
<b>Strategic Theme One: Institutional development</b>	<b>10</b>
A. Tools Development and Dissemination	10
B. Regional Capacity Building Initiatives	11
C. New investments and monitoring on-going partnerships	12
<b>Strategic Theme Two: Support changes in member donor practices</b>	<b>16</b>
A. Training for member donor staff	16
B. Reporting on donor portfolio in micro-finance	17
C. Donor portfolio review	18
D. Selective country-level coordination	18
<b>Strategic Theme Three: Increasing understanding on depth of poverty outreach of micro-finance services</b>	<b>18</b>
A. Practical tool for measuring micro-finance client poverty levels	19
B. Multi-donor initiative on studying the poverty impact of micro-finance	19
D. Recruiting a poverty specialist	21
<b>Strategic Theme Four: Improve the legal and regulatory framework for micro-finance</b>	<b>21</b>
A. Funding an experimental supervisory model in Guatemala	22
B. Multi-donor initiative on West African legal environment	22
C. Guidelines on regulation and supervision in micro-finance	22
<b>Strategic Theme Five: Facilitate “commercialization” of the micro-finance industry</b>	<b>23</b>
A. Stocktaking of commercial actors	23
B. Building a basic infrastructure of information on microbanking	24
C. Selective ‘investments’ in commercial endeavors	24
<b>DONOR CONTRIBUTIONS TO CGAP</b>	<b>24</b>
<b>CGAP OPERATING BUDGET FY1999</b>	<b>26</b>
<b>FUTURE DIRECTIONS</b>	<b>26</b>
<b>ANNEX: CGAP INVESTMENTS DURING FY1999</b>	<b>28</b>

## **EXECUTIVE SUMMARY**

In June 1995 CGAP was established as a multi-donor initiative for an initial period of 3 years to nurture and spread the experiences of pioneer retail institutions and practitioner networks in micro-finance. After a review that underlined the program's innovative and catalytic performance in the initial phase, CGAP was renewed for an additional five years starting in July 1998. This second phase of CGAP, referred to as CGAP2, seeks to expand upon the achievements of the first phase.

CGAP's mission is to expand poor people's access to high quality financial services from sustainable or potentially sustainable micro-finance institutions (MFIs). During its second phase, the CGAP Secretariat was given a mandate to pursue five strategic themes in pursuit of this mission. As CGAP2 reaches the end of its first year, this report summarizes the activities and progress made under each of the strategic themes, and changes within CGAP over the course of this year.

## **CGAP STRUCTURE**

The basic structure of CGAP with its various components, the Consultative Group of member donors (CG), the Policy Advisory Group (PAG), the Investment Committee, and the Secretariat remain the same as in CGAP's first phase. The roles and responsibilities of these groups also remain the same. But there have been a number of new developments in CGAP2 such as the establishment of the Executive Committee (EXCOM), greater funding from other members of the CG relative to the World Bank, and staff turnover in the Secretariat and in the Investment Committee.

## **CGAP ACTIVITIES FY1999**

A key assumption underpinning CGAP's strategy is that the lack of retail institutional capacity is the single largest constraint to rapid expansion of micro-finance services. Thus improving and supporting micro-finance retail capacity has been at the center of Secretariat's activities in the implementation of its strategic themes.

### **Strategic Theme One: Institutional development**

All of the activities under this theme are directed towards supporting retail micro-finance institutions through funding or technical assistance, either directly or through network organizations and technical assistance providers.

Under CGAP's first phase, much of the Secretariat's work focused on this theme. The chief goal of this theme is to broaden the circle of the sustainable MFIs providing high quality services beyond the handful few that have been successful to date. In CGAP2, the Secretariat has built on the lessons from the experience under CGAP1 and continued with the activities begun in the first phase based on the high level of demand from practitioners and from other stakeholders in the industry for the Secretariat's work in this area.

During this year, the Secretariat's activities in support of this theme include (a) development and dissemination of industry tools for MFIs and MFI trainers, (b) development of local and regional training and technical assistance capacity to MFIs, and (c) undertaking new investments/funding and monitoring on-going investments.

## **Strategic Theme Two: Support changes in member donor practices**

Donors will continue to play a major role in supporting the micro-finance sector for the foreseeable future. The objective under this theme is, therefore, to improve the **quality** of donor programs in micro-finance. To do so, donors as group need to understand – what are donors doing in micro-finance? How effective are their efforts? And how to best increase the effectiveness of donor interventions in this sector?

To answer these questions, the Secretariat has been involved in four types of activities during this year, a) training for member donor staff, b) review of donor portfolio, c) reporting on donor portfolio in micro-finance, and d) selective country-level coordination.

## **Strategic Theme Three: Increasing understanding on depth of poverty outreach of micro-finance services**

The objective of this strategic theme under CGAP2 is to obtain a more systematic understanding poverty issues as they relate to micro-finance. In particular, a number of key questions such as—what is the specific nature of the tradeoff between depth of outreach and sustainability; who do MFIs reach; how poor are micro-finance clients; what is the impact of micro-finance on poor clients; and how can product design be improved to better serve poor clients—remain unanswered.

In CGAP2, the Secretariat has begun seeking answers to these questions by enhancing the body of knowledge on these topics in a complementary and selective basis. Over the course of FY1999, the Secretariat undertook: a) developing a practical tool for measuring the poverty level of clients, b) supporting a multi-donor initiative studying the poverty impact of micro-finance, c) supporting the activities of the CGAP Working Group on impact measurement; and d) recruiting a poverty specialist.

## **Strategic Theme Four: Improve the legal and regulatory framework for micro-finance**

There is an increasing view among government agencies, donors, and practitioners to establish regulatory frameworks for micro-finance institutions. While there are a number efforts in various countries to legislate micro-finance, most of the regulations are being drafted without adequate knowledge of micro-finance and with inadequate supervisory capacity. The results are ill-crafted laws unsuitable to micro-finance institutions that can harm rather than help the sector. The Secretariat's objective in CGAP2 is to develop suitable guidelines for the different players in the industry on issues such as: when to and when not to regulate? How do interest rate ceilings affect micro-finance operations? Are special windows effective or appropriate for regulating micro-finance? What is the role of self-regulation?

The Secretariat has involved itself in a few selective activities based on “targets of opportunity,” such as, a) funding an experimental supervisory model in Guatemala, b) initiating a study on the West Africa legal environment, and c) drafting guidelines on regulation and supervision in micro-finance.

## **Strategic Theme Five: Facilitate “commercialization” of the micro-finance industry**

The micro-finance industry, particularly in Latin America, is unmistakably moving towards increasing reliance on commercial sources of capital. This movement is taking place in several different forms. Some credit-only NGOs are transforming into full financial intermediaries (such as rural banks or specialized banks) to mobilize public savings while some rural banks and commercial are entering the micro-finance

market after perceiving returns that have piqued their interest. Still other institutions are using market-based instruments such looking into securitizing their loan portfolios as a way to tap commercial capital.

The Secretariat deliberately delayed launching activities under this strategy until it gained better understanding of the players and issues surrounding this theme. For example, donors such as USAID and the Inter-American Development Bank are already spearheading a fair amount of work in this area.

In FY1999, the Secretariat produced two Focus notes under the commercialization theme. Over the course of the next year, the Secretariat will undertake activities in the following broad areas as opportunities arise: a) stocktaking of commercial actors, b) building a basic infrastructure of information on micro-banking, and c) selective investments in commercial endeavors.

The CGAP Secretariat has managed a small grant facility (also known as the investment fund) to support its activities such each of the strategic themes. The following table summarizes commitments from the CGAP investment fund through FY1999. A description of the commitments made during FY1999 is in the Annex.

**CGAP INVESTMENT FUND COMMITMENTS AS OF FY1999, BY THEME, IN U.S. DOLLARS**

<b>Type of activity</b>	<b>Sub-total</b>	<b>Amount</b>
<b>Institutional Development</b>		<b>28,901,900</b>
Funding retail institutions	19,823,425	
Capacity Building	6,345,750	
Support to Networks	1,856,725	
Product Development	531,000	
Best Practice Dissemination	340,000	
<b>Donor Practices</b>		<b>1,028,900</b>
<b>Understanding Poverty Outreach</b>		<b>341,500</b>
<b>Legal and Regulatory Framework</b>		<b>2,397,647</b>
<b>Commercialization</b>		<b>1,097,500</b>
<b>Total</b>		<b>33,767,447</b>

70 percent of the funds committed to the institutional development theme have been channeled directly to retail institutions that have used the funds to generate expand their loan portfolio and outreach to micro-finance clientele. CGAP's major partner institutions Compartamos (Mexico), ACODEP (Nicaragua), ACEP (Senegal), K-Rep (Kenya), SHARE (India), CARD (Philippines), Project Dunganon (Philippines) Save the Children (Jordan, West Bank, and Gaza), Ahantaman and Nsoatreman Rural Banks (Ghana) primarily or exclusively serve very poor women clients.

