



# CGAP 2007 Annual Report

BUILDING FINANCIAL SYSTEMS THAT WORK FOR THE POOR



# ACCESS to FINANCE

ACCESS to financial services puts power into the hands of poor people. Evidence shows that when poor people have financial services, they use their savings or loans to improve their families' lives in a variety of ways: sending their children to school, buying better medicines and more nutritious food, fixing a leaky roof, meeting social and cultural obligations like paying for weddings and funerals, and building income-generating potential by investing in businesses. Because microfinance can be delivered to the poor without the need for continuous subsidy, benefits can be permanent.

There is nothing "micro" about poverty. The numbers astound: one in two human beings lives on \$2 a day, or less. As many lack public sanitation. Two billion want for electricity, a billion more for clean water. The challenge is immense, but the fight against poverty often begins at the smallest level.

# OUR VISION

**CGAP** works toward a world in which poor people are considered valued clients of their country's financial system and every poor person has access to useful financial services at their doorstep. We aim to help build efficient and equitable local financial markets that serve all poor people with convenient and affordable financial services. A wide array of financial service providers will harness lessons learned and innovations of recent years to continuously improve services and lower costs to compete for low-income clients.



These financial service providers will be sound and transparent, and they will fund growth primarily through local deposits. Ever more enlightened policy making will support the long-term development of efficient, competitive, and inclusive local capital markets. Donors and investors will contribute to expanding access to finance based on their respective comparative advantages. More effective aid mechanisms will efficiently and equitably allocate subsidies, measure performance, complement commercial actors, and be accountable to their end clients. In short, all actors will be focused on *responsible finance*, with the well being and needs of clients at the center of strategy and operations.

For more on CGAP's work, go to [www.cgap.org](http://www.cgap.org).

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# About This Report

This Annual Report outlines CGAP's work in fiscal year 2007. This work is described according to the themes set forth by our members for 2003–2008:

**Financial Market Infrastructure—** Building local financial market infrastructure for better access to finance requires developing efficient, technology-enabled financial service systems for reporting on the performance of financial service providers.

**Governments—** Fostering supportive policy environments for microfinance means advising policy makers and regulators, disseminating research and guidelines on appropriate micro-finance regulations, and developing diagnostics on policy issues.

**Funders—** Helping funders use their resources more effectively entails building consensus around good practices and reporting on performance, providing technical support to donor agencies and other funders, and building donor staff capacity.

**Financial Service Providers—** Promoting diverse institutions and delivery channels is essential for microfinance 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 mechanisms to deliver financial services to the poor.

**Pro-Poor Financial Services—** Developing a broad range of pro-poor financial services is necessary because different segments of the poor need different kinds of financial services. Emphasis is placed on identifying and learning from innovative products and services that reach the very poor and unserved population.

**Communications and publications** are essential for impact and critical for CGAP as a key knowledge center and convener for the microfinance industry.

**Monitoring and evaluation** are the means by which CGAP approves, monitors, and measures the performance of CGAP's financial commitments to external institutions and CGAP's internally managed projects.

# Current State of Microfinance

The microfinance industry has undergone dramatic changes in the last five years. Great strides have been made.

- **Microfinance has become increasingly integrated into the formal financial system**, as more commercial banks and retail institutions take up microfinance as a business line. New types of service providers are entering the market in many countries, including existing providers like telecommunications networks, retail outlets, and credit card companies. Some are reaching very poor clients. Another dimension of integration is the work of microfinance institutions (MFIs) that are collecting deposits and tapping into domestic and international capital markets to raise financing necessary to fuel their growth. Microfinance is now widely viewed as an integral part of mainstream financial sectors.
- **Traditional MFIs have matured** in the last five years. There are five times as many profitable MFIs today as there were four years ago. New institutions are breaking even in two years on average, much faster than their predecessors. Several hundred have reached a take-off point and are growing rapidly. The strongest financial cooperatives compare favorably to other financial institutions on efficiency, product range, and growth.
- **The need for commercial practices has become widely recognized** as a condition for sustainable access to an array of demand-driven microfinance products. Whether an NGO or a bank, evidence shows that commercially focused organizations can indeed reach the poor profitably, though most profit-maximizing commercial institutions do not reach very deep, to the poorest and most remote clients.
- **New funders, such as private philanthropists and socially responsible investors, have entered the field** with large funding programs planned. Nearly 80 funds, with more than \$2 billion in outstanding investments, have been created to invest in microfinance (including 30 in the last two years). International financial institutions (IFIs) have stepped up their investments, too, with portfolios doubling annually. Grant money from new philanthropists may dwarf money from public donors soon.
- **More institutions are offering a wider range of financial services**, such as flexible deposit services, insurance services, and money transfers, although narrow microcredit continues to dominate in many countries.
- **The business model for financial service delivery is “disaggregating”** as new partnerships among MFIs, banks, and, more recently, telecommunications and credit card companies allow each actor to carry out the role in service delivery most suited to its comparative advantage. For example, such contractual arrangements enable the MFI, self-help group, or other agent to focus on client interaction, while a bank provides back-office services and a telecom provides transaction processing.
- **Experiments with technology-driven delivery models are spreading rapidly**, promising to reduce costs and thus extend outreach to poorer and more remote clients. Although not yet proven, there is evidence that, with the right value proposition, product design, and marketing, more poor people will use these services.

- The widespread use of nonfinancial institutions (such as gas stations and convenience stores) to access financial services offers the hope of exponential growth and outreach to more remote areas, provided the regulatory environment adapts to allow this to happen.
- An increasing number of market players are recognizing the importance of professional skills and standardized accounting in the sector. The industry has become more professional, with more and more financial service providers adhering to performance and disclosure standards developed by CGAP and others. Compliance is now driven by investor and market expectations.
- The need for measurement of services' impact on poor people's lives, the poverty levels reached, and the "social" performance of institutions is gaining support. New socially responsible investors have joined traditional donors and a growing number of practitioners in calling for better measurement tools.

Consensus is building that consumer protection measures, such as clear and transparent product terms and conditions, are critical.

- Many traditional donors have recognized that the quality of aid is usually more important than the quantity and that their funding can sometimes hinder rather than help the development of sustainable microfinance. Some CGAP members have undertaken significant changes in their processes to improve effectiveness.
- Microfinance is high on many governments' agendas. This heightened interest can be both good and bad. A wider understanding of what it takes to build sustainable access, more helpful legal and regulatory frameworks, and a greater focus on consumer protection and education are welcome. However, the re-introduction of low interest rate caps and the creation of government-sponsored, direct lending institutions in some countries are troubling developments.



## Remaining Challenges, Gaps, and Constraints

For all of the accomplishments—and the fresh exposure the industry received after Mohammed Yunus was awarded the Nobel Peace Prize—the gains are still fragile, and significant gaps and constraints remain. Stakeholders identified the following as the greatest challenges to achieving widespread access to finance.

- Despite successes in dozens of countries, **few countries have high-quality financial services** of any kind. Product diversity remains limited, especially well-designed deposit products and transaction accounts that could be the gateway for other services.
- Capacity at the management and staff level of microfinance providers remains the principal bottleneck to expansion. Mechanisms to address the magnitude of human capacity building needs are urgently needed.
- Despite the increasing engagement of commercial banks and retail institutions, **real competition among retail providers is limited**. Without the pressure of competition, costs to poor clients remain high, pricing opaque, and quality services limited in most markets.
- The **local financial market infrastructure for microfinance remains underdeveloped in most countries**. Rudimentary payments systems and an absence of credit bureaus thwart access to finance. Shallow local debt and equity markets limit the ability of financial institutions to raise capital domestically.
- **Service expansion is constrained** by large distances between client populations and lack of financial literacy and credit histories. Expansion and adoption of services are also limited by clients' own perceptions of their eligibility.
- **Government policies and regulation continue to hinder** the development of microfinance in many countries. In many markets, subsidized government lending programs and poorly designed wholesale lending institutions, often funded by donors, continue to undermine the development of sustainable financial services. Where more enabling policies and regulation have been adopted, capacity of supervisory authorities to implement them effectively is often weak.
- Many donors continue to fund in suboptimal ways (e.g., inappropriate instruments, poor geographic distribution, disbursement pressure) and can even undermine markets. The rapid **entry of many new investors has raised questions about** the optimal interaction between public-purpose and commercial actors. Institutional incentives of donors and investors alike too often lead to competitive rather than complementary work. Most investors seek to fund already successful institutions, rather than funding market infrastructure or the riskier institutions.
- Despite important advances, **further methodological refinements and real incentives for measuring and reporting on social performance are needed** for its widespread adoption. The intersection of social and financial goals will raise increasingly complex issues about balancing the "double bottom line" in microfinance.

# Evaluating CGAP's Role

In 2007, CGAP undertook an extensive process of industry-wide consultations with a broad range of organizations engaged in the access to finance arena, including MFIs, banks, microfinance networks, governments, donors, and investors. The goal was to assess the current and future needs in microfinance and to determine the role CGAP should play in this rapidly changing environment. Key inputs to this process included a global survey and an independent evaluation of CGAP's performance in the last three years.

## Key Findings from the CGAP Survey

The survey examined industry views on key issues and challenges in microfinance, as well as CGAP's role and performance. The 621 respondents to the survey represented a broad mix of MFIs, banks, microfinance networks, funding organizations, governments, private service providers, and independent technical specialists.

### 1. Most critical elements in increasing access to finance:

- Building the market infrastructure (63%)
- Developing a greater range of products to suit poor people's needs (54%)
- Concentrating on more remote or rural clients (43%)
- Working on government policy and regulation (39%)
- Experimenting with new technology for delivering services (37%)
- Increasing funds for MFIs (32%)
- Augmenting consumer protection and financial education (19%)

### 2. Greatest obstacles to achieving widespread access to microfinance:

- Lack of financial market infrastructure for microfinance (64%)
- Poor government policies and regulations (51%)
- Operational costs of making small transactions (51%)
- Lack of capacity at retail financial institutions (44%)
- Lack of funds for on-lending (30%)
- Lack of understanding of microfinance by the general public (25%)
- Lack of industry standards and good practices (22%)

### 3. What is CGAP?

- A knowledge resource center (52%)
- A standard setter for microfinance (33%)
- A global network for microfinance (29%)
- A think tank/research institute (27%)
- A funders' consortium (15%)

### 4. What best describes CGAP's role?

- Provides services that help the cause of universal access to financial services (52%)
- Is a key player in the microfinance field (41%)
- Supports a diverse range of approaches to microfinance (28%)
- Is a partner for developing countries to improve livelihoods through microfinance (20%)

The overwhelming majority of respondents (85%) agree that "CGAP's contributions to microfinance are very important to the success of microfinance globally."

## Selected Findings from the Evaluation of CGAP Phase III

The evaluation was conducted by a team of three independent consultants consisting of Klaus Maurer, Sarah Forster, and Michael Mithika. The evaluation team conferred with a broad range of stakeholders and conducted a sweeping literature review.

### Effectiveness

The CGAP operational team has made clear progress in promoting greater institutional diversity in microfinance. But CGAP has done little work so far on financial cooperatives and state banks, which deserve more attention.