CGAP is funding roughly 25-30 MFIs either directly or through network organizations such as ACCION, DID, FINCA, and WWB. As a group, these retail institutions are projected to reach to roughly 1 million micro-finance clients by the end of 1999.

An additional 21 percent of the funds committed to institutional development have been provided to local or regional practitioner networks/wholesalers to support micro-finance institutions.

## **FUTURE DIRECTIONS**

CGAP will continue to pursue the strategy developed and endorsed by the CG and the PAG through the life of its second phase due to end in FY2002. During this period, it is expected that CGAP will continue to be supported by the World Bank through the Development Grant Facility and other members of the CG. The projected funding required for this period will be roughly US\$10 million a year for the investment fund and between US\$2.7-US\$3.4 million a year for the Secretariat's operating budget.

## **BACKGROUND**

CGAP was established in June 1995, as a multi-donor initiative, for an initial period of 3 years to nurture and spread the experiences of pioneer retail institutions and practitioner networks in micro-finance. In its first phase, CGAP's objectives were to disseminate lessons learned by practitioners, foster and mainstream micro-finance into donor policies and operations, particularly in the World Bank, contribute to supportive policies for micro-finance institutions (MFIs), and invest in eligible MFIs.

After a review that underlined the program's innovative and catalytic performance in the initial phase, CGAP was renewed for an additional five years starting in July 1998. This second phase of CGAP, referred to as CGAP2, seeks to expand upon the achievements of the first phase.

At the end of CGAP's first phase, the Secretariat, the Policy Advisory Group (PAG), and the Consultative Group of Member Donors (CG) represented by the Executive Committee (EXCOM) developed and endorsed a strategy for CGAP2, based on CGAP's comparative advantage for supporting micro-finance.

## **GOAL AND OBJECTIVES**

CGAP's mission is to expand poor people's access to high quality financial services from sustainable or potentially sustainable micro-finance institutions (MFIs). During its second phase, the CGAP Secretariat was given a mandate to pursue five strategic themes in pursuit of this mission. The five themes, listed in order of priority are:

- 1) Support institutional development in the micro-finance sector.
- 2) Support changes in CG Member Donor practices to further improve the quality of their micro-finance operations.
- 3) Increase understanding on poverty outreach of MFIs.
- 4) Improve the legal and regulatory framework for MFIs.
- 5) Facilitate 'commercialization' of the industry.

As CGAP2 reaches the end of its first year, this report summarizes the activities and progress made under each of the strategic themes, and changes within CGAP over the course of this year.

## **CGAP STRUCTURE**

The basic structure of CGAP with its various components, the Consultative Group of member donors (CG), the Policy Advisory Group (PAG), the Investment Committee, and the Secretariat remain the same in CGAP's first phase. The roles and responsibilities of these group also remain the same. However, there have been several new developments in CGAP2 such as the establishment of the EXCOM, greater funding from other members of the CG relative to the World Bank, and staff turnover in the Secretariat and in the Investment Committee.

## The CG and EXCOM

The CG—CGAP's board of directors—stands at 26 member donors. Ismail Serageldin, Vice President Special Programs, World Bank, continues as Chair of the CG that helps set the strategic direction and makes policy decisions for CGAP.

A six-member EXCOM, a sub-set of the CG, was established this year to strengthen CGAP's governance and improve communication between the CG, the PAG, the Investment Committee, and the Secretariat.

David Wright (DFID-U.K.) chaired the EXCOM during its first year and convened an interim meeting between the EXCOM, PAG, and the Secretariat in January 1999 in Brussels. Under his leadership and efforts, the Committee has played a very active role in preparing and endorsing the strategy for CGAP2, advising the CG Chair on rotation/selection of PAG members, developing the agenda for the CGAP annual meetings in Abidjan in June 1999, and conducting the member donor portfolio data exercise.

## Policy Advisory Group

Kimanthi Mutua has served as Chair of the PAG over the course of this year and will retain this position for the coming year. He called for a special meeting of the PAG members in January 1999 to discuss CGAP's experience in phase I. The meeting also helped PAG members to become better acquainted with the newest PAG members, review the experience of CGAP1, discuss key roles for the PAG in CGAP2, and provide input for the agenda of the Consultative Group meeting in June 1999.

Four PAG members, Renée Chao-Beroff, Maria Nowak, Maria Otero, and Muhammad Yunus will rotate off the PAG in June 1999. They will be replaced by four new members PAG members who were nominated on their experience in micro-finance and their ability to draw out and articulate the needs of the micro-finance industry. Box 1 presents members of the newly-constituted PAG for FY2000.

Box 1	Policy Advisory Group Members for FY2000
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Kimanthi Mutua	<i>Kenya Rural Enterprise Program, Kenya</i>
Fazle Hassan Abed*	<i>Bangladesh Rural Advancement Committee, Bangladesh</i>
Rosalind Copisarow*	<i>Fundusz Mikro, Poland</i>
Vijaya Lakshmi Das	<i>Friends of Women's World Banking, India</i>
Nabil El Shami	<i>Alexandria Business Association, Egypt</i>
Sukor Kasim	<i>CASHPOR, Malaysia</i>
Alpha Oedrago	<i>Reseau de Caisses Populaires, Burkina Faso</i>
Pilar Ramirez	<i>Centro de Fomento a Iniciativas Economicas, Bolivia</i>
Alex Silva*	<i>Profund Internacional, Latin America</i>
John de Wit*	<i>Small Enterprise Foundation, South Africa</i>
Kerfalla Yansane	<i>Banque Centrale de la République de Guinée, Guinea</i>

\*new members

## The Investment Committee

The Investment Committee continues to review, evaluate, and approve the Secretariat's recommendations for grants from the CGAP investment fund. Notably, the investment fund (also known as program funds)

now supports activities under all of the strategic themes. A breakdown of commitments by theme will be given at the end of at the end of the discussion on each of the strategic themes. A summary table of total commitments from the investment funds is provided in the Executive Summary.

Magdi Iskander, Director of the Private Sector Development Department of the World Bank is the new Chair of the Investment Committee. Mr. Iskander takes over this role from Jean-François Rischard who left Washington DC to fulfill his new assignment as Vice President for Europe. Members of the Investment Committee are listed in box 2. In CGAP2, a member of the EXCOM has participated in Investment Committee meetings as a representative of the CG.

Box 2	<b>Members of the CGAP Investment Committee</b>
Magdi Iskander	<i>Director, Private Sector Development</i>
Claudia Morgenstern	<i>Director, Financial Markets Advisory (IFC)</i>
Khalid Siraj	<i>Adviser, Financial Sector Development</i>
Michael Walton	<i>Director, Poverty Division</i>
Douglas A. Webb	<i>Legal Adviser, Legal Reform and Private Sector Development</i>

### **The CGAP Secretariat**

FY1999 has been a year of transition at the CGAP Secretariat.

CGAP Manager, Mohini Malhotra, left the Secretariat for personal reasons in January 1999. Her departure was the most significant change in the Secretariat's staffing. She, together with Ira Lieberman, CGAP's CEO, played a fundamental role in directing CGAP's activities to fulfill its mandate and establishing the Secretariat as a core group of micro-finance professionals.

The Secretariat has recruited Elizabeth Littlefield to take over as Manager of the Secretariat. Ms. Littlefield is currently a Managing Director at JP Morgan Securities for Emerging Markets. She will join the Secretariat by mid-August. Ira Lieberman has indicated that he will be leaving CGAP in the course of FY2000 when Elizabeth Littlefield assumes her management responsibility.

The Secretariat has also experienced additional staff turnover in the course of FY1999, and moved to offset these departures and strengthen the Secretariat by recruiting several new staff members. They are Robert Christen (Adviser), Xavier Reille (Micro-finance Specialist), Patricia Mwangi (Research Analyst), Tamara Bullock (Research Assistant), Tiphaine Crenn (Program Assistant), Sandra Dee Chapman (Budget Assistant), and Evelyne Fraigneau (Manager's Assistant). The Secretariat is also in the process of recruiting a Poverty Specialist to spearhead the work under the poverty theme (see discussion below).

### **CGAP ACTIVITIES FY1999**

A key assumption underpinning CGAP's strategy is that the lack of retail institutional capacity is the single largest constraint to rapid expansion of micro-finance services. Thus improving and supporting micro-finance retail capacity has been at the center of Secretariat's activities in the implementation of its strategic themes.

## Strategic Theme One: Institutional development

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During this year, the Secretariat's activities in support of this theme include (a) development and dissemination of industry tools for MFIs and MFI trainers, (b) development of local and regional training and technical assistance capacity to MFIs, and (c) undertaking new investments/funding and monitoring on-going investments.

### A. Tools Development and Dissemination

In Phase I, the Secretariat began developing a series of operationally-oriented tools for micro-finance practitioners in response to industry demand. During the first year of CGAP2, the Secretariat made a conscious choice to focus its efforts and energy on the completing the development of tools that had been begun in Phase I and produced an additional tool on delinquency measurement for MFIs. (See table 1)

TABLE 1: INDUSTRY PRODUCTS FOR THIS YEAR\*

Tools	Release Date
✓ Handbook for Management Information Systems for Micro-finance Institutions	Feb. 1998
✓ Cost Allocation for MFIs: CGAP Occasional Paper	June 1998
✓ Business Planning and Financial Modeling for Micro-finance Institutions: A Handbook	Dec. 1998
✓ External Audits for Micro-finance Institutions: A Handbook	Feb. 1999
✓ Delinquency Measurement: CGAP Occasional Paper	May 1999
✓ Appraisal Format for Micro-finance Institutions	Jun. 1999

\* A description of these tools is available in the CGAP Status Report, June 1998

In addition to releasing the tools, the Secretariat developed a dissemination strategy to ensure maximum access and use to the tools by end users. This strategy consisted of the following approaches:

- i. distribution through PACT Publication, an integrated publishing house that designs, produces, and distributes world-wide educational materials and training tools in the field of international development;
- ii. translation of all of the tools in French and Spanish to increase access for non-English speakers;
- iii. posting summary description of the tools on the CGAP Website; and
- iv. direct mailing from the Secretariat to CGAP member donors.

Facilitating the use of the CGAP Business Planning and Financial Modeling Handbook within the micro-finance community at large posed some special challenges because of the highly technical content and technological demands of this tool. To overcome these challenges, the Secretariat

- i. developed a course for practitioners on how to use the CGAP's Business Planning and Financial Modeling Handbook (see capacity building for details)
- ii. set up a website ([www.microfin.com](http://www.microfin.com)) to provide technical assistance to users of CGAP's Business Planning and Financial Modeling Handbook, including the Microfin projection model. This site includes a "listserve" (or an email discussion group) that allows the user to send and receive emails among the worldwide community of microfin users.

Over the next year, the Secretariat will be working on a roll-out strategy for the Audit Handbook and evaluate the Business Plan dissemination strategy.

### *B. Regional Capacity Building Initiatives*

While MFIs have a very clear idea of their target market, how to identify and reach them, most exhibit serious weaknesses in the area of financial management. During the first phase, the Secretariat identified a gap between demand for services in financial management on the part of MFIs on the one hand and the capacity and experience of potential service providers on the other. To bridge this gap, the Secretariat launched a Pilot Africa Capacity Building Initiative in April 1997 to introduce a series of three short, highly focused, financial management courses for MFI managers.

Since its launch, the Pilot Initiative has developed four courses and a training of trainers module, delivered 21 courses in 11 countries in three languages with more than 550 participants from approximately 300 MFIs. The countries of operation were: Benin, Burkina Faso, Cameroon, Ghana, Kenya, Madagascar, Mali, Mozambique, Tanzania, Togo and Zimbabwe.

The courses developed under this initiative are:

1. Delinquency Measurement and Management and Interest Rate Calculation and Setting
2. Financial Statements and Analysis
3. Accounting for Micro-finance Institutions
4. Business Planning and Financial Projections
5. Training of Trainers: Adult Education for Financial Management Courses.

Under CGAP2, the Secretariat extended its capacity building efforts to new regions, developed new courses, and institutionalized the pilot initiative in Africa.

*New regions.* Starting in July 1998, the Secretariat identified local partners to service markets in Central and Eastern Europe and the Newly Independent States (Microfinance Centre in Poland), South Asia (EDA Rural Systems in India), and East Asia (Asian Institution of Management and Punla Sa Tao Foundation in the Philippines). As in the case of the Africa Pilot, the objective is to expose practitioners in these regions to best practice materials and knowledge in financial management and help strengthen their skills and improve the performance of their institutions. Moreover, these initiatives also seek to enhance the ability of local service providers to deliver high quality, low cost financial management training locally.

The Secretariat has also joined efforts with the Micro-Finance Training Program at the Economics Institute in Boulder, Colorado to provide these courses for practitioners on a global basis. The demand for these courses at Boulder has been very high and this partnership will continue with new courses under development.

*New courses.* During this year, the Secretariat introduced a course on Business Planning and Financial modeling, to help practitioners undertake key aspects of business planning, including strategic planning, operational planning, and financial planning. The course is built around the CGAP Business Planning and Financial Modeling Handbook. It was field-tested in February 1999 in Ghana with two of CGAP's partners and will be implemented by our regional partners.

In addition to this course, the Secretariat also developed a course for trainers on designing courses in financial management using adult education techniques.

*Institutionalization.* In FY1999, the Secretariat launched a new African Capacity-building program called AFCAP, in collaboration with DFID-UK. AFCAP's goal is to build long-term capacity in the micro-finance sector through the development of local expertise and to reduce reliance on external support.

AFCAP has established a program co-ordination office in Nairobi that consists of a small team of highly skilled professionals who will identify and assist local experts in 11 African countries (Botswana, Kenya, Lesotho, Malawi, Mozambique, South Africa, Tanzania, Swaziland, Uganda, Zambia, and Zimbabwe) to offer training and technical assistance.

The Secretariat is currently designing a Capacity-building program for Francophone Africa called FR-AFCAP) to build upon the work that began under the Pilot capacity building Initiative in Africa. (See CGAP Status report for information on Pilot initiative). FR-AFCAP will be co-financed by France and cover 10 countries: Benin, Burkina Faso, Cameroon, Guinea, Madagascar, Mali, Morocco, Niger, Senegal, and Togo.

*Focus note.* The Secretariat also produced a Focus note on the lessons of the Pilot Capacity Building Initiative in Africa. The note describes the initiative, lessons of experience, and presents recommendations for donors implementing capacity-building programs.

### *C. New investments and monitoring on-going partnerships*

The chief objective of the CGAP investment fund is to seek out and support MFIs that hold the promise to be financially sustainable while providing high-quality financial services to the poor. Direct funding to MFIs has also proved to be an important mechanism for the Secretariat to build its own knowledge and understanding of emerging issues in micro-finance. For example, the Secretariat's exposure to challenges faced by practitioners through institutional appraisals and partner monitoring helped generate the tools and capacity building initiatives.

*Investment Review.* During F1999, the Secretariat sought to update the Investment Committee on the progress of the investments made under CGAP's first phase and identify lessons for donor funding in micro-finance at large. In November 1998, the Secretariat completed a review of its then current pipeline and distributed the report to the Investment Committee, the CG, and the PAG. Broad lessons generated from the investment review are summarized in Box 3.

### **Box 3: Summary conclusions from the Investment Review**

- **The importance of the human dimension:** The professional caliber and competence of the staff in MFIs stood out as the single contributing to the success of individual investments, irrespective of the type of institution (retailer or network) and purpose of the grant (on-lending or training).
- **Role of the Partnership Agreements:** Targets in partnership agreements had to be aligned to the goal of the grant and/or the capacity of the partner, as well as be meaningful and conservative to reinforce accountability and enable judgement on whether or not the grant achieved its purpose.
- **Flexibility of funding:** The Secretariat's ability to adjust disbursement schedules and implementation arrangements during the course of the partnership improved the performance of the investments.
- **Timeliness of funding:** For the partnership agreement to be relevant, the timeframe between appraisal and disbursement should be relatively tight (four to six months). In case of a significant time lapse between the agreement on performance targets and disbursement, or a major catastrophic event, the review recommended renegotiating the agreement or in an extreme case re-appraising the MFI.
- **Importance of monitoring:** The Secretariat had not always sufficiently monitored its investments, and did not always have current and accurate information about partner performance. This shortcoming is particularly true for smaller investments. The review recommended that future partnerships should foresee and build in monitoring visits as continuation of the Secretariat's due diligence work.
- **Time = Quality:** High quality investments, particularly with regard to capacity-building activities, require intensive Secretariat technical input and review. In many cases, the smaller dollar investments required greater Secretariat staff resources. The Secretariat should better anticipate demands on its staff time for each investment.
- **Secretariat location and size:** The Secretariat's small size and remote location from the field gives it a comparative advantage in addressing industry-wide needs such as the development of technical tools for donors and practitioners. On the other hand, the Secretariat cannot effectively engage in many small investments that require extensive on-the-ground presence like working with start-ups or MFIs requiring significant technical assistance. Therefore the guidelines set by the Policy Advisory Group (PAG) for the CGAP investment fund – to work with MFIs with a proven record that show a potential for massive outreach and financial sustainability – should be maintained for CGAP2.
- **Working with networks:** Factors contributing to the success of partnerships with networks include: high quality leadership and technical competence; a strong relationship between a network organization and its members; a focused, member-driven agenda of activities; and evidence of the value of services to network members (cost recovery). The Secretariat should not support networks that do not meet these criteria.
- **Capacity building:** The lack of competent local trainers and technical assistance providers is the biggest bottleneck to the development of local markets for capacity-building. Local service providers who are dedicated to building a viable business and understand the MFI market are the best partners for the Secretariat to build the supply-side capacity. But for service providers to be sustainable they must recover their costs. The prospects of cost recovery seem promising but face challenges in an environment still highly distorted by donor subsidies.
- **Changing attitudes:** Whether at the institutional or policy level, changing the orientation of key decision makers requires first and foremost their willingness, ability, and authority to change. Also, change must be led by a locally based individual or organization that can provide ongoing support. The Secretariat is not well placed to take the lead on these kinds of initiatives.
- **Larger deals, fewer deals and exit strategy:** Given the above points, the review concluded that the Secretariat is best positioned to enter into a few significant funding deals that serve as demonstrations for the industry as a whole and leverage other resources. The Secretariat should concentrate on a limited number of funding initiatives as opportunities arise rather than stretching its limited resources over many small deals. Further, the Secretariat should work towards devolving its direct involvement to the private sector or CGAP member donors whenever appropriate.