There is evidence of progress on promoting pro-poor financial services, but work now needs to focus on communicating findings so they are translated into practice.

Work on transparency has been excellent. "CGAP can lay claim to having contributed to improved quality and increased quantity of information available today from different microfinance actors."

CGAP is well on track to achieving expected policy and legal framework outputs. Attribution for policy changes is difficult to measure, but there are increasing examples in which CGAP interventions have had a decisive effect on policy makers.

"Aid effectiveness is an area where CGAP has a clear mandate, an absolute advantage, and has made some very good progress."

"CGAP's training and capacity-building initiative has been a great success."

The strong and effective communications capability is highly rated by all stakeholders. "CGAP publications and knowledge products are considered among the most important and influential sources in...microfinance."

"The CGAP operational team has produced high-quality outputs during Phase III. With a few exceptions, the team is on track to produce almost all outputs."

### Accountability

"CGAP has adequate governance and management systems that are transparent and thorough in providing information about the program." Measurement of outputs is well developed, but more work is needed on tracking contribution to longer term outcomes and objectives.

### Value for Money

"[CGAP is a] cost-effective and competitive organization. [The evaluation team is] confident that CGAP represents value for money and it compares favorably with other organizations with similar activities and mission."

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

# Activities *and* Accomplishments

## Building Financial Market Infrastructure

A sound financial system for the poor must be able to process small transactions at low cost.

Technology, when paired with appropriate regulation, could bring seismic transformation for poor people who have been left out of the financial system so far, or for whom the costs of financial services have been exorbitantly high. Although financial services probably will never reach *everyone*, a new financial system, with new delivery technologies and new business models, holds the promise to reach vastly more people—and more people in remote areas—than traditional, costly, labor-intensive microfinance business models ever could. Also, because poor people transact in very small amounts, costs relative to transaction size have been the real barrier to growth. A system that radically reduces the costs and risks of doing business for both service providers and customers may actually reach massive numbers of poor people. Technology can make this happen—initially by enabling cheaper, more convenient money transfers, but also eventually by facilitating savings deposits and even loan disbursement and payment.

Such a system will depend on mechanisms for sharing transactional and institutional data that are accurate and comparable, allowing managers of financial institutions,

regulators, auditors, domestic and international lenders and investors, and, indeed, poor clients themselves to make informed decisions.

CGAP invests in innovative technology-based approaches to both reducing transaction costs and producing standardized performance data. We also support market-based programs to encourage transparency about financial and social performance of microfinance providers.

### DEVELOPING DELIVERY CHANNELS USING NEW TECHNOLOGIES

In FY 2007, CGAP began a major expansion of its commitment to using technology to make financial services accessible to poor people. The \$26 million program is co-funded by a four-year, \$24 million grant from the Bill and Melinda Gates Foundation. The program advises financial institutions, governments, technology companies, and donors; conducts market research on poor people's adoption of technology; and offers grant funding for projects that have near-term potential to rapidly expand access to finance.

Our objectives are to massively increase access to finance for poor people by (1) demonstrating viable technology approaches that overcome constraints to

accessing payments services and ultimately loan and savings services to the poor, and (2) advocating regulatory frameworks that balance opportunities for expanded access with adequate protection for consumers and the financial system.

Recognizing the dynamic influence of technology in financial services for the poor, CGAP moved quickly in FY 2007 to create impact, both in specific markets and globally, by

- Launching the development of nine demonstration projects selected from more than 200 concept notes.
- Leading groundbreaking research on the use of “nonbank agents”: branchless banking.
- Initiating the first-ever market survey of low-income mobile phone banking users.

## DEMONSTRATION PROJECTS

More than 200 MFIs, banks, payments companies, retailers, and mobile network operators responded to CGAP's call for proposals to deliver financial services to poor people using technology solutions. The nine projects chosen for further development focus primarily on the agent model, using small retail outlets to deliver financial services on behalf of a provider. Future calls for proposals will address other dimensions of technology as well, such as shared information systems and credit cycle management. CGAP is particularly interested in projects where the market is challenging, such as countries with post-conflict environments, and where there is great potential to leap-frog development and produce rapid impact in scale or in reaching clients previously left behind.

## Projects Approved or Conditionally Approved in Fiscal Year 2007

### **Credibanco Visa (Colombia)**

Visa's acquiring network in Colombia will work with banks to attract customers and establish an agent network to offer banking transactions over a point-of-sale (POS) system.

### **Equity Bank (Kenya)**

This fast-growing mid-sized bank will develop a rural agent network with mobile phones and POS.

### **FSD Trust Social Protection Payments Challenge Fund (Kenya)**

This effort will support the use of technology to deliver financial services and distribute social protection payments to vulnerable populations.

### **GXI, Inc. (Philippines)**

GXI, part of Globe Telecom, the country's second-largest mobile telephone provider, will offer “mobile wallets” and cash transfers at airtime dealers in remote rural areas.

### **Maldives Monetary Authority (Maldives)**

The Government of Maldives aims to achieve universal access to banking and reduce cash use through an interoperable m-banking system and a nationwide agent network.

### **Tameer Bank (Pakistan)**

This microfinance bank will use POS-equipped banking agents and mobile phone banking to extend financial access to previously excluded populations in rural, urban, and peri-urban locations.

### **WIZZIT Bank (South Africa)**

WIZZIT will extend transaction banking to 500,000 unbanked farm laborers, rural households, and inhabitants of smaller towns via mobile banking and a Maestro debit card.

### **XacBank (Mongolia)**

This microfinance bank will test mobile banking and an agent channel to reduce cost of service in remote areas.

## POLICY AND REGULATION

In many countries, low-income people are conducting financial transactions through nonfinancial institutions, such as retail outlets (convenience stores, gas stations, etc.), or other mechanisms, such as mobile phones.

CGAP coined the phrase “branchless banking” to refer to these forms of financial transactions that are taking hold in many countries as a way to reach unserved areas. This year, CGAP accelerated its engagement with policy makers and regulators to understand the key issues in technology-based banking and to promote sound regulatory frameworks for these new financial service delivery mechanisms.

The first task was to understand (1) the risks branchless banking models pose compared with traditional banking models and (2) the regulatory responses in countries already grappling with these questions. In collaboration with the UK Department for International Development (DFID) and GSM Association, in FY 2007, CGAP developed a technical tool to assess the regulatory environment for branchless banking and conducted diagnostic exercises in seven countries: Brazil, India, Kenya, Pakistan, the Philippines, Russia, and South Africa. Already, regulators in the Philippines, Kenya, and Pakistan have sought CGAP’s guidance as they develop regulation for branchless banking models.

## MARKET RESEARCH

Policy and regulation were also at the forefront of CGAP’s technology research agenda in 2007. In parallel with the diagnostic exercises, CGAP drew together the experience of five pioneering countries in branchless banking—Brazil, India, South Africa, the Philippines, and Kenya—and explored the main issues involved in regulating branchless banking, particularly regarding the use of retail agents. The findings were published in CGAP Focus Note No. 38, “Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation.”

Understanding how poor people use technology (or why they do not use it) to access financial services is critical to designing effective delivery mechanisms that can be scaled up. This learning agenda is an important

component of CGAP’s technology work. In November 2006, CGAP, the United Nations Foundation, and the Vodafone Group Foundation conducted a survey on how low-income people view and use banking through mobile phones (called “m-banking”) in South Africa.

Like the South Africa m-banking study, other research efforts have been and will continue to be collaborative efforts. CGAP’s Technology Program has developed relationships with major industry organizations. These include GSM Association (mobile operators), ATM Industry Association (ATM manufacturers), DFID, FinMark, Microsoft Research India, Visa International, Vodafone, and Nokia.

## TRANSPARENT REPORTING

Improving financial transparency throughout the microfinance industry is a cornerstone of CGAP’s work. High-quality financial reporting is an essential part of a functioning financial system because it allows investors to make informed decisions, ensures that financial providers function professionally, and most important, protects microfinance clients by exposing poor practices.

## INFORMATION SYSTEMS FUND

Strong information systems (IS) are essential to building a financial system that can serve the poor. However, many institutions lack the professional expertise to analyze their business and technology needs, select software packages, and improve their existing systems. The Information Systems Fund is designed to improve the capacity of MFIs to make good investment decisions by offering co-financing to hire specialized IS consultants. In FY 2007, CGAP helped finance 28 detailed assessments of different MFIs’ IS needs. Nearly 100 such assessments have been completed in the past two years.

## RATING FUND

The Rating Fund is a multidonor initiative funded by CGAP, the Inter-American Development Bank, and the European Commission. It offers co-financing for ratings



and assessments of MFIs by prequalified rating and assessment agencies. The fund's key objective is to increase the availability and quality of market information on microfinance providers. By FY 2007, the Rating Fund had committed grants for more than 400 ratings and assessments. All the MFIs that receive funding consent to publicly disclose their performance information and make their ratings available on the Rating Fund Web site ([www.ratingfund.org](http://www.ratingfund.org)). Nearly all were first-time disclosures. This increased transparency has influenced funding flows to MFIs, making it easier for them to attract social investors' interest.

Ratings are now often used by microfinance investors as part of their preinvestment due diligence and investment monitoring. After six years of operation, the Rating Fund is scheduled to conclude in FY 2008.

### FINANCIAL TRANSPARENCY AWARDS

The CGAP Financial Transparency Awards are given to MFIs that comply with International Financial Reporting Standards and CGAP *Financial Disclosure Guidelines*. Qualifying institutions submit audited financial statements that are judged by an independent panel. Most important is the feedback provided to every entrant, with each receiving

a detailed report offering concrete steps for improving its financial reporting. The awards, held for the third time in FY 2007, attracted 231 entrants from 58 countries. Local press conferences were arranged for the award winners with volunteering CGAP Council of Governors members participating in ceremonies in several countries.

### MICROFINANCE INFORMATION eXCHANGE

As of July 2007, nearly 1,000 microfinance providers and 95 microfinance funders reported to the Microfinance Information eXchange (MIX), the leading provider of data on MFIs. MIX provides detailed online information on the performance of MFIs, funders, investors, networks, and service providers associated with the sector through a variety of publicly available platforms, including MIX Market ([www.mixmarket.org](http://www.mixmarket.org)) and *MicroBanking Bulletin*. MFIs that submit detailed data on their performance to *MicroBanking Bulletin* receive customized performance reports and compare their institution's performance against peers. Created by CGAP and spun off in 2002, MIX is now a partnership of CGAP, Citigroup Foundation, Deutsche Bank Americas Foundation, Open Society Institute, and Rockdale Foundation. CGAP has two board seats, provides active oversight, and supports MIX activities in many areas throughout the year.

## Fostering Supportive Policy Environments

Governments can play a positive role in microfinance, by creating policy environments that enable and facilitate financial services for the poor. CGAP works to change government actions that hinder the development of microfinance (such as interest rate ceilings or subsidized lending to specific target groups). In FY 2007, we expanded our work on advising governments and disseminating standards on regulation and supervision. We responded to numerous requests for short-term country-level consultations, while at the same time broadening our areas of policy discussion to include topics such as the role of state banks in microfinance and consumer protection issues.