*Institutional investments.* In CGAP2, the objective of building a second generation of sustainable MFIs remains a key rationale for the Secretariat to invest directly in promising institutions. In FY1999, however, because of the uncertainty over DGF funding and the delay in receiving these funds (January 1999), the Secretariat deliberately slowed down funding commitments. As a result, there has been a smaller commitments for institutional funding in this year. A list of commitments from the investment fund in support of the activities under institutional development through FY1999 is provided in Table 2. New investments made during FY1999 are highlighted in bold and described in the Annex.

TABLE 2: CGAP COMMITMENTS UNDER INSTITUTIONAL DEVELOPMENT (U.S. DOLLARS)

Type of investment	Region	Amount	Sub-total	Percent
<b>RETAIL INSTITUTIONAL INVESTMENTS</b>				
Compartamos	Mexico	2,000,000		
ACODEP	Nicaragua	2,000,000		
SHARE	India	2,000,000		
Project Dunganon	The Philippines	1,600,000		
CARD	The Philippines	1,200,000		
<b>K-Rep (200,000 additional)</b>	<b>Kenya</b>	<b>900,000</b>		
ACEP	Senegal	500,000		
Ahantaman and Nsoatreman Rural Banks	Ghana	450,000		
Vietnam Bank for the Poor	Vietnam	450,000		
Save the Children, Middle East Region	Jordan, W. Bank, Lebanon	250,000		
Centenary Rural Bank	Uganda	220,000		
Aga Khan Rural Support Foundation	Pakistan	154,925		
Nirdhan	Nepal	100,000		
<b>FECECAM</b>	<b>Benin</b>	<b>96,000</b>		
Rural Finance Facility	South Africa	50,000		
Doveriye	Russia	50,000		
Banco do Nordeste do Brazil	Brazil	50,000		
Zambuko Trust	Zimbabwe	50,000		
Kafo Jiginew	Mali	50,000		
Centre for Self-Help Development	Nepal	17,500		
<b>WHOLESALE LEVEL INVESTMENTS</b>				
ACCION International Gateway Fund	Peru, Bolivia, Colombia	2,500,000		
Women's World Banking Facility for Affiliate Capitalization	Global	2,500,000		
Développement International Desjardins	Madagascar, Mali, Senegal	1,375,000		
FINCA International	Africa, Latin America	1,260,000		
			19,823,425	70%
<b>CAPACITY BUILDING</b>				
<b>CGAP-France AFCAP*</b>	<b>West Africa</b>	<b>2,400,000</b>		
CGAP-DFID AFCAP	East Africa	1,375,000		
<b>CGAP-USAID BRI Intl. Visitors' Prog.*</b>	<b>Global</b>	<b>1,200,000</b>		
Pilot Capacity building initiative in Africa	Africa	747,000		
Pilot Capacity building initiative in Asia	Asia	600,000		
Capacity building Sri Lanka	Asia	28,750		
			6,350,750	21%

Type of investment	Region	Amount	Sub-total	Percent
<b>SUPPORT TO NETWORKS</b>				
MicroFinance Network (Phase I and II)	Global	400,000		
MicroFinance Centre	Poland	378,000		
SEEP Network	Global	326,125		
CASHPOR, Inc.	Asia and Pacific	323,000		
Katalysis	Latin America	98,600		
PRIDE Africa	East Africa	56,000		
INDNET	India	50,000		
Credit and Development Forum	Bangladesh	50,000		
Foundation for Development Cooperation	Asia	50,000		
Freedom from Hunger	West Africa	50,000		
PHILNET	The Philippines	50,000		
DEVCAP	Global	25,000		
			1,856,725	6%
<b>PRODUCT DEVELOPMENT</b>				
MIS Handbook and Audit Standards		300,000		
Business Planning and Financial Modeling		133,000		
Tools Dissemination		98,000		
			531,000	2%
<b>BEST PRACTICE DISSEMINATION</b>				
Consultative Group Forum III	Global	119,000		
Microcredit Summit and Meeting of Councils	Global	66,000		
Scholarships				
Media for International Development	Global	50,000		
<b>Short book on Micro-Finance Revolution</b>	<b>Global</b>	<b>50,000</b>		
<b>Consultative Group Forum VI</b>	<b>Global</b>	<b>35,000</b>		
Village Banking Workshop and Study Tour	Tunisia	15,000		
INAISE Conference	Global	5,000		
			340,000	1%
<b>Total for Institutional Development</b>			<b>28,901,900</b>	

\*Projected investment not yet approved by Investment Committee

70 percent of the funds committed to institutional development have been channeled directly to retail institutions that have used the funds to generate expand their loan portfolio and outreach to micro-finance clientele. CGAP's major partner institutions Compartamos (Mexico), ACODEP (Nicaragua), ACEP (Senegal), K-Rep (Kenya), SHARE (India), CARD (Philippines), Project Dugganon (Philippines) Save the Children (Jordan, West Bank, and Gaza), Ahantaman and Nsoatreman Rural Banks (Ghana) primarily or exclusively serve very poor women clients.

CGAP is funding roughly 25-30 MFIs either directly or through network organizations such as ACCION, DID, FINCA, and WWB. As a group, these retail institutions are projected to reach to roughly 1 million micro-finance clients by the end of 1999.

An additional 21 percent of the funds committed to institutional development have been provided to local or regional practitioner networks/wholesalers to support micro-finance institutions.

*Investment pipeline.* Over the next year, the Secretariat will undertake a more proactive strategy to re-build its investment pipeline. The Secretariat is in the process of carrying out due diligence exercises for potential investments during FY2000 that includes the following:

- Calmeadow Africap, Africa
- PRIDE, Guinea
- Opportunity International Fund, Eastern and Central Europe
- Capacity Building, China
- Agricultural Bank of China, Haidong branch
- Zakoura Foundation, Morocco
- ACME, Haiti
- Government Savings Bank, Thailand

The Secretariat will also filter a new round of applications in October 1999.

### **Strategic Theme Two: Support changes in member donor practices**

Donors will continue to play a major role in supporting the micro-finance sector for the foreseeable future. The objective under this theme is, therefore, to improve the **quality** of donor programs in micro-finance. To do so, donors as group need to understand – what are donors doing in micro-finance? How effective are their efforts? And how to best increase the effectiveness of donor interventions in this sector?

To answer these questions, the Secretariat has been involved in four types of activities during this year, a) training for member donor staff, b) review of donor portfolio, c) reporting on donor portfolio in micro-finance, and d) selective country-level coordination.

#### *A. Training for member donor staff*

Upgrading the knowledge and skills of donor staff involved in micro-finance is an effective way to raise the quality of support to micro-finance institutions on the ground. Training courses for member donor staff has been the most sought after service from the Secretariat over the last year. The Secretariat has delivered training to six CG member agencies during this period. They are Canada, The Netherlands, Norway, Germany, Sweden, and the World Bank. Moreover, the Secretariat delivered 1-2 week courses at the Micro-finance Training Program at Boulder targeted to donor agency staff, and presented at a seminar conducted by the University of Frankfurt, where a number of the participants were staff of CG donor agencies.

From its various training seminars, the Secretariat has developed two course modules for donor training using adult teaching techniques:

- a one-day course on basic concepts of micro-finance; and
- a three-day course on the use of the Appraisal Format.

In addition to the above, the Secretariat extended 15 tuition scholarships (in exchange for the Secretariat's teaching time) to CG members for the Micro-finance Training Program at the Economics Institute in Boulder for July-August session of 1999.

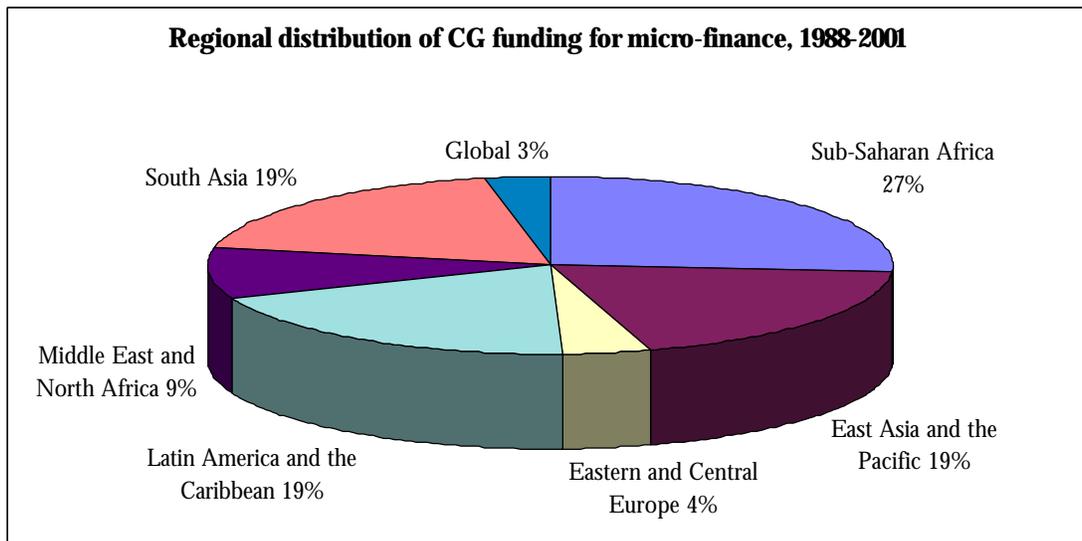
The Secretariat is exploring a collaborative staff training program with UNDP to follow up on the lessons generated from the UNCDF portfolio review. This training will probably include the development of course materials and a CD-based distance learning course that may be of use to other donors in training their staff.

*B. Reporting on donor portfolio in micro-finance*

At the last annual meeting, the CG agreed to participate in a periodic data collection exercise, coordinated by the Secretariat, on donor resource allocation to micro-finance. To date, 18 of the 26 CG members have submitted information about their portfolios.

The following paragraphs present a broad view of the data submitted by the CG. It should be noted, however, that the data has not been screened, and in some cases may include projects dedicated to micro-enterprise development, business development services, and rural and/or agricultural finance. Moreover, large projects are sometimes attributed entirely to micro-finance, whereas in reality only a small component of the entire project is devoted to it. In short, the results discussed below are preliminary and provide a only a notional idea of CG member activity in the micro-finance sector.

Between 1990-2000, CG members report roughly 650 projects with micro-finance components totaling about US\$2.6 billion. The figure below provides a regional breakdown of these funds. The largest flows are to Sub-Saharan Africa, 27 percent of the amount of the funds (US\$661 million) are invested in roughly 250 projects.



Latin America and the Caribbean, East Asia and the Pacific, and South Asia each attract about 19 percent of the total funding. In countries such as China, India, Laos, Vietnam, and to some extent in the Philippines, a significant amount of funds are passed through apex institutions or wholesalers such as project management units, agricultural development banks, and other public entities. Implementing

partners in Latin America, on the other hand, tend to be more private sector-oriented such as NGOs, credit unions, specialized micro-finance banks, and commercial banks.

The micro-finance portfolio in Eastern and Central Europe started developing from 1995 onwards and reached about US\$110 million in a few short years. In Middle East and North Africa, most of the projects are typically employment generation or small and micro-enterprise promotion schemes. The category “global” includes CG contributions to CGAP, studies, and support through large network organizations.

The Secretariat plans to put in an effort with individual donors ‘cleaning’ the database to draw more meaningful information. If this exercise is successful, the Secretariat will produce a short paper on CG funding in micro-finance funding by September 1999.

*C . Donor portfolio review*

Interestingly enough, there were no requests for further portfolio reviews by the Secretariat. However, agencies such as NORAD, the Asian Development Bank, and France are conducting their own portfolio reviews

*D. Selective country-level coordination*

The Secretariat appraised Proshika, a Bangladeshi NGO, on behalf of a consortium of donors that fund Proshika. The exercise was useful in illustrating the divergence between best practice guidelines endorsed by the CG and actual operations on the ground. The Secretariat also conducted a due diligence exercise jointly with USAID on funding the BRI International Visitors Program. This exercise resulted in a joint-funding agreement for BRI that the Secretariat will implement and monitor.

A list of commitments from the investment fund in support of the activities under this strategic theme through FY1999 is provided in the table below. New investments made during FY1999 are highlighted in bold and described in the Annex.

TABLE 3: CGAP COMMITMENTS FOR DONOR PRACTICES (U.S. DOLLARS)

Type of activity	Amount
<b>Staff training UNDP-CDF*</b>	<b>800,000</b>
Apex study	180,200
Donor training	48,700
<b>Total for Donor Practices</b>	<b>1,028,900</b>

\*Projected investment not yet approved by Investment Committee

**Strategic Theme Three: Increasing understanding on depth of poverty outreach of micro-finance services**

During CGAP I, the Secretariat focused on financial management issues based on a perception that these issues presented the most significant gap among practitioners. In response to concerns raised by the PAG and Member Donors, it was recognized that the Secretariat needed to dedicate more time and resources to understanding the poverty alleviation dimension of micro-finance.

The objective of this strategic theme under CGAP2 is to obtain a more systematic understanding poverty issues as they relate to micro-finance. In particular, a number of key questions remain unanswered in the industry. These include, among others:

- What is the specific nature of the tradeoff between depth of outreach and sustainability?
- Who do MFIs reach? How poor are micro-finance clients?
- What is the impact of micro-finance on poor clients?
- How can product design be improved to better serve poor clients?
- What is the implication of mixing financial and non-financial services for poverty impact? For MFI sustainability?

In CGAP2, the Secretariat has begun seeking answers to these questions by enhancing the body of knowledge on these topics on a complementary and selective basis. Over the course FY99, the Secretariat undertook four activities under this theme: a) developing a practical tool for measuring the poverty level of clients, b) supporting a multi-donor initiative on studying the poverty impact of micro-finance, c) supporting the activities of the CGAP Working Group on Impact measurement; and d) recruiting a poverty specialist.

#### *A. Practical tool for measuring micro-finance client poverty levels*

The Secretariat has contracted the International Food Policy Research Institute (IFPRI) to design and test an operational tool for assessing the poverty levels of MFI clients and then, based on this research, to develop an operational manual for use by donors, other investors, and MFI managers. IFPRI will study four of CGAP's partners SHARE in India, OTIV (an affiliate of DID) in Madagascar, an East African MFI (to be finalized), and ACODEP in Nicaragua to conduct their field test. These institutions were selected because they represent a wide range of methodologies, legal structures, systems, geographical conditions and poverty targeting approaches, that should yield very interesting results.

The Secretariat has invited a group of four practitioners and experts to form an Advisory Committee for this study. These individuals include: Monique Cohen, USAID; John deWit, Small Enterprise Foundation; Eduardo Bazoberry, PRODEM; and Alex Counts, Grameen Foundation. The first meeting of this group took place on May 24, 1999, with the purpose of reviewing and advising the IFPRI team on a set of proposed poverty indicators and a draft manual. At this meeting, the Committee developed clear criteria for judging the effectiveness of proposed tool. It also gave Committee members an opportunity to become familiar with the objectives of the research and begin working together as a team. The Advisory Committee will continue to provide assistance to the Secretariat and other poverty-related initiatives as they develop.

The four studies are expected to be completed by year-end 1999 and a draft manual of the tool will be presented at the June 2000 CG meetings.

#### *B. Multi-donor initiative on studying the poverty impact of micro-finance*

In collaboration with USAID and DFID, the Secretariat funded two of four poverty impact assessment studies on micro-finance and its relationship with asset-building and reducing vulnerability among micro-finance clientele. The results of these studies will serve as inputs to the World Bank's World Development Report for 2000-2001 on Poverty and Vulnerability.

The fieldwork related to the studies was completed in early 1999. The institutions studied were: Uganda Women's Finance Trust, Bancosol, PRODEM, Sartawi, Promujer, all in Bolivia, CARD in the Philippines, and BRAC in Bangladesh. The initial findings of the field work are highlighted in Box 4.