### INTERNATIONAL AND COUNTRY-LEVEL POLICY CONSULTATIONS

Upon request, CGAP engages in country-level consultations with government agencies that wish to improve their policy environment for pro-poor financial

services. We place priority on policy work that contributes concretely to establishing appropriate enabling environments and helps to preempt policies or programs that might undermine access to financial services.

In FY 2007, CGAP continued to provide short-term policy advice, including awareness-building consultations, forums, seminars and workshops, and critical reviews of draft strategies, policies, laws, and regulations affecting microfinance in almost 30 countries.

CGAP conducted full country-level policy diagnostic assessments in the Democratic Republic of Congo, Pakistan, and Syria. Policy diagnostics specific to branchless banking were conducted in Brazil, India, Kenya, Pakistan, the Philippines, Russia, and South Africa. CGAP provided comments on 17 microfinance-related laws in many countries, including Bosnia, Kenya, and Sri Lanka. In Bosnia, CGAP provided technical assistance to the central bank/banking agencies on transparency regulations under the new microcredit organizations legislation.

## Policy Diagnostics on Branchless Banking

**Branchless banking**—distribution channels equipped with information and communication technologies that allow financial institutions and other commercial actors to offer financial services outside of traditional bank premises—seems to hold the key to reaching huge numbers of poor customers who cannot be profitably served with conventional “bricks and mortar” branch-based financial services. Policy makers and regulators from Afghanistan to Zambia find themselves facing the question of how to approach regulating this new and very fast developing space at the convergence of telecommunications and financial services.

In FY 2007, CGAP continued its groundbreaking work analyzing proportionate ways to regulate branchless banking. Working with the U.K. Department for International Development, we developed a tool to assess the regulatory

environment for branchless banking across a range of issues, including prudential regulation of deposits, outsourcing, the use of agents, competition policy, taxation, and others. CGAP then conducted diagnostic assessments in seven countries at the frontlines: Brazil, India, Kenya, Pakistan, the Philippines, Russia, and South Africa. Policy experts spent an average of two weeks meeting in-country with business and government leaders to assess the current policy environment.

The evidence gathered in these pioneering countries will help to inform policy makers and regulators in all countries that want to unleash the potential of branchless banking models to expand access. Following CGAP’s participation in a joint World Bank–IMF Financial Sector Assessment Program in Malawi, the diagnostic tool will continue to be used to examine financial access as part of overall financial stability and growth.

In Kenya, we provided a detailed critique of draft prudential regulations and technical assistance on the regulatory approach to nondepository microlenders, both under Kenya's new Microfinance Act. In Sri Lanka, we reviewed and commented on the draft Microfinance Act.

CGAP also engaged with governments in Ethiopia, Yemen, and Pakistan on their national microfinance strategies. At the invitation of the National Bank of Ethiopia and the German Technical Cooperation (GTZ), CGAP advised on the key principles and priorities for Ethiopia's microfinance strategy. The overarching goals of the strategy are to help transition microfinance in the country from a fragile, state-controlled niche to a commercial, market-based part of the financial sector.

National, regional, and international engagements with high-level financial system policy makers in FY 2007 included forums co-sponsored with both houses of the

Russian Parliament, a Latin American forum co-sponsored with the Association of Supervisors of Banks of the Americas, and the first-ever seminar on access to finance co-sponsored with the World Bank and the Financial Stability Institute, which included leaders of the Basel Committee and the Bank for International Settlements and leading policy makers from more than 40 countries.

#### LAW LIBRARY

Two years ago, CGAP and the IRIS Center, a research institute affiliated with the University of Maryland, launched the largest global database of country-level information on microfinance-related regulation and supervision. In FY 2007, the Law Library covered more than 50 countries, and its use continues to grow dramatically, making it one of the most popular CGAP resources on the Microfinance Gateway, with an average of more than 41,000 page downloads each month.



# REGIONAL INITIATIVES

CGAP took several steps in FY 2007 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 enhance two-way learning between CGAP and our international partners and the domestic clients we seek to serve. They also help CGAP serve clients in the field more effectively and quickly.

## Middle East and North Africa

The CGAP MENA Initiative significantly expanded activities during its second year of operations in Amman, Jordan, working closely with partners including IFC, Grameen-Jameel, United Nations Development Fund, the German agency KfW, and others to achieve a marked effect on efforts to scale up microfinance in the region. The governments of Jordan, Syria, Yemen, Tunisia, Algeria, and Morocco and the Palestinian Authority have engaged CGAP's assistance in developing policy frameworks conducive to a healthy microfinance industry. CGAP conducted policy diagnostics and supported new laws and policy statements in Syria, Yemen, and Algeria. Donor agencies active in the region commended CGAP for increasing aid effectiveness in FY 2007 through CGAP's role as a service center for field-based donors, providing country-specific advice, organizing regional and country donor coordination meetings, offering regional donor training, and publishing CGAP's MENA newsletter, with partner activity updates to boost capacity and information exchange.

Finally, CGAP advised new institutions and projects, including banks downscaling in Jordan and Syria and postal services in Yemen offering microfinance services. A regional workshop on poverty lending introduced MFIs and donors to new global ideas on linking social safety nets to microfinance.

## Eastern Europe and Central Asia

Two years ago, CGAP and the Poland-based Microfinance Centre launched a regional hub for ECA based in Almaty, Kazakhstan. This hub aims to strengthen microfinance in the region through information exchange and advisory and training services to microfinance practitioners, government policy makers, and donors. FY 2007 was marked by the establishment of strong relationships with regulatory authorities and key policy makers in the region. Training events were conducted for central banks, ministries of finance, and other policy makers in Kyrgyzstan, Tajikistan, and Uzbekistan. The National Bank of Kyrgyzstan invited CGAP to serve as a member of the Medium-Term National Microfinance Strategy development working group.

CGAP also completed a performance benchmarking report on MFIs in Central Asia that provides financial and statistical data for financial institutions and an overview of country-specific legal and regulatory environments, macroeconomic features, and banking sectors—leading to a surge of investor interest in the region. In addition, CGAP conducted the first-ever donor survey for Central Asia, with information on donor funding, instruments, and types of interventions from 2000 to 2007 for all 11 donor agencies operating in the region. As part of our outreach in the area, key CGAP publications were translated into Russian and widely disseminated, and a donor training course was held in Almaty.

## Africa

CGAP continued its deep involvement in Africa with special attention to funder coordination, advisory services for governments and central banks, and promotion of financial transparency and improved financial infrastructure. CGAP completed the second annual regional funder survey to track funding programs and promote information exchange among the funding organizations operating in Africa. Throughout FY 2007, CGAP considerably scaled up its engagement with governments and policy makers by responding to requests for comments on draft microfinance laws, regulations, and national strategies and providing

training to central banks. For example, we provided advisory services or policy and law reviews in Madagascar, Nigeria, Rwanda, Kenya, the Democratic Republic of Congo, Mali, Uganda, Benin, Sudan, and BCEAO. In addition, CGAP promoted financial transparency standards in the region through seminars on auditing MFIs.

Training continued to be a key activity in the region. CAPAF, the regional training program working in 15 francophone countries and co-funded by CGAP, the French Ministry of Foreign Affairs, and USAID, continued its well-known series of financial management training programs through 20 local and regional training partners.



## Improving the Effectiveness of Microfinance Funding

The microfinance funding landscape has become increasingly diverse and complex, with myriad new funders vying to become involved in the sector: 30 microfinance investment vehicles (MIVs) have been created in just the last two years, bringing the total to over 80. Private philanthropies, including the Bill and Melinda Gates Foundation, the Omidyar Network, and the new MasterCard Foundation, have committed to long-term investment in microfinance. Local funders, including governments from countries like Venezuela, Benin, and Kazakhstan and national/regional public apexes, are becoming increasingly active in the sector. IFIs—the private investment arm of public development agencies—are also stepping up their microfinance funding considerably, and traditional public donors, such as bilateral and multilateral agencies, continue to play a significant role.

In many places, developing a local financial market that can provide local deposits and other financial resources for microfinance is a long and difficult task. In the medium term, well-targeted external funding from all types of funders is needed to help countries build the necessary infrastructure and capacity. Unfortunately, funding is often misdirected and/or concentrated, leaving some countries and regions with few resources and important gaps, such as capacity building, unattended. Some public grants and loans also compete with local or private flows, potentially thwarting long-term local market development.

CGAP is well placed to work with its members and other funders to improve the quality of funding to microfinance. The three main dimensions to CGAP's aid effectiveness work are tracking funding flows, promoting good practice standards, and providing strategic advisory services.

### TRACKING FUNDING FLOWS

In 2007, CGAP continued research on the increasingly varied and complex funding flows to microfinance. The preliminary results were published as a draft paper, "Managing the Floodgates? Making the Most of International Flows of Microfinance Funding." The paper offers an overview of the landscape of microfinance funding; highlights the reasons for the incompleteness of information about the levels, composition, and performance of microfinance funding; outlines several trends; and offers thoughts on how the different flows can be channeled in more complementary and effective ways.

**Foreign Capital Investment in Microfinance.** Foreign capital investment in microfinance is surging, driven by IFIs and MIVs. IFI investment in microfinance more than doubled from \$1 billion in 2004 to \$2.3 billion in 2006, and the MIV portfolio grew more than threefold during the same period from \$600 million to \$2 billion. Several striking trends emerged from surveys conducted in FY 2007. On a positive note, more equity is available, investments to Africa are increasing, innovative deals are broadening the investor base, and more local currency denominated debt is available. But concentration in a few regions and in a limited number of institutions remains an issue. There is also little transparency on MIV performance, and concerns about crowding out private investors are growing.

Using the results of surveys of IFIs and MIVs, CGAP organized an online blog on the role of IFI funding and presented the findings at numerous conferences. In addition, with partners such as FMO, IFC, and the Netherlands Development Finance Committee, CGAP co-organized meetings with IFIs and MIVs to discuss their role and added value in a quickly evolving microfinance sector. CGAP also developed and pilot-tested *Microfinance Investment Vehicle Disclosure Guidelines*, designed to increase transparency on the structure, performance, and outreach of the funds currently investing in microfinance.

## PROMOTING STANDARDS FOR FUNDERS

**SmartAid Index.** CGAP's approach to aid effectiveness is to focus on the one thing funding agencies can change—their own way of doing business, rather than country-level issues. Following peer reviews of donor agencies' microfinance work, CGAP developed a framework of five essential elements for improving the way funding agencies support microfinance. We also provided overall ratings to the 17 participating agencies on their performance.

The new pilot SmartAid Index goes one step further to create standards for measuring and scoring how well agencies' internal systems, policies, procedures, and incentives are set up to effectively support microfinance. The Index will help microfinance funders assess and benchmark performance, provide incentives to make improvements, and further stimulate the international debate on the quality of aid.

To develop the Index, CGAP collaborated with experts from the Center for Global Development, CGAP member focal points, field staff, and Executive Committee members. In FY 2007, nine agencies representing a broad range of funders volunteered to participate in a pilot round, and CGAP finalized 20 indicators. Agencies will report to a four-person review board that will score each agency. First results will be available in FY 2008.

**Good Practice Guidelines for Funders of Microfinance.** After two years of consensus building, field testing, and extensive feedback, CGAP published the second edition of *Good Practice Guidelines for Funders of Microfinance*. The *Guidelines* capture 30 years of lessons learned and provide concrete operational advice for staff working in microfinance. The *Guidelines* are a tool for all funders, including development agencies, foundations, social and commercial investors, and international NGOs.

## STRATEGIC ADVISORY SERVICES

CGAP provides strategic advisory services on a demand-driven basis, including technical assistance to help funders with considerable resources allocated to microfinance to improve their operations. Typically, CGAP's work is focused on helping agencies follow good practices and improve internal systems, including strategic planning, transparent reporting, and staff training. By working with a range of funders, CGAP also seeks to shed light on how different funders can best deploy their funds and what kinds of partnerships are possible. Since FY 2005, CGAP has also extended its aid effectiveness work to where it ultimately matters most—at the regional and country level—by leveraging CGAP's members, a wide network of industry contacts, and its regional hubs. The country-level effectiveness and accountability reviews (CLEARs) have been a lynchpin of this work. CLEARs are designed to help donors identify gaps and opportunities in the financial system of the countries where they work and to design interventions based on their comparative advantage.

Reports for CLEARs conducted in Uganda, Cambodia, Madagascar, Sri Lanka, and Nicaragua were completed in FY 2005 and FY 2006 and are available on CGAP's Web site. CLEARs highlight the importance of coordination among funders and how governments can play a conducive role in helping to develop financial systems. CLEARs have caused numerous agencies to rethink programming decisions and improve the design of interventions while also reigniting coordination among funders and facilitating advocacy work with governments. CGAP is now synthesizing lessons learned and developing a CLEAR technical guide to help others take up the methodology. This is expected to roll out in FY 2008.

At the request of the State Bank of Pakistan (SBP) and several donors, CGAP conducted a CLEAR in Pakistan, with a focus on the policy environment for microfinance. This is the first time a CLEAR has been conducted in conjunction with a CGAP policy diagnostic review.

The Pakistan review revealed that, despite a sound regulatory framework for microfinance and significant injections of donor funding (estimated at nearly US\$ 400 million over the past five years), Pakistan lacks strong, sustainable MFIs. However, heightened interest by the government of Pakistan and several new projects, if harnessed appropriately, offer hope for a new direction and significant growth. The review suggested seven priority recommendations to the government of Pakistan and to funders.

After the review, CGAP individually briefed and advised several funders, including Asian Development Bank, DFID, International Fund for Agricultural Development, KfW, and the World Bank on their microfinance strategies for Pakistan. CGAP also provides ongoing advice to SBP and has conducted an analysis of the opportunities and constraints to branchless banking in the country.

**“The Pakistan CLEAR & Policy Diagnostic Report presents an excellent analysis of the microfinance market in Pakistan, draws coherent conclusions and provides practical recommendations for policy makers and donors.”**

*—Lioba Solbach, KfW Entwicklungsbank*

Another example of CGAP's advisory work following on from the CLEARs is in Sri Lanka. In partnership with the Office of the Special Envoy for Tsunami Recovery (headed by former U.S. President Bill Clinton) and GTZ, CGAP organized a donor meeting in Colombo in August 2006 to improve support for microfinance. At the meeting, the Donor Microfinance Network adopted “rules of the game” for microfinance funding and agreed to pilot a common reporting framework for MFIs. Six funders also agreed to co-fund a joint review of the impact of microfinance funding in post-tsunami Sri Lanka.

## EU/ACP Microfinance Framework Programme

CGAP continues to collaborate closely with the European Union and the African, Caribbean, and Pacific (ACP) states on their Microfinance Framework Programme. The Programme helps expand access to a wide range of quality financial services to poor people in ACP countries. The program's goal is to provide a demonstration model for effective funding of microfinance within the European Community. In FY 2007, the Programme established performance-based contracts and a standardized reporting system to monitor the 11 grants awarded in FY 2006—the first time that the EC applied systemic

performance monitoring following microfinance good practices. The grants were made to a range of partners to diversify financial products and services; apply new technologies; expand to rural and remote areas; enhance transparency; and establish “greenfield” microfinance banks. In addition, the Programme provided scholarships to ACP policy makers to attend the Boulder Microfinance Training and advised a UNDP/UNCDF Financial Services Sector Assessment of five Pacific countries to identify ways to scale up access to finance.

## Better Aid for Access to Finance, 2nd High-Level Meeting of Agency Heads

In October 2006, CGAP hosted the 2nd High Level Meeting of CGAP members, *Better Aid for Access to Finance*, in Paris. Co-chaired by Jean Michel Severino (AFD, French Agency for International Development) and Kemal Derviş (UNDP), the meeting highlighted the commitment of the leaders of the world's largest aid agencies to improving aid effectiveness in microfinance. The leaders—representing bilateral and multilateral aid agencies, international financial institutions, and private foundations—spoke candidly about how their agencies work, the impact—negative and

positive—of their actions, how subsidies can be best put to work with private actors to help unleash domestic financial markets, and the changes they are committed to making. In the Compact for Better Aid for Access to Finance, the development leaders pledged to improve *how* they spend funds for microfinance.

CGAP has had follow-up visits with senior management of numerous agencies to jointly encourage operational staff to work toward the goals of the pledge. The Compact's four actionable commitments are as follows:

*"When put into action, this pledge will mean that more poor people in developing countries will have better access to a diverse range of financial services."*

- Measuring the quality of aid management (reporting to a new SmartAid Index)
- Implementing the Good Practice Guidelines for Funders of Microfinance
- Improving field-level coordination
- Exploring how best to partner with the private sector



## Promoting Diverse Institutions and Delivery Channels

CGAP is focused on overcoming the lack of sufficient retail capacity as the single most important bottleneck in scaling up microfinance services for poor people worldwide. To this end, CGAP continued to work with a variety of institutions and delivery channels in FY 2007.

### RETAIL ADVISORY SERVICE

Through the Retail Advisory Service, CGAP helps interested commercial banks develop the services and products that will allow them to serve poor clients. The Retail Advisory Service offers banks and other commercial retail providers a package of technical assistance, co-financed by CGAP and the banks themselves. Services include the following:

- Management information systems (MIS) designed to customize each bank's existing information technology capacity to fit microfinance specifications
- Product and procedure design and integration of microfinance products into the bank's existing services
- New product launches
- Marketing for target-group-oriented campaigns
- Training in good practice microfinance and lending technologies
- Strategic planning and human resource management

As of June 2007, 10 commercial banks with retail activities in Jordan, Kenya, Brazil, South Africa, Pakistan, Egypt, Russia, and Morocco have developed new microfinance services or made substantial improvements to existing products and increased their outreach with technical assistance from CGAP. Examples of the work we have done in FY 2007 include developing housing loans for slum dwellers in Morocco and providing microfinance products through the network of post offices in Jordan. After three years of pilots, the Retail Advisory Service will wind down operations by the end of 2007, and a synthesis on commercial bank downscaling will be prepared.



### SOCIAL PERFORMANCE

Many financial service providers and the organizations that fund them are seeking rigorous and transparent ways to determine whether microfinance is truly achieving social goals, such as improved nutrition, health, housing, and education. The Social Performance Task Force, formed in 2005 by the Ford Foundation, Argidius Foundation, and CGAP, is a group of experts that has taken on the challenge of establishing standardized measures of social performance in microfinance. In FY 2007, CGAP worked with key stakeholders in the Task Force to develop a global reporting format on social performance for MFIs.

In June, CGAP co-hosted the fifth meeting of the Task Force, at which members agreed on a common set of indicators to track three dimensions of social performance:

- **Intent** indicators describe whether institutions have a clearly defined social mission and social goals.
- **Process** indicators consider whether institutions have the operational set-up to track achievement of their social objectives.
- **Results** indicators demonstrate whether institutions are reaching poorer, more marginalized, and more vulnerable populations and whether clients are experiencing positive social and economic changes.

The reporting format will be included on MIX Market. Institutions can choose to report on some or all of the indicators.

To complement this framework, CGAP has also been working with microfinance researcher Mark Schreiner, the Ford Foundation, and Grameen Foundation to develop and promote the Progress Out of Poverty Index (PPI). PPI is a simple, country-specific scorecard that allows MFIs to reliably document and track the poverty levels of their clientele. It is a practical tool for institutions that want to report on results indicators.

## PRO-POOR INNOVATION CHALLENGE

One of the critical challenges facing the microfinance industry is the development of financial products and methodologies for very poor or difficult-to-reach populations. The CGAP Pro-Poor Innovation Challenge (PPIC) seeks to demonstrate that microfinance can reach poorer people and services can be designed to reduce their vulnerability. The program provides awards of up to \$50,000 to small and large institutions that develop innovative financial products and methodologies to serve very poor or marginalized clients. To date, CGAP has granted PPIC awards to 54 MFIs in Asia, Africa, Latin America, and Eastern Europe.

The ninth round of PPIC, which ran in FY 2007, centered on innovative partnerships between financial and nonfinancial services. The winners, selected from an applicant pool of more than 200 institutions from around the world, were Habitat for Humanity (Armenia), BRAC (Southern Sudan), Farm Concern International (Kenya), FINCA (Afghanistan), and Tamweelcom (Jordan). The learning generated from this round will contribute to CGAP's growing body of research on creating appropriate linkages among governments, nongovernmental organizations, and financial service providers to ensure that poor people have access to a variety of financial and nonfinancial services.



## Developing Diverse Pro-Poor Financial Services

CGAP promotes the development of strong and dynamic domestic financial markets that provide quality services to a wide range of poor clients. We place special emphasis on clients who are poorer than those currently reached by microfinance. Depending on their circumstances, the poor need different financial services at different points in time, whether it is a small loan, a safe place to save money, or the ability to transfer or receive cash conveniently and safely. In FY 2007, CGAP scaled up its savings initiative and continued to develop work on international remittances and domestic money transfers. We also continued work on programs for the extremely poor that sequence grant support, livelihood training, and savings training to ultimately “graduate” clients into mainstream microfinance programs.

### SAVINGS

A safe means of saving money is a critical financial tool for poor and vulnerable households. Many poor people want to save as insurance against future emergencies or for future investment or consumption, but they are constrained by the multiple demands on their limited earnings and the lack of appropriate deposit services. Poor people want secure, convenient deposit services that allow for small balances and offer easy access to their funds.

CGAP's savings initiative seeks to improve the knowledge and practice of small savings mobilization among financial institutions, policy makers, and funders. We also work to promote the importance of deposit mobilization as a critical source of funding for microfinance. Over the past two years, CGAP conducted diagnostics in five countries to identify obstacles to providing quality deposit services for poor clients and opportunities for improving their supply. In FY 2007, CGAP published “Safe and Accessible: Bringing Poor Savers into the Formal Financial System,” which synthesized the diagnostics' insight into the complex factors affecting supply and demand for small

deposit services. The assessments also served to test a methodology that will be published as a technical guide for donors and other funders in 2007.

In addition, research has been conducted on the cost of offering small-balance deposit services for MFIs, the role of savings in an institution's capital structure, and the market demand for deposit services. This work is available on the Savings Information Resource Center ([www.cgap.org/savings](http://www.cgap.org/savings)), which offers a user-friendly way to obtain the newest information about small-balance deposit mobilization.