Box 4

**Role of micro-finance in building assets and reducing household vulnerability:  
some highlights**

- The impact of micro-finance on poverty reduction as measured by increased income (and consumption) is inconclusive. This kind of impact is evident mainly for slightly wealthier clients and/or long-term micro-finance clients.
- On the other hand, the case studies are fairly conclusive that micro-finance services can reduce vulnerability by enabling households to accumulate assets. This effect is significant for the poor at all levels – extremely poor, moderate poor, and vulnerable non-poor. Assets are defined very broadly by the poor households and the case studies included financial, physical, human, social and "empowerment" as key categories of assets. They are all very important for helping poor households deal with shocks.
- Because of the importance of this diversified asset portfolio for poor households, it is important to recognize that fungibility happens and is actually good, because it allows the poor to build up all types of assets.
- Many extremely poor households are not receiving services, and it is crucial that better products be developed to deepen outreach. Savings and insurance services, in particular, are key, given the importance of reducing vulnerability through asset accumulation.
- At the same time, poverty is a highly dynamic phenomenon and those not technically considered "poor" (i.e. under the poverty line) today could find themselves there tomorrow. Therefore, appropriate support for the vulnerable non-poor (missing middle) is also crucial. Moreover, many of these clients are likely to be repeat clients and therefore less costly, with better repayment records, etc.

In addition to these main points, the research revealed other interesting :

- The destitute poor don't participate in micro-finance.
- Access to services matters and matters most. Clients of MFIs will do almost anything to maintain a good credit history with the MFI including: reducing consumption, selling off assets, or borrowing from a moneylender, a phenomenon seen in Bangladesh during the floods, as well in other cases.
- The single most important investment of all clients in all programs was the education of children.
- Access to micro-finance does contribute to women's empowerment within the household, contrary to some recent literature that seems to point to conflict between women and their spouses over finances and decision-making.

*C. Supporting CGAP Working Group on impact measurement*

During CGAP1, the CGAP Working Group on Poverty Assessment Methodologies held two virtual meetings with the purpose of developing guidelines for conducting low-cost, practical and credible impact assessment studies for micro-finance. During FY1999, the Working Group published the results of these virtual meetings, and five CGAP member donors that are also members of the Working Group commissioned studies to test the validity of the guidelines. The results of these studies will be discussed during a third virtual meeting in October 1999. An increasing number of international practitioners have expressed interest in participating in the upcoming virtual meeting, a reflection of the larger importance practitioners are placing on the possibility of using impact assessments as management tools.

#### D. Recruiting a poverty specialist

One of the chief constraints facing the Secretariat in developing a more comprehensive agenda of activities under this theme is the lack of appropriate staff expertise. The Secretariat has developed terms of reference for an additional staff position and has begun identifying potential candidates. This candidate will enhance and expand the poverty agenda, in consultation with CGAP stakeholders: donors, practitioners, and researchers.

A list of commitments from the investment fund in support of the activities under this strategic theme through FY1999 is provided in the table below. New investments made during FY1999 are highlighted in bold and described in the Annex.

TABLE 4: CGAP COMMITMENTS FOR POVERTY OUTREACH (U.S. DOLLARS)

Type of activity	Amount
<b>Poverty Assessment tool with IFPRI</b>	<b>286,000</b>
<b>World Development Report Impact Study</b>	<b>45,500</b>
Impact Assessment Methodologies Virtual Meeting	10,000
Total for Understanding Poverty Outreach	341,500

#### Strategic Theme Four: Improve the legal and regulatory framework for micro-finance

There is an increasing view among government agencies, donors, and practitioners to establish regulatory frameworks for micro-finance institutions. Each of the constituencies come to this view from different objectives. Many practitioners feel that establishing legal and regulatory frameworks will help them gain or secure legal status for their operations. Government regulators are interested in getting some control over unregulated financial activity, and many donors feel that regulation is a necessary step for micro-finance make the leap from a largely credit-only business to savings mobilization and other financial services.

While there a number efforts in various countries to legislate micro-finance, most of the regulations are being drafted without adequate knowledge of micro-finance and with inadequate supervisory capacity. The results are ill-crafted laws unsuitable for micro-finance institutions that can harm rather than help the sector. The Secretariat's objective in CGAP2 is to develop suitable guidelines for the different players in the industry on issues such as:

- When and when not to regulate?
- How do interest rate ceilings affect micro-finance operations?
- Are special windows effective or appropriate for regulating micro-finance?
- What is the role of self-regulation?

The Secretariat has involved itself in a few selective activities based on "targets of opportunity" as advised by the CG and PAG. This year, the Secretariat undertook four activities under this theme: a) funding an experimental supervisory model in Guatemala, b) initiating a study on the West Africa legal environment, and c) drafting guidelines on regulation and supervision in micro-finance.

### *A. Funding an experimental supervisory model in Guatemala*

In 1998, a subset of the Guatemalan credit unions agreed to participate in an experiment in market-based supervision to strengthen depositor confidence in the credit unions. This group of credit unions reach an estimated 200,000 customers with credit and savings services with roughly 78 percent of the savings account having an average balance of US\$95 or less and 60 percent of the loan balances of under US\$945 (or less than 50% of per capita GDP)

Funding from CGAP finances half of the five year costs in establishing an independent, private rating agency for the Guatemala credit unions. If successful in establishing independence and credibility among the general public and investors, the rating agency would perform essentially the same role as a public superintendency without the problems of a public agency such as weak staff and enforcement capacity. The experiment presents a potential learning opportunity for micro-finance worldwide on the issue of supervision of MFIs.

### *B. Multi-donor initiative on West African legal environment*

During the first phase, the Secretariat, in partnership with several CG members, organized a policy forum in Mali in June 1996 that brought together central bankers, Ministers of Finance, practitioners, and donors of 16 West African countries to identify policies and regulations to support the micro-finance sector in these countries. Since this meeting, the Secretariat has maintained a dialog with several CG members and the West African Central Bank (BCEAO).

Following a recent coordination meeting sponsored by the BCEAO in March 1999, the Secretariat, the French Development Agency, USAID, and the World Bank are designing and funding a study to compare the four legal options available to MFIs seeking legal recognition under the current banking law and credit union law (called the PARMEC law). Other CG members may be involved once the study has been fully designed. The results of this study will be discussed at the next coordination meeting between donors and the BCEAO, which is tentatively scheduled for November 1999. Further, the study will be disseminated widely in the region to inform MFIs of the strengths, weaknesses, and costs of each of the four legal options.

### *C. Guidelines on regulation and supervision in micro-finance*

The Secretariat has begun work on a publication that will lay out guidelines for the appropriate role of regulation and supervision in micro-finance. There are several views on how to regulate MFIs that range from laissez-faire approach to heavy-handed control. This publication will examine widely held beliefs such as regulations are necessary to promote micro-finance, MFIs can be effectively supervised by authorities, and other issues such as self-regulation, thresholds for regulating MFIs, and deregulation, among others. The publication is expected to be completed by September/October 1999.

A list of commitments from the investment fund in support of the activities under this strategic theme through FY1999 is provided in the table below. New investments made during FY1999 are highlighted in bold and described in the Annex.

TABLE 5: CGAP COMMITMENTS FOR LEGAL AND REGULATORY FRAMEWORK (U.S. DOLLARS)

Type of activity	Region	Amount
<b>Guatemala Credit Union</b>	<b>Guatemala</b>	<b>1,775,000</b>
China Capacity-Building Policy Forum	China	297,647
West Africa High Level Policy Forum	West Africa	250,000
Conference on Regulation and Supervision	Latin America	15,000
Conference on Regulated Financial Institutions in Micro-finance	Latin America	10,000
<b>Study and Workshop on Legal Issues Facing MFIs in Transformation</b>	<b>West Africa</b>	<b>50,000</b>
Total for legal and regulatory framework		2,397,647

### **Strategic Theme Five: Facilitate “commercialization” of the micro-finance industry**

The micro-finance industry, particularly in Latin America, is unmistakably moving towards increasing reliance on commercial sources of capital. This movement is taking place in several different forms. Some credit-only NGOs are transforming into full financial intermediaries (such as rural banks or specialized banks) to mobilize public savings (for example CARD in the Philippines, K-Rep in Kenya). Some rural banks and commercial banks (Banco de Desarrollo in Chile, Banco do Nordeste in Brazil, Ahantaman and Nsoatreman rural banks in Ghana) are entering the micro-finance market upon perceiving returns that have piqued their interest. Still other institutions are using market-based instruments such looking into securitizing their loan portfolios as a way to tap commercial capital (Bancosol in Bolivia).

The Secretariat deliberately delayed launching activities under this strategy until it gained better understanding of the players and issues surrounding this theme. For example, donors such as USAID and the Inter-American Development Bank are already spearheading a fair amount of work in this area. The Secretariat has developed a pipeline of activities to complement and build on the work being done by others.