### MONEY TRANSFERS

In recent years, competitive pressures have lowered the price of money transfers and increased the menu of services available between Latin America and the United States and Europe. But progress on international remittances has been uneven in other regions of the world, and clients in many countries still lack access to



affordable, reliable domestic and intraregional money transfer services. CGAP is pursuing an array of activities intended to help financial institutions enter this market.

In FY 2007, CGAP completed a draft technical guide on money transfers that will serve as a tool for MFIs interested in providing money transfer services to their clients. The guide is currently being field tested and will be finalized in December 2007. In March 2007, CGAP and the International Fund for Agricultural Development, the European Union, Spain, UNCDF, Luxembourg, and the Inter-American Development Bank launched a technical assistance fund aimed at increasing the capacity of institutions to offer money transfer services in rural areas.

## GRADUATION PROGRAMS

Because microfinance is an inadequate tool to address severe or chronic poverty, CGAP is working with the Ford Foundation to develop a methodology in which safety net programs that provide grants partner with MFIs to “graduate” people out of food insecurity into appropriate financial services. These pilot projects coordinate a broad package of services (food aid, livelihood training, asset/grant transfer, financial services) to create a pathway for the poorest to escape chronic food insecurity and dependence on subsidies. Over two years, a series of services will be carefully sequenced to first create stability and food security in the household, develop skills, build assets, and finally access financial services. In FY 2007, pilot projects involving approximately 300 participants each were developed in Haiti, India (two pilots), Pakistan, and Yemen. To maximize learning from this program, rigorous impact assessments have been designed to accompany the pilots to determine the effects this approach has on the lives of the poor.



## Communications and Publications

CGAP's objective for all communications, across all technical areas, is maximizing impact.

In FY 2007, CGAP's communications significantly expanded outreach through a series of partnerships—working, for example, with the Microfinance Center in Poland for the Eastern European and Central Asian region—and through the launch of the national networks program in which 12 national and regional groups were selected to distribute CGAP publications in developing countries (particularly in Africa and Latin America). This expansion was marked by a continuing push to translate a steady stream of relevant CGAP publications into six languages and significantly increasing dissemination of print copies of CGAP publications in English and introducing dissemination of CGAP publications in French and Spanish.

### KNOWLEDGE MANAGEMENT

Knowledge management has become a key piece of our communications strategy, underpinning all of CGAP's work. In FY 2007 we pulled together all of CGAP's Web assets onto one platform to improve internal management processes, allow for greater engagement with our partners, and improve our electronic communications.

We ran several successful virtual conferences through the year on the new platform, including one on the future of microfinance that involved 100 participants across five days and fed into the CGAP IV strategy. *Portfolio*, the CGAP newsletter, went electronic, with an average of 22,000 monthly page views.

The second phase of this project involves redesigning the CGAP Web site and further tailoring our electronic and print distribution to ensure consistent, relevant, continuous, and on-time communications. Work on phase two will continue in FY 2008. In FY 2007, [cgap.org](http://cgap.org) received visitors from over 200 countries, with an average of 13,000 unique visitors a month.

### PUBLICATIONS

In FY 2007, CGAP published more than 20 new publications that were then distributed at an average rate of about 5,000 documents a month in hard copy alone. During the year, 100 of our publications were translated into French, Spanish, Portuguese, Arabic, Russian, Chinese, and Bahasa. These translations are available freely on [cgap.org](http://cgap.org), and printed versions in French and Spanish are made available in relevant regions.

### THE MICROFINANCE GATEWAY

The Microfinance Gateway facilitates innovation and engagement in microfinance by making the industry's collective knowledge available and accessible online. Services include access to the latest research and publications, regular highlights of current industry debates and developments, specialized resource centers, organization and consultant profiles, job postings, and current news and events in the field. More than 40,000 individual users from over 150 countries visit the site each month, representing an average month-on-month growth of 4.7 percent in FY 2007.

FY 2007 highlights included the launch of the Social Performance Resource Center, the first Microfinance Gateway discussion blog on IFIs, and a doubling of e-newsletter subscribers and profiled consultants. (For more information, visit <http://www.microfinancegateway.org>.) In addition to the English-language site, which is consistently a top site on Google for "microfinance," the affiliate language sites, in French ([www.french.microfinancegateway.org](http://www.french.microfinancegateway.org)) and Arabic ([www.arabic.microfinancegateway.org](http://www.arabic.microfinancegateway.org)), continued to expand global outreach in cooperation with partner organizations GRET and ADA in France and Sanabel in Egypt. CGAP has also begun a partnership with INCAE Business School in Costa Rica to develop a Spanish language site, *el Portal de Microfinanzas*, with plans to launch in late 2007.

## New Publications

### FOCUS NOTES

- No. 42 CGAP Reflections on the Compartamos Initial Public Offering:  
A Case Study on Microfinance Interest Rates and Profits
- No. 41 Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions
- No. 40 Guaranteed Loans to Microfinance Institutions: How Do They Add Value?
- No. 39 Financial Inclusion 2015: Four Scenarios for the Future of Microfinance
- No. 38 Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation
- No. 37 Safe and Accessible: Bringing Poor Savers into the Formal Financial System

### BRIEFS

Microfinance Investment Vehicles

### PORTFOLIO

- No. 5 One Continent, Many Solutions
- No. 4 Better Aid?

### TECHNICAL GUIDES

Appraisal Guide for Microfinance Institutions  
Format for Appraisal of Network Support Organizations  
Making Money Transfers Work for Microfinance Institutions  
Foreign Exchange Risk Mitigation Techniques  
Commercial Loan Agreements

### CONSENSUS GUIDELINES

Good Practice Guidelines for Funders of Microfinance

### REPORTS

2006 Annual Report  
Pakistan Country-Level Effectiveness and Accountability Review (CLEAR)  
with a Policy Diagnostic  
CGAP Client Survey 2006  
Mobile Phone Banking and Low-Income Customers: Evidence from South Africa  
Diagnostic Reports on the Legal & Regulatory Environment for Microfinance, Algeria

## Monitoring and Evaluation

During FY 2007, CGAP's Investment Committee approved eight new projects, for a total of \$5.3 million, with co-financing of \$1.6 million from CGAP partners. Projects launched this fiscal year included Phase II of our research efforts on small deposit mobilization, the Microfinance Management Institute, a comprehensive Aid Effectiveness Initiative, and increased budget support for CGAP's global policy efforts. CGAP has 33 open projects. To monitor and evaluate these projects, CGAP uses a combination of activities, including review by the Investment Committee, internal monitoring reports, annual work plan reports, work plan updates to the Council of Governors and Executive Committee, and monthly activity highlights that are circulated among the Council of Governors and other stakeholders.

### INTERNAL MONITORING

Performance threshold targets and monitoring indicators are established at the outset of all CGAP projects as part of the proposal process. These proposals are reviewed and approved by an Investment Committee consisting of senior World Bank technical staff and an Executive Committee representative. Monitoring reports are completed for all projects either semi-annually (for external grants) or annually (for internally managed initiatives). At the end of each project, a final report is prepared highlighting key accomplishments, failures, and lessons learned. These reports are available to CGAP members and other interested partners.

### EXTERNAL EVALUATIONS

CGAP commissions independent external evaluations of major initiatives to measure outcomes against the objectives of specific projects. In recent years, several external evaluations have been conducted for the Rating Fund, the Microfinance Gateway, and the Microfinance Information Exchange as well as CGAP as a whole in its Phase III. CGAP expects to continue this practice. Like many development organizations, CGAP is continuously reassessing its monitoring and evaluation system with a view toward strengthening the way it monitors its activities. In FY 2007, CGAP initiated a process to review and improve its monitoring and evaluation system. The evaluation resulted in three key recommendations: (1) to identify output indicators that cross thematic areas of work (e.g., technical assistance, research, publications, dissemination), (2) to collect citations and other evidence of CGAP's impact, and (3) to choose a small sample of projects for external impact assessments. These suggestions will be incorporated as CGAP reforms its system going forward.

Client-level impact assessments will be conducted on various pilot initiatives going forward. The CGAP/Gates Technology Program and the graduation pilots have built-in impact assessment components, where baseline surveys and, in some instances, control groups have been created at the outset of the activity.

# CGAP Strategy *Going Forward*

As microfinance continues its rapid transformation, CGAP must also evolve to meet the changing needs and challenges of the industry. In June 2007, CGAP's Council of Governors endorsed a new strategy that will guide CGAP for the next five years (2008–2013). This strategy was shaped by extensive industry-wide consultations, including a scenario-building exercise that analyzed key global forces impacting the future of microfinance, a global client survey, an independent external mid-term evaluation of CGAP, a virtual conference on the future of microfinance and the role CGAP should play, and focus groups with microfinance practitioners, donors, investors, and policy makers in different regions of the world.



Over the next five years, CGAP's overarching objective remains helping to build financial systems that work for the poor, with a particular emphasis on building local, deposit-driven markets. CGAP's focus, for at least the next five years, is to ensure that those local financial markets are **equitable** and **efficient** and that finance for the poor is fully integrated into mainstream markets.

By **equitable** we mean ensuring that the increasing commercial focus of microfinance, or access to finance, does not leave some poor people, regions, or countries behind; that subsidies are equitably allocated; that loan and other service costs are competitive, ethical, and transparent; and that sound business practices are respected. We aim to ensure that financial service access contributes to reducing poverty.

By **efficient** we mean improving the way local financial systems operate. At the institutional level, this means lowering transaction costs for clients through technology, streamlined operations, and enhanced competition. It also means effective aid delivery and investment mechanisms on the part of international and domestic funders. Sound and deep market infrastructure, good information, and policies that stimulate access while protecting clients are critical to efficient and equitable domestic financial markets.

The next phase of CGAP's work will focus on three roles that emerge from our distinct comparative advantage:

- Developing standards and providing advocacy and advisory services around those standards
- Providing objective, high-quality market intelligence complemented by sector data and analytics
- Supporting experimental new approaches, delivery channels, and product designs

An important value that cuts across each of these roles is our aim to be an informed, credible, and objective industry organization that is able to raise controversial issues and advocate for difficult change and reform. We seek to be open to all views and to be free to take well-considered, even if unpopular, positions. We seek to stimulate and facilitate industry debate. CGAP aims to leverage the first- and second-generation comparative advantage it has earned as an asset to further its mission.

With the rapid growth, commercialization, and high profile microfinance has gained, we will commit to asking the tough questions and helping to bring deep issues to light. We will invite discussion around the intersection of social and commercial aims and the trade-offs involved in microfinance. We will explore, provide data, and engage with industry critics on the extent to which microfinance can benefit very poor and disadvantaged people. We will examine the risks and advantages of burgeoning cross-border funds. In short, we will use the objectivity our structure permits to confront even the most controversial issues in the business of providing financial services to poor people.

# Governance Structure

CGAP has an autonomous governance structure that consists of the Council of Governors (CG) of member donors, the Executive Committee (Excom), and the Investment Committee (IC). Housed at the World Bank, the operational team implements CGAP's activities.

The CG is CGAP's highest governing body and operates as a general assembly. It is responsible for setting CGAP's broad policies and strategic direction, providing inputs to the annual work plan and budget, adopting and implementing CGAP consensus documents and guidelines, and determining the extension or disbandment of CGAP. The CG has 33 members—bilateral and multilateral agencies, regional development banks, private foundations, and IFIs—that are committed to building inclusive financial systems.

The Excom functions as CGAP's board and executive governing body. It has oversight of CGAP's activities and is responsible for providing strategic guidance to the operational team and approving the work plan and budget on behalf of the CG. The Excom is composed of representatives of the CG and leading microfinance industry experts.

The IC provides fiduciary oversight. The IC makes decisions on key CGAP investment allocations and allocations for projects with budgets of more than \$100,000. The IC meets several times a year and consists of senior-level World Bank Group managers.

The operational team, overseen by the CGAP management team, implements CGAP's activities and programs. A representative office in Paris provides outreach and advisory services to funders.



# Member Donors 2007

## MULTILATERAL MEMBER DONORS

### **African Development Bank (AfDB)**

Temporary Relocation Agency  
Representatives: Mr. Mohamed Alin  
and Mr. Philibert Afrika  
1002 Tunis Belvédère  
BP 323 Tunis  
Tunisia  
[www.afdb.org](http://www.afdb.org)

### **Asian Development Bank (AsDB)**

Rural Finance Department  
Representative: Mr. Nimal Fernando  
6 ADB Avenue  
P.O. Box 789  
0980 Manila  
Philippines  
[www.adb.org](http://www.adb.org)

### **European Commission (EC)**

EuropeAid  
Representatives: Mr. David Domes  
and Mr. Amadou Traore  
Rue de la Loi 41  
B-1040 Brussels  
Belgium  
[www.europa.eu.int](http://www.europa.eu.int)

### **European Bank for Reconstruction and Development (EBRD)**

Representatives: Ms. Chikako Kuno  
and Ms. Maria Teresa Zappia  
One Exchange Square  
London, EC2A 2JN  
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### **European Investment Bank (EIB)**

Representatives: Mr. Cyrille Arnould  
and Mr. Edvardas Bumsteinas  
100 Boulevard Konrad Adenauer  
L-2950 Luxembourg  
[www.eib.org](http://www.eib.org)

### **Netherlands Development Finance Company (FMO)**

Representatives: Mr. Els Boerhof  
and Mr. Arthur Arnold  
P.O. Box 93060  
2509 AB The Hague  
The Netherlands  
[www.fmo.nl](http://www.fmo.nl)

### **Inter-American Development Bank (IDB)**

Micro, Small and Medium Enterprise  
Division  
Representatives: Mr. Alvaro Ramirez and  
Mr. Dieter Wittkowski  
1300 New York Ave., N.W.  
Washington, DC 20577  
USA  
[www.iadb.org](http://www.iadb.org)

### **International Finance Corporation (IFC)**

Representatives: Mr. Michael Klein, Mr.  
Matthew Gamser, and Ms. Mamta Shah  
2121 Pennsylvania Ave., N.W.  
Washington, DC 20433  
USA  
[www.ifc.org](http://www.ifc.org)

### **International Fund for Agricultural Development (IFAD)**

Technical Advisory Division  
Representatives: Mr. Francesco Rispoli  
and Ms. Jamie Anderson  
Via del Serafico, 107  
00142 Rome  
Italy  
[www.ifad.org](http://www.ifad.org)

### **International Labour Office (ILO)**

Social Finance Program  
Representatives: Mr. Bernd Balkenhol  
and Mr. Craig Churchill  
4, route des Morillons  
CH 1211 Geneva 22  
Switzerland  
[www.ilo.org](http://www.ilo.org)

### **Multilateral Investment Fund (MIF)**

Representatives: Ms. Sandra H. Darville  
and Mr. Donald Terry  
1300 New York Ave., N.W.  
Washington, DC 20577  
USA  
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### **United Nations Capital Development Fund (UNCDF)/UNDP**

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Mr. Henri Dommel, and Mr. John Tucker  
Two United Nations Plaza, 26th Floor  
New York, NY 10017  
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### **The World Bank Group**

Representative: Mr. Carlos Cuevas  
1818 H St., N.W.  
Room J 10-077  
Washington, DC 20433  
USA  
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## BILATERAL MEMBER DONORS

### **AUSTRALIA**

#### **Australian Agency for International Development (AusAID)**

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**Mr. Vijay Mahajan (BASIX)**

Global

**Ms. Elizabeth Littlefield (CEO CGAP)**

Ex officio

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# Staff Biographies

**Elizabeth Littlefield**, *Director and CEO*. Elizabeth Littlefield is a director of the World Bank and the chief executive officer of CGAP. Previously she was the managing director of JP Morgan's Emerging Markets Capital Markets in London. As such, she was responsible for all bond offerings, structured financing, and credit ratings for emerging Europe, Middle East, Africa, and Central Asia. She and her team won and executed more than 80 percent of all bond issues in these regions in the 1990s. Earlier, Littlefield spent a year-and-a-half living in West and Central Africa starting up and advising microfinance institutions. She has served on many corporate and nonprofit boards and founded several not-for-profit organizations. A U.S. and U.K. citizen, Littlefield is a graduate of Brown University in Rhode Island and also studied at the École Nationale de Sciences Politiques in Paris.

**Julia Abakaeva**, *Microfinance Specialist*. Julia Abakaeva joined CGAP's Retail Advisory Service program in 2005. Before joining CGAP she was a consultant at Internationale Project Consult for nine years. She has a master's degree in Finance and Management from Clark University. She speaks English and Russian.

**Malika Anand**, *Associate Microfinance Analyst*. Malika Anand joined CGAP in 2006. Before joining CGAP she spent a year in the Dominican Republic on a Fulbright Fellowship. She has a bachelor's degree from the University of Chicago in Public Policy Studies with a minor in South Asian Languages and Civilizations. She speaks English, Spanish, and rudimentary Hindi.

**Abigail Augusta**, *Associate Microfinance Analyst*. Abigail Augusta works on the Microfinance Gateway. Before joining CGAP in 2007, she worked at a community development credit union as a financial literacy trainer with Dominican immigrants in New York. She holds a master's degree in International Development from the New School and a bachelor's degree in Ethnomusicology from Dartmouth College. She speaks English, Spanish, and some Portuguese.

**Carmencita B. Clay**, *Budget Officer*. Carmencita Clay joined CGAP in 1995. She handles all budget issues, administers CGAP's trust funds, and works with member donors on commitments to CGAP. Before joining CGAP, Clay worked at the U.S. Agency for International Development/Philippines, the Asian Development Bank, and various departments in the World Bank. Clay has a bachelor's degree in Commerce and Accounting from the Philippines College of Commerce.

**Ann Courtmanche**, *Senior Program Assistant*. Ann Courtmanche works on CGAP's policy advisory initiative. Before joining CGAP in 2006, Courtmanche was an international market analyst for U.S. Wheat Associates. She has a master's degree in Agricultural Economics from Rutgers University and a bachelor's degree in Economics and French Literature from Hobart & William Smith Colleges.

**Tiphaine Crenn**, *Microfinance Analyst*. Tiphaine Crenn joined CGAP in 1998. She is currently a member of the Africa Team and concentrates on policy and communications in Sub-Saharan Africa. Before joining CGAP, Crenn worked as a translator and bilingual lexicographer. She has a master's degree in Translation from the University of Ottawa, Canada. She speaks English and French and is proficient in Spanish.

**Rula Dababneh**, *Senior Microfinance Specialist and MENA Hub Director*. Rula Dababneh joined CGAP in 2005 to manage CGAP MENA Initiative activities to scale up microfinance in the Arab World. Before joining CGAP, she was a managing director at ShoreBank International. Dababneh has over 20 years' experience in the finance, banking, private, and business development sectors. She has a master's degree in International Financial Management from the University of Glasgow. She speaks Arabic and English.

**Aude de Montesquiou**, *Associate Microfinance Analyst*. Aude de Montesquiou has worked on aid effectiveness in microfinance at CGAP since August 2005. Before joining CGAP, she worked on microfinance impact assessments at PlaNet Finance in Paris. She has a master's degree in Development Studies from the School of Political Science in Paris and studied Literature, Law and History at University of la Sorbonne.

**Eric Duflos**, *Microfinance Specialist*. Eric Duflos joined CGAP in 2003. He is based in CGAP's Paris office where he manages the Country-Level Effectiveness and Accountability Reviews. Before joining CGAP, Duflos spent 7 years in Laos, where he worked with the United Nations and the World Bank to help set up microfinance institutions and policy frameworks. He has a master's degree in Management from the Lyon EM and a master's degree in Economics and International Relations from Johns Hopkins. He speaks English and French and knows German and Lao.

**Evelyne Fraigneau**, *Director's Assistant*. Evelyne Fraigneau joined CGAP in 1999. She provides assistance to the director and CEO. 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**, *Microfinance Analyst*. Jasmina Glisovic-Mezieres joined CGAP in 2004. She works with the savings team and the aid effectiveness team in CGAP's Paris office. Before joining CGAP, she worked as a credit manager for the Danish Refugee Council (Serbia) and for the Micro Development Fund. She has a master's degree in Marketing and Business Administration. She speaks English and Serbo-Croatian and is proficient in French.

**Idawati Harsongko**, *Team Assistant*. Idawati Harsongko joined CGAP in 2003 as a member of the budget and administration team. Previously, Harsongko worked as a team assistant for the World Bank Indonesia Country Office Human Development Unit. She received a 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, including the development of social performance indicators for tracking changes in the social and economic levels of microfinance institution 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. Hashemi has a Ph.D. in Economics from the University of California at Riverside. He speaks English, Bangla, and conversational Hindi.

**Martin Holtmann**, *Lead Financial Specialist*. Martin Holtmann joined CGAP in 2003 to co-manage its cooperation with commercial banks and large retail organizations. Before joining CGAP, he was managing director of Internationale Projekt Consult, where he provided advisory assistance to banks and credit-granting nongovernmental organizations in Eastern Europe and the newly independent states, Africa, and Latin America. Holtmann 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 Germany. Holtmann speaks English, German, Spanish, and Russian and is proficient in French.

**Claudia Huber**, *Associate Microfinance Analyst*. Claudia Huber joined CGAP's aid effectiveness team in Paris in May 2006. Previously, she worked with Banco los Andes ProCredit in Bolivia, where she was trained as a credit officer. She has a master's degree in Business Administration/Economics and a CEMS Master in International Management from the University of St. Gallen. Huber is fluent in German, English, French, and Spanish.

**Jennifer Isern**, *Lead Microfinance Specialist*. Jennifer Isern joined CGAP in 1996. She has 18 years of experience in development, including more than five years living in West Africa managing institutions. She leads CGAP's Africa team and coordinates CGAP's money transfers initiative. Before joining CGAP, Isern was the regional technical adviser for economic development in West and Central Africa with Care International. She has a master's degree from Princeton University and is a Chartered Financial Analyst. She speaks English and French and is proficient in Spanish.