In FY1999, the Secretariat produced two Focus notes under the commercialization theme. One was a note on “Commercial Banks in Microfinance: New Actors in the Microfinance World” synopsized a study by USAID on the findings of a survey of commercial banks in Latin America with micro-finance operations. The second, “Savings Mobilization Strategies: Lessons From Four Experiences,” summarized the conclusions of a series of six papers by GTZ four case studies of deposit-taking MFIs and a related comparative paper on the factors for successful mobilization of small and micro-savings.

Over the course of the next year, the Secretariat will undertake activities in the following broad areas as opportunities arise:

#### *A. Stocktaking of commercial actors*

Building upon inventories developed by USAID and other member donors, the Secretariat will create a database of institutions, products, sites for study visits, and potential resource people for consulting.

### *B. Building a basic infrastructure of information on microbanking*

Ultimately, better quality information about the performance of MFIs and the costs of doing micro-finance will attract commercially-oriented players into the sector as investors and retail operators. Therefore, the Secretariat will continue the work in bringing greater transparency in reporting of portfolio and financial performance such as disseminating the use of the Audit Handbook, and developing tools to better understand the true 'marginal' cost associated with undertaking commercial microbanking within the structure of a large retail bank.

The Secretariat will also extend its participation in funding the Micro-banking Standards Project as part of the effort to improve reporting, audit, due diligence standards necessary to draw commercial actors into the industry. The Bulletin is an experimental effort to develop comparable (peer) performance data about the industry that will enable practitioners to measure how their institutions are performing relative to other similar MFIs and lend credibility to the industry's results for commercial investors seeking to support micro-finance institutions.

### *C. Selective 'investments' in commercial endeavors*

The Secretariat will seek to get closely involved with a limited number of commercial players to develop and maintain basic familiarity with the key issues facing commercial organizations as they try to get into micro-finance.

A list of commitments from the investment fund in support of the activities under this strategic theme through FY99 is provided in the table below. New investments made during FY99 are highlighted in bold.

TABLE 6: CGAP COMMITMENTS FOR COMMERCIALIZATION (U.S. DOLLARS)

Type of activity	Region	Amount
<b>Microbanking Standards Project (Phase II)*</b>	<b>Global</b>	<b>612,000</b>
Microbanking Standards Project (Phase I)	Global	345,500
City of London Seminar	Global	50,000
Argentina Micro-finance Forum	Argentina	50,000
Peru Policy Workshop	Peru	20,000
Mexico Microcredit Workshop	Mexico	20,000
Total for commercialization		1,097,500

\*Projected investment not yet approved by Investment Committee

## **DONOR CONTRIBUTIONS TO CGAP**

CGAP2 saw a marked increase in the CG's financial participation in CGAP. Tables 7 and 8 indicate that 15 of CGAP's 16 bilateral donors have made cash and in-kind contributions to CGAP. The total cash commitments for FY99 equals US\$10.6 million. Multi-lateral donors have expressed in-kind support to CGAP's workplan. In addition to the figures indicated in the tables below, the French Ministry of Foreign Affairs is considering additional support to the Secretariat in the form of funding a staff position, as well as, direct support for the Capacity Building hub in West Africa.

These tables also indicate that five pledges for FY1999 remain outstanding. The process of developing trust fund agreements and obtaining the funds has been long and drawn-out with a number of CG

members sending the funds only recently. This delay has occurred for two main reasons. First, many CG members waited for the confirmation of the World Bank's contribution through the Development Grant Facility (DGF) to finalize their commitments. Unfortunately, the DGF funds arrived only in January 1999. Second, satisfying bureaucratic requirements by the World Bank Trust fund administration and corresponding requirements by CG member agencies proved time-consuming. Now, however, the donor agreements cover multiple year commitments (for those pledges tranching over three to five years), and once signed should not present any delays for receiving future contributions.

Of the five pledges that remain outstanding, three (Belgium, Luxembourg, and Sweden) are awaiting final signature and should be completed shortly. The agreement with Germany will take a few more weeks, while the agreement with Italy is under negotiation that is likely to stretch out over a longer period.

TABLE 7: BREAKDOWN OF COMMITMENTS FOR CGAP SECRETARIAT (US\$)

	CGAPI		FY1999
	Received	Pledged	Received
<b>World Bank</b>	<b>3,750,000</b>	<b>2,370,000</b>	<b>2,249,000</b>
Netherlands	484,504	60,780	60,780
IDB	50,000		
France	448,081		
Belgium	201,748	312,866	
IFAD	600,000		
Switzerland	156,000		
USAID*	450,000		
Total Cash	5,690,333	2,682,866	2,309,780
<b>Total</b>	<b>6,140,333</b>	<b>2,682,866</b>	<b>2,309,780</b>

\* USAID made a non-cash contribution for Secretariat staff via secondment valued at \$450,000

TABLE 8: BREAKDOWN OF COMMITMENTS TO CGAP'S INVESTMENT FUND (US\$)

	CGAP I		FY1999
	Received	Pledged	Received
<b>World Bank</b>	<b>27,000,000</b>	<b>4,000,000</b>	<b>4,000,000</b>
Australia		300,000	306,250
Canada		336,066	336,066
Denmark		250,000	250,000
Finland		200,000	200,052
Italy		300,000	
Germany		193,970	
Luxembourg	500,000	300,000	
Netherlands	3,022,000	500,000	534,780
Norway	1,578,283	385,902	385,902
Sweden		384,000	
Switzerland		300,000	300,000
United Kingdom (in kind)		229,165	229,165
United States		400,000	400,000
Total Cash	32,100,283	7,849,938	6,713,050
<b>Total</b>	<b>32,100,283</b>	<b>8,079,103</b>	<b>6,942,215</b>

Note: Pledges denominated in donor currencies (or Euros) are subject to currency fluctuation until they are converted to U.S. dollars.

## CGAP OPERATING BUDGET FY1999

Table 9 shows the Secretariat's operating budget for fiscal years 1999 and 2000.

TABLE 9: OPERATING BUDGET FOR THE CGAP SECRETARIAT (in thousands of US\$)

	1999 expenses Estimated	2000 expenses Projected
Staff cost	1,353	1,837
Consultants	168	70
Operational Travel	193	214
CG/PAG/EXCOM meetings	150	141
Administrative overhead	385	406
Total Secretariat	2,249	2,668

The increase in the budget for FY2000 is largely due a projected rise in staff costs for hiring a senior poverty specialist and a micro-finance specialist.

It should be noted that roughly 80 percent of the Secretariat's costs are directly related to the following operational activities:

- Appraisal, evaluation, and technical assistance to MFIs
- Developing tools for practitioners and the micro-finance industry
- Delivering training on financial management of MFIs to practitioners and donors
- Developing and disseminating best practice information to practitioners, donors, and governments in the form of CGAP publications such as the Focus note series and Occasional papers
- Serving as a technical resource to member donors

The "pure" administrative budget for the Secretariat consists of the salary of two budget officers and two support staff.

## FUTURE DIRECTIONS

CGAP will continue to pursue the strategy developed and endorsed by the CG and the PAG through the life of its second phase due to end in FY2002. During this period, it is expected that CGAP will continue to be supported by the World Bank through the Development Grant Facility and other members of the CG. The projected funding required for this period will be roughly US\$10 million a year for the investment fund and between US\$2.7-US\$3.4 million a year for the Secretariat's operating budget.

The following table presents a projection of the Secretariat's operating budget and investment fund through FY2003. Increases typically reflect inflation adjustments and merit increases in staff salaries.

TABLE 10: PROJECTED SECRETARIAT BUDGET AND PROGRAM FUNDS (in thousands of US\$)

	FY2000	FY2001	FY2002	FY2003
Staff cost	1,837	1,900	2,134	2,419
Consultants	70	75	80	85
Operational travel	214	227	241	256
CG/PAG/EXCOM meetings	141	149	158	167
Administrative overhead	406	433	459	485
<b>Total Secretariat Budget</b>	<b>2,668</b>	<b>2,784</b>	<b>3,072</b>	<b>3,412</b>
Institutional development	7,000	7,000	7,000	7,000
Donor mainstreaming	1,000	1,000	1,000	1,000
Poverty assessment	1,000	1,000	1,000	1,000
Legal and regulatory work	500	500	500	500
Commercialization	500	500	500	500
<b>Total Program Funds</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>
<b>Total</b>	<b>12,668</b>	<b>12,784</b>	<b>13,072</b>	<b>13,412</b>

## **ANNEX: CGAP INVESTMENTS DURING FY1999**

### **Guatemala Credit Unions (Guatemala, US\$1,775,000)**

In 1998, a subset of the Guatemalan credit unions agreed to participate in an experiment in market-based supervision to strengthen depositor confidence in the credit unions. This group of credit unions reach an estimated 200,000 customers with credit and savings services with roughly 78 percent of the savings account having an average balance of US\$95 or less and 60 percent of the loan balances of under US\$945 (or less than 50% of per capita GDP)

Funding from CGAP finances half of the five year costs in establishing an independent, private rating agency for the Guatemala credit unions. If successful in establishing independence and credibility among the general public and investors, the rating agency would perform essentially the same role as a public superintendency without the problems of a public agency such as weak staff and enforcement capacity. The experiment presents a potential learning opportunity for micro-finance worldwide on the issue of supervision of MFIs.