**Gautam Ivatury**, *Microfinance Specialist*. Gautam Ivatury joined CGAP in 2003. He manages the Microfinance Technology Program and works on several CGAP initiatives in India. Before joining CGAP, Ivatury was vice president of Finance and Administration at SKS Microfinance in India, an investment analyst at International Finance Corporation, and co-founded a startup education technology venture. He has a master's degree in International Affairs from Johns Hopkins University. He is proficient in French and Hindi.

**Farai Jena**, *Associate Microfinance Analyst*. Farai Jena joined CGAP in 2006. She provides research support across teams and to the director and CEO. She also works on project activities in the Africa team and on pro-poor innovation. Before joining CGAP, she interned as a corporate finance analyst with Deutsche Bank in London. Jena has a bachelor's degree in Mathematics and Economics from Mount Holyoke College.

**Nora Kim**, *Communications Assistant*. Nora Kim joined CGAP in 2006. She assists in the development of CGAP's technology platform and oversees special projects, including the CGAP Microfinance Photography Contest. Kim has a bachelor's degree in International Affairs and History from George Washington University. She is fluent in English and Korean and is proficient in French and Spanish.

**Kabir Kumar**, *Microfinance Analyst*. Kabir Kumar is currently working on CGAP's Technology Program. He designs experiments and builds partnerships to use cell phones and other technologies to expand access to finance. He was an IT and telecom marketing and strategy consultant and has worked at the World Bank on gender equality and economic growth. Kumar has a dual masters in Public Administration and International Relations from the Maxwell School of Syracuse University.

**Antonique Koning**, *Program Coordinator*. Antonique Koning coordinates 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. Koning has a master's degree in International Trade Management and Policy from the University of Birmingham. She speaks English, Spanish, French, and Dutch.

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**Alexia Latortue**, *Senior Microfinance Specialist*. Alexia Latortue joined CGAP in 2002 and is based in CGAP's Paris office. She leads CGAP's work on improving the effectiveness of funding for microfinance and provides strategic and technical services to development agencies. Latortue has written extensively on aid effectiveness in microfinance. Before joining CGAP, Latortue was a development specialist with Development Alternatives, Inc. 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.

**Timothy Lyman**, *Senior Policy Adviser*. Timothy Lyman joined CGAP full-time in 2005 following many years advising CGAP and various CGAP members on legal and regulatory policy issues in a consulting capacity. He is a co-author of CGAP's *Guiding Principles on Regulation and Supervision of Microfinance*. He has worked in community development for over 20 years in the United States and internationally, during much of this time as a partner of the law firm of Day, Berry & Howard and president of its affiliated philanthropic foundation, the Day, Berry & Howard Foundation. He holds a bachelor's degree from Harvard University and a law degree from New York University School of Law. He speaks English, French, Spanish, and Bosnian/Croatian/Serbian, as well as conversational German and Russian.

**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.

**Kate McKee**, *Senior Adviser*. Kate McKee joined CGAP in September 2006 as senior adviser for Policy, Outreach, and Aid Effectiveness. She is acting director of the savings team and is carrying out several special projects. From 1998 McKee served as director of the Microenterprise Development office at the United States Agency for International Development. McKee is a development economist, with a master's degree in Public and International Affairs from the Woodrow Wilson School of Princeton University.

**Patricia Mwangi**, *Microfinance Specialist*. Patricia Mwangi joined CGAP in 1999. She works on deepening CGAP's outreach in Africa and manages the Financial Transparency Award. Before joining CGAP, Mwangi worked as an external auditor and management consultant with PricewaterhouseCoopers, Kenya. She has a master's degree in Administration from the Australian Catholic University and is a Certified Public Accountant.

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**Klaus Prochaska**, *Associate Microfinance Analyst*. Klaus Prochaska has been part of CGAP's Policy Team since September 2006. He holds a law degree from the University of Vienna in Austria and gained some years of legal work experience at the Austrian courts as well as in the private sector before pursuing a masters degree in International Development at the Johns Hopkins School of Advanced International Studies. He is fluent in English, German, Spanish, and Italian.

**Lauren Reese**, *Associate Microfinance Analyst*. Lauren Reese works with CGAP's Technology Program, including coordination of the Technology Fund, research, and program activities. Reese holds a master's degree in International Development and Economics from Johns Hopkins University, School of Advanced International Studies, and a bachelor's degree in Political Economy from the University of California, Berkeley.

**Xavier Reille**, *Lead Microfinance Specialist*. Xavier Reille joined CGAP in 1999. He leads the CGAP Transparency Team and chairs the board of directors of the Microfinance Information eXchange. He is also director of CGAP's MENA initiative. Before joining CGAP, he was the regional microfinance adviser for Southeast Asia with Catholic Relief Services. Reille has a master's degree in International Finance from the University of Paris. He speaks French, Spanish, English, and Bahasa Indonesian.

**Jim Rosenberg**, *Communications Officer*. Jim Rosenberg joined CGAP in March 2007 to manage all aspects of strategic communications for the Microfinance Technology Program. Before joining CGAP, he was a producer for XM Satellite Radio's public affairs channel. Rosenberg has a master's degree in Journalism from Columbia University and attended the Universidad de Sevilla (Spain) for one year as a Rotary Foundation Ambassadorial Scholar. He speaks English and Spanish.

**Richard Rosenberg**, *Senior Adviser*. Richard Rosenberg joined CGAP in 1995. He has written or contributed to a dozen CGAP publications. He is a core faculty member of the Microfinance Training Program at the Boulder Institute. Before joining CGAP, Rosenberg was deputy director of the U.S. Agency for International Development's Center for Economic Growth and spent nine years in Latin America managing investment promotion, privatization, pension reform, and development finance. 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 a broad range of activities, including external reporting, member services, reviewing publications, and preparing key corporate outputs. Before joining CGAP, Sananikone worked in the Small and Medium Enterprise Unit of the Private Sector Department of the World Bank, where she provided research and technical support to the regions on SME and microfinance projects. Sananikone holds a master's degree in International Affairs from the School of Foreign Service at Georgetown University and a bachelor's degree in Political Science from Trinity College in Washington, D.C. She is fluent in Lao, Thai, French, and English.

**Hannah Siedek**, *Microfinance Analyst*. Hannah Siedek joined CGAP in 2003 as part of the aid effectiveness team in Paris helping private and public microfinance funding organizations use their resources more effectively. Since early 2006, Siedek has been based in Washington, D.C., where she also provides support to CGAP's Technology Program. 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.

**Sherry Sposeep**, *Microfinance Gateway Manager*. Sherry Sposeep joined CGAP in 2007. She manages the Microfinance Gateway, as well as its French, Arabic, and upcoming Spanish affiliate sites. Before joining CGAP, she managed a microfinance research project at Chemonics International. Sposeep has a master's degree in Development Management from American University. She speaks English and intermediate Russian.

**Jeanette Thomas**, *Communications Manager*. Jeanette Thomas joined CGAP in 2004 as the manager of the Communications Team. Before joining CGAP, Thomas was news editor and senior producer in the BBC's Washington Bureau. She started her 11-year tenure at BBC in London, producing radio documentaries and *Start the Week* with Melvyn Bragg, BBC Radio 4's longest running discussion program. In 2003–2004, she produced a series of films for the World Bank on development projects in the Middle East. She has a master's degree and doctorate in English Literature from Oxford University. She speaks English, French, and rudimentary Spanish.

**Olga Tomilova**, *Consultant for Europe and Central Asia*. Olga Tomilova joined CGAP in 2007. She represents CGAP in ECA and is based in Moscow, Russia. Before joining CGAP, she managed the Central Asia Microfinance Center, a joint project of the Microfinance Centre for CEE and the NIS (MFC) and CGAP in Kazakhstan. She worked at MFC as manager of the training and consulting department. She has a degree in History, Social Sciences, and Applied Sociology from Nizhny Novgorod State University in Russia. She speaks English and Russian.

**Louise Westerlind**, *Associate Microfinance Analyst*. Louise Westerlind joined the Financial Transparency Team at CGAP in March 2007. Her responsibilities include the Microfinance Capital Markets Update newsletter, the Rating Fund, and the Financial Transparency Award/Certificate. Before coming to CGAP, Westerlind worked as an analyst at the Securities & Investments practice at Celent. She has a degree from Copenhagen Business School and Hong Kong University of Science and Technology. Westerlind is fluent in Swedish and English, proficient in Danish and German, and beginner in Mandarin.

**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 Associate Microfinance Analyst Program and internship initiatives. Before joining CGAP, Wright worked in local government training, technical assistance, and capacity-building, both domestically and internationally. 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.

# Financial Statements

## YEAR ENDING JUNE 30, 2007

CGAP is a trust-funded joint venture consortium of 33 members with a mandate of improving 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. 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. Internal audits are performed by the World Bank.

### KEY HIGHLIGHTS

**Donor Contributions.** Donor contributions and pledges for 2007 (\$19.3 million) increased compared to 2006 (\$14.1 million). This is mainly because of the sizeable contribution from the Bill and Melinda Gates Foundation toward the CGAP/Gates Technology Initiative.

**Grant Commitments.** In 2007, CGAP committed \$10.7 million in new grants and initiatives. This included \$6 million in improving access to technology by financial institutions, a \$1.4 million increase to the Policy Initiative, a \$0.6 million increase to the Microfinance MBA project, and \$0.39 million for the second phase of the Savings Initiative. CGAP continued to generate donor co-financing for its initiatives. On the technology initiative alone, CGAP's investment of \$2 million was matched by Gates Foundations' \$24.2 million. CGAP's commitment of \$740,000 toward building sustainable information systems for MFIs was matched by a contribution of \$800,000 from the European Commission.

**Operating Expenses.** Operating expenses went down slightly to \$8.2 million (\$8.6 million in 2006). This was because of lower staff costs from attrition and lower office and occupancy costs. The mid-term evaluation that began in late 2006 was fully implemented in 2007. CG and ExCom meetings expenses were higher than last year because there were two CG meetings in fiscal year 2007, one in November and one in June as a result of a request from the CG to change the date.

**Financial Position.** CGAP's financial position is sound. At the end of FY 2007, operating reserves stood at \$9.9 million, up by \$3 million from fiscal year 2006 (\$6.9 million). These reserves are meant to smooth the planning and execution of ongoing CGAP activities and cushion the effect of delays in donor contributions.

## Notes

### 1. Basis of Accounting

CGAP changed its financial reporting to accrual based in 2003. This 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 but often 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. Contributions from Donors—Core and 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, in exceptional cases, limited to a specific purpose (designated). Amounts of donor contributions to CGAP's core funds can also be found in the table on page 42 CGAP Member Donor Commitments, Fiscal Years 2006–2008.

The Statement of Revenues and Expenses shows donor contributions allocated for fiscal years 2006 and 2007. The Statement of Cash Flows/Inflows shows all donor contributions received during the fiscal year regardless of the fiscal year to which they relate.

### 3. Interest Income and Foreign Exchange Gains

Interest Income is the interest received during 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 in 2007 was \$2.1 million. Although there was foreign exchange loss in 2006, there was a gain in 2007.

### 4. Grants and Initiatives

This expense category relates to CGAP's work program via grants to MFIs, networks, and initiatives focused on policy

issues, financial and social transparency, accountability, technology development, transfers/remittances, and other multicomponent projects managed by CGAP staff. Project-related commitments for consultants and travel come out of 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.

## 5. Operating Expenses

Operating expenses are comprised of the following:

- 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.
- CGAP Phase III Evaluation includes costs of consultants, travel, and meetings related to the external evaluation of CGAP. The evaluation is a requirement to determine whether CGAP should go into phase IV.
- CGAP Internships include the costs of associate microfinance analysts and the summer fellows program.
- CGAP Staff Travel/Representation and Service Providers include costs that are not related to grants and initiatives (airfare, subsistence, and hotel costs to attend public presentations, conferences, external training travel, recruitment travel, liaison with external actors, meeting facilitators, presentors, trainers of CGAP staff, CGAP cocktails, etc.).
- Communications Activities include commitments for publishing, printing, translating, editing, Web site development and maintenance, publications and Web site managers, Microfinance Gateway costs, etc.
- CG and Excom Meetings include travel, facilities, food services, and other expenses connected with the CG and ExCom meetings.
- Foreign exchange loss is 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.
- Cancelled pledge is donor contributions included in the previous year's financial statements that were subsequently cancelled.
- Administration fees are levied by the World Bank for costs related to trust fund administration (currently at 5% of contribution).

## 6. 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.

## 7. Bank Balances

Bank balances on hand represent CGAP's available cash balances. In FY 2007, this amount was \$9.5 million, a decrease of \$0.7 million compared to 2006 (\$10.2 million).

Bank balances representing approved commitments that are in the process of being disbursed and hence not available for new commitments were \$23.4 million in FY 2007.

## 8. Donor Contributions Receivable

	FY07	FY06
Dell Foundation	100,000	100,000
European Commission	1,227,600	1,227,600
Ford Foundation		200,000
Gates Foundation	157,500	157,500
Germany	317,250	331,250
IFAD	600,000	600,000
Japan	300,000	
Norway	456,236	471,143
Spain	384,630	361,830
Sweden	417,944	391,430
<b>TOTAL</b>	<b>3,961,160</b>	<b>3,840,753</b>

## 9. 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.

## 10. Contributions Received in Advance

	FY07	FY06
World Bank	2,150,000	6,375,000
Australia	559,130	359,250
France	388,112	
United Kingdom	482,750	444,625
<b>TOTAL</b>	<b>3,579,992</b>	<b>7,178,875</b>

In April 2005, the World Bank's legal department determined that interest income that had accumulated on the CGAP trust fund over the last 10 years belonged to CGAP and transferred these funds to CGAP. 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. In 2006, CGAP allocated \$4.6 million of this interest income toward on-going operations. In 2007, CGAP allocated \$4.2 million leaving a balance of \$2.2 million, which will be allocated in 2008.

CGAP  
FINANCIAL STATEMENTS  
Fiscal Years Ending June 30, 2007, and June 30, 2006

	Notes	Actual July 2006– June 2007	Actual July 2005–June 2006
<b>STATEMENT OF REVENUES AND EXPENSES</b>			
<b>Revenues</b>			
Contributions from Donors—Core & Designated	2	19,285,897	14,129,420
Interest Income		2,110,579	1,151,567
Foreign Exchange Gains	3	153,806	
<b>Total Revenues (A)</b>		<b>21,550,282</b>	<b>15,280,987</b>
<b>Expenses</b>			
Grants/Initiatives Committed	4	4,534,478	8,335,341
CGAP/Gates Technology Initiative		6,003,317	
Staff Salaries and Benefits	5	2,728,885	3,381,740
Office and Occupancy Costs	5	1,310,610	1,698,207
CGAP Phase III Evaluation		239,993	164,040
Project Preparation and Rapid Response		454,835	
CGAP Internships		410,000	
CGAP Travel/Representation and Serv. Providers	5	475,779	290,892
Communications Activities	5	1,346,900	1,507,904
CG and ExCom meetings	5	275,497	177,409
Foreign Exchange Losses	5		31,644
Cancelled Pledges		200,000	600,000
Administration Fee	5	530,990	409,733
<b>Total Expenses (B)</b>		<b>18,511,283</b>	<b>16,596,909</b>
<b>Excess of Revenues over Expenses for the year (A)-(B)</b>		<b>3,038,999</b>	<b>(1,315,922)</b>
Operating Reserves at beginning of the fiscal year		6,900,779	8,216,701
<b>Operating Reserves at the end of the fiscal year</b>	<b>6</b>	<b>9,939,778</b>	<b>6,900,779</b>
<b>BALANCE SHEET</b>			
<b>Assets</b>			
Bank Balances on hand	7	9,558,610	10,238,901
Bank Balances relating to Undisbursed Grants/ Initiatives and Communications Activities	7	23,374,656	23,631,509
Donor Contributions Receivable	8	3,961,160	3,840,753
<b>Total Assets</b>		<b>36,894,426</b>	<b>37,711,163</b>
<b>Liabilities</b>			
Bank Balances relating to Undisbursed Grants/ Initiatives and Communications Activities	9	23,374,656	23,631,509
Contributions Received in Advance	10	3,579,992	7,178,875
<b>Total Liabilities</b>		<b>26,954,648</b>	<b>30,810,384</b>
<b>Operating Reserves/(Net Assets)</b>	<b>6</b>	<b>9,939,778</b>	<b>6,900,779</b>
<b>Total Liabilities and Net Assets</b>		<b>36,894,426</b>	<b>37,711,163</b>

## STATEMENT OF CASH FLOWS

## Inflows

Donor Contributions received	10	15,007,884	8,638,116
Interest Income		2,110,579	1,151,567
Foreign Exchange Gains		153,806	-
<b>Total Inflows</b>		<b>17,272,269</b>	<b>9,789,683</b>

## Outflows

<b>Cash spent against previous commitments</b>		<b>8,592,836</b>	<b>8,058,109</b>
Grant Disbursements		4,471,439	5,114,862
Disbursements related to initiatives		4,121,397	2,943,247
<b>Cash spent against current year commitments</b>		<b>917,381</b>	<b>1,469,440</b>
Grant Disbursements		11,560	661,053
Disbursements related to initiatives		450,986	808,387
Project Preparation and Rapid Response		454,835	
<b>CGAP/Gates Technology Initiative</b>		<b>483,874</b>	<b>—</b>
Grant Disbursements			
Disbursements related to initiatives		483,874	
<b>Operating expenses</b>		<b>8,215,322</b>	<b>8,574,639</b>
Staff Salaries and Benefits		2,728,885	3,381,740
Office and Occupancy Costs		1,310,610	1,698,207
CGAP Phase III Evaluation		239,993	164,040
CGAP Internships		337,877	
CGAP Staff Travel/Representation and Service Providers		475,779	290,892
Communications Activities		2,115,691	1,820,975
CG and ExCom meetings		275,497	177,409
Foreign exchange loss			31,644
Cancelled pledge		200,000	600,000
Administration Fee		530,990	409,733
<b>Net increase/(decrease) in undisbursed grants/initiatives, and communications activities</b>		<b>(256,853)</b>	<b>(2,029,269)</b>
<b>Total Outflows</b>		<b>17,952,560</b>	<b>16,072,919</b>
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>(680,290)</b>	<b>(6,283,236)</b>
Bank balances on hand at beginning of the fiscal year		10,238,901	16,522,137
<b>Bank balances on hand at end of the fiscal year</b>		<b>9,558,610</b>	<b>10,238,901</b>

**CGAP ONGOING GRANTS AND INITIATIVES**

As of June 30, 2007

	<b>Commitments</b>
CGAP/Gates Technology Program	8,160,817
Policy Initiative	3,732,000
Microfinance MBA	3,287,000
Retail Advisory Services	3,250,000
CAPAF Phase II	2,431,898
MENA Initiative	1,890,000
BCEAO Regional Regulation & Supervision	1,523,502
MIX Phase II	1,500,000
Microsave Africa III	1,500,000
Microfinance Technology Program	1,250,000
Rating Fund III	1,050,000
Pro-Poor Innovation Challenge Phase II	1,000,000
CIDR East Africa Initiative	974,000
MISFA II	958,791
Financial Transparency Awards II & III	745,000
WOCCU Supervisory Toolkits & TA	742,000
IS Project, Phase II	740,000
Money Transfers Phase II	622,800
Central Asia Microfinance Center	594,400
Graduating Poorest into Microfinance	570,000
CLEARs	568,000
China Capacity Building	440,000
Savings Initiative II	385,000
Regulation & Supervision Resource Center, Phase III	372,900
Microcredit Interest Rate Sensitivity Study	244,930
Social Indicators	240,000
Microsave Latin America	180,000
Regulation for Alternative Distribution	90,000
Staff Incentives Scheme Action Plan	84,000
Course Updates and Global TOTs	80,850
Microinsurance	65,000
	<b>39,272,888</b>

**CGAP ONGOING COMMUNICATIONS ACTIVITIES**

	<b>Commitments</b>
Microfinance Gateway II	1,735,655
International Translation Project	922,500
Communications Activities	859,780
CGAP Web sites	340,844
National and Regional Networks Program	335,904
International Associates Program	98,000
	<b>4,292,683</b>

CGAP MEMBER DONOR CONTRIBUTIONS AND PLEDGES, FISCAL YEARS 2006–2008 (IN US \$)<sup>\*1</sup>

Core	FY2006	FY2007	FY2008
World Bank	5,125,000	4,725,000	2,650,000 <sup>*2</sup>
Argidius Foundation	100,000	99,985	
Australia	697,550	359,250	279,565
Canada	428,119	466,157	466,157
Dell Foundation	100,000	100,000	
Denmark	476,984	522,362	
European Commission	665,200	600,000	600,000
European Investment Bank	242,040	256,220	
Finland	334,256		
Ford Foundation			
France	183,750	190,245	168,975
Gates Foundation	157,500	157,500	157,500
Germany	317,250	317,250	
IFAD			
IFC	300,000	300,000	300,000
Italy			
Japan	300,000	300,000	
Luxembourg	421,395	464,635	464,635
Netherlands	400,000	400,000	400,000
Norway	456,236	456,236	456,236
Spain	384,630	384,630	384,630
Sweden	417,944	417,944	417,944
Switzerland	399,975	399,980	400,000
United Kingdom	474,938	444,625	482,750
United States			300,000
<b>Core</b>	<b>12,382,767</b>	<b>11,362,019</b>	<b>7,928,392</b>
<b>Designated</b>	<b>1,700,460<sup>*3</sup></b>	<b>7,923,878<sup>*4</sup></b>	<b>7,288,895<sup>*5</sup></b>
<b>TOTAL</b>	<b>14,083,227</b>	<b>19,285,897</b>	<b>15,217,287</b>

\*1 Contributions not yet received are italicized.

\*2 Of the originally budgeted World Bank contribution for FY 2008, \$500,000 is the new annual contribution and \$2,150,000 comes from the remaining balance of the \$11 million interest income transferred to CGAP in 2005.

\*3 European Commission, IFAD, and Sweden.

\*4 European Commission, France, Gates Foundation, IFAD, Sweden

\*5 European Commission, France, Gates Foundation, Sweden

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