### **CGAP-France Africa Capacity Building Program (FR-AFCAP) (West Africa, US\$2,400,000)**

This program builds upon the work that began under the Pilot capacity building Initiative in Africa. (See CGAP Status report for information on Pilot initiative). It deepens existing efforts by CGAP and the France to increase the quality and quantity of technical services and products (such as financial management training and technical tools for financial analysis and management of MFIs) available to practitioners in 10 countries: Benin, Burkina Faso, Cameroon, Guinea, Madagascar, Mali, Morocco, Niger, Senegal, and Togo.

### **BRI-International Visitor's Program (IVP) (Indonesia, US\$1,200,000)**

Established in 1996, IVP introduces international visitors to BRI's unit desa program—widely recognized as one of the largest and most successful micro-finance institutions in the world. To meet the growing international demand for its services, IVP's staff is expanding the services they offer as well as improving their quality. This funding effort is a collaboration between CGAP Secretariat and USAID to enhance the quality and access of IVP's services to the international micro-finance community and fits in with the objectives of both agencies to disseminate internationally accepted best practices in micro-finance.

### **Staff training UNDP-CDF (Global, US\$800,000)**

The objective behind this effort is to raise the capacity of donor staff who design and fund micro-finance projects. The premise behind this effort is that better trained donor staff will design better micro-finance projects that will enhance the *quality* of donor intervention in micro-finance. The Secretariat has pursued this kind of activity in a limited manner with training for World Bank staff and a few other donors. This effort is the first of its kind and relatively new ground for the Secretariat to pool the resources of the Secretariat with that of UNDP-UNCDF to develop courses and training materials for training UNDP staff as well as staff in other CGAP agencies.

### **Microbanking performance standards project (Global, US\$612,000)**

The CGAP Secretariat extended its involvement in the MicroBanking Performance Standards project to a second phase with the objective of expanding the scope and scale of the previous phase. Two main activities under this project, the publication of the Microbanking Bulletin and collection of peer group data on financial performance of micro-finance institutions are seen as effective in increasing the transparency in financial reporting and setting industry standards for financial performance.

### **Poverty assessment tool with IFPRI (Global, US\$286,000)**

The Secretariat has contracted the International Food and Policy Research Institute (IFPRI) to design and test an operational tool for assessing the poverty levels of MFI clients and then, based on this research, to develop an

operational manual for use by donors, other investors, and MFI managers. IFPRI will study four of CGAP's partners SHARE in India, OTIV (an affiliate of DID) in Madagascar, an East African MFI (to be finalized), and ACODEP in Nicaragua to conduct their field test. These institutions were selected because they represent a wide range of methodologies, legal structures, systems, geographical conditions and poverty targeting approaches, that should yield very interesting results.

### **Kwa Multipurpose Cooperative Society (Kenya, Additional US\$200,000)**

Kenya Rural Enterprise Program founded as an NGO in 1984 offers retail micro-finance services. Since then K-Rep's credit operations have matured, providing more than US\$4 million in credit to 12,400 clients in 1996. K-Rep has decided that it would be beneficial to transform into a commercial bank serving poor clients, and CGAP along with a number of other donors CGAP is assisting in this process by capitalizing an Employee Stock Ownership Plan (ESOP) for K-Rep employees to become shareholders in the new bank.

Recently, however, the Central Bank of Kenya increased initial capital requirement for new commercial banks from Ksh. 200 million to Ksh. 500 million. Under this circumstance, CGAP increased its grant to the Kwa from \$700,000 to \$900,000 to allow the Kwa to maintain its share holdings, keep its seat on the Board of Directors, and influence strategic and key operational decisions of the new bank. Under the terms of the partnership agreement K-Rep must increase savings mobilization, expand its client base, remain profitable and keep portfolio at risk low.

### **La Fédération des Caisses d'Epargne et de Crédit Agricole Mutual (Benin, US\$96,000)**

FECECAM has transformed itself from a bankrupt state-run agricultural development bank into an independent network of eighty-two credit unions organized into seven regional unions and serving almost 227,000 clients over the last ten years. It is the largest credit union network in West Africa with an outstanding portfolio of \$US21.8 million and average outstanding balance of US\$380 as of March 1998. In the past three years, FECECAM began to experiment with very small loans to women and village groups, but faced challenges as they implemented their five-year strategy that included expanding and deepening their outreach, adding new loan products, and mobilizing even higher volume of savings.

CGAP's funding to FECECAM supports its strategy to expand and deepen outreach, add new loan products, strengthen delinquency management, and mobilize a higher volume of savings, and as improve the financial profitability of each credit union and the entire network. The two-year grant would be divided in two tranches dependent on targets of portfolio quality, outreach, savings mobilization, and adjusted return on assets.

### **The Micro-finance Revolution: Democratizing Capital (Global, US\$50,000)**

Dr. Marguerite Robinson, a world-renowned micro-finance expert, is about to complete a book that tracks the evolution of the paradigms in micro-finance, the principles of micro-finance, and the role of micro-finance in economic and social development. The book also documents the Indonesian experience in micro-finance, drawing lessons from this experience, and presents recommendations on policy matters confronting the micro-finance field. The book contains important messages for a wide group of players in the micro-finance field particularly, practitioners, policymakers, and donors. As part of its information dissemination mandate, the Secretariat will finance a short-term contract for Dr. Robinson to synopsise her upcoming book "The Micro-finance Revolution" into a shorter version for wider dissemination. The short version, whose working title shall be "The Micro-finance Revolution: Democratizing Capital." In addition, Ms. Robinson will present a series of seminars sponsored by the Secretariat based on her work.

### **Study and Workshop on Legal Issues Facing MFIs in Transformation (West Africa, US\$50,000)**

An increasing number of MFIs in West Africa are facing strategic choices about legal form and institutional structure as they grow and transform. These MFIs have four options within the Banking law and PARMEC law established by the West African Central Bank (BCEAO): commercial bank under the Banking law; financial

institution under the Banking law; credit union under the PARMEC law; and other institution under the PARMEC law (convention cadre).

The CGAP Secretariat in collaboration with other donors such as the World Bank, France, USAID are commissioning a study to clarify the legal issues and analyze the strengths, weaknesses, and costs of each of the four choices available to MFIs. This effort builds upon CGAP's regulatory and policy work since the West African Microfinance Forum in 1996. The proposed study would provide key input for a regional regulation workshop which would bring together representatives from the BCEAO, key donor agencies, and MFIs.

### **Impact Study for World Development Report (Global, US\$45,500)**

In collaboration with USAID and DFID, the Secretariat funded two of four poverty impact assessment studies on micro-finance and its relationship with asset-building and reducing vulnerability among micro-finance clientele. The institutions studied were: Uganda Women's Finance Trust, Bancosol, PRODEM, Sartawi, Promujer, all in Bolivia, CARD in the Philippines, and BRAC in Bangladesh. The results of these studies will serve as inputs to the World Bank's World Development Report for 2000-2001 on Poverty and Vulnerability.

### **Consultative Group Forum VI (Global, US\$35,000)**

The Sixth Consultative Group Forum will be held in Abidjan, Côte d'Ivoire from 21-24 June 1999. The forum will bring together 25 leading practitioners from Africa with the 26 CGAP Member Donors and 11 PAG members. The four-day meeting will include two days of seminars on technical issues facing MFIs in Africa. CGAP funding will be used to cover the travel costs of nine leading experts attending the meeting who will lead eight seminars on savings mobilization, commercialization, poverty analysis, and regulation. Given the gathering of donors, practitioners and experts, these seminars provide comprehensive platforms for structured exchanges of experience and best-practice information.

### **Evaluation of the CGAP Business Planning and Financial Projections Handbook (Global, US\$30,000)**

The CGAP Secretariat commissioned the Business Planning and Financial Projection Handbook that was published in December 1998. The financial projections model, MICROFIN, is designed in Excel for use by MFIs in developing financial projections and monitoring their financial and outreach results. The Secretariat will now evaluate the MICROFIN model on criteria such as model accuracy, adequate coverage for financial projections, ease of use, reports/output generated. The evaluation will also provide an opinion about expansions or improvements to the model and future development of the model. The Secretariat will use the evaluation and recommendations to disseminate the Business Planning Handbook and other CGAP tools such as the MIS Handbook and Audit Guidelines.