

### Consultative Group to Assist the Poor (CGAP)

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<b>Financial Arrangements for FY09 (Amount in US \$ Million)</b>	
<b>Total Budget:</b>	19.99
<b>DGF Funding Request:</b>	4.33
<b>DGF Percentage:</b>	22%
<b>Objectives and Expected Outcomes</b>	
<p>The Consultative Group to Assist the Poor (CGAP) is a global partnership of 33 bilateral and multilateral donor agencies and private foundations working together to improve poor people's access to sustainable financial services (known as "microfinance"). To this end, CGAP serves three major client groups: 1) financial service providers who serve low-income people; 2) funding organizations; and 3) governments. CGAP provides advisory &amp; technical services, guidelines and standards, training, funding for innovation, research, and knowledge dissemination. It serves as a global resource center, standard setter, and convening platform in the field of access to finance. Established in 1995, CGAP is about to complete its third phase (2003-2008). The overarching objective of CGAP's Phase III is to expand access to finance through: (i) a greater diversity of microfinance providers; (ii) a broader range of financial services tailored to different segments of poor people; (iii) improved transparency; (iv) a supportive policy environment; and (v) more effective aid. In 2007, based on the recommendations of an independent evaluation, CGAP members voted to extend CGAP to a fourth phase (2008-2013) and endorsed a new strategy focused on equity and efficiency in building inclusive local financial markets.</p>	
<b>Main Components</b>	
<p><u>Promoting diverse institutions serving the poor:</u> CGAP is actively exploring linkages with banks, credit unions, microfinance institutions (MFIs), NGOs, and other financial and non-financial institutions with the potential to reach large numbers of poor clients using existing infrastructure, innovative products, and efficient technologies. <u>Promoting diversity of financial products:</u> Poor people need a range of options at different points in time, whether it is a safe place to save, a small loan, the ability to transfer money, or insurance. Extremely poor people may initially need a combination of safety net and microfinance programs to help them transition into sustainable livelihoods. <u>Building transparency:</u> CGAP offers several services aimed at improving transparency on the financial and social performance of microfinance providers. <u>Fostering a supportive policy framework:</u> CGAP's advisory services to governments are demand driven and range from consultation, country-specific diagnostics, to advice on regulation and supervision. <u>Improving aid effectiveness:</u> CGAP works with a broad range of funders to improve their microfinance operations through technical and advisory services and training.</p>	
<b>Performance Indicators</b>	
<p>The following are desired industry outcomes for CGAP Phase III. 1) Engagement with diversity of financial institutions serving the poor. 2) Promoting diverse pro-poor financial services and ability to measure impact. 3) Building transparency. 4) Improving the policy environment. 5) Strengthening aid effectiveness.</p>	
<b>Progress and Achievements in 2007</b>	
<p><u>Diverse Institutions:</u> 1) Commercial bank downscaling: 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's Retail Advisory Service. 2) The 9<sup>th</sup> round of the Pro-Poor Innovation Challenge (PPIC) awards – given to institutions that</p>	

reach very poor and marginalized people. **Diverse Financial Services:** 1) GGAP scaled up its graduation program with Ford Foundation aimed at reaching those who are too poor to be reached by conventional microfinance. The program links safety net programs with MFIs to transition the very poor from food insecurity into sustainable livelihoods and appropriate financial services. In FY07, five pilots were developed in Haiti, India, Pakistan, and Yemen, with three more planned. 2) CGAP, IFAD, IDB, EU, UNCDF, and the governments of Luxembourg and Spain launched a TA fund for MFIs that want to offer money transfer services to their clients. 3) Expanding saving services for poor people continues to be a major area of advocacy. **Expanding Access through Technology:** Supported by a \$24 million grant from the Gates Foundation, CGAP scaled up its efforts to push the frontiers of access to finance through technology solutions that can dramatically lower transaction costs and increase outreach. Nine innovative projects with the potential to massively expand access to finance were selected from among 212 proposals. Branchless banking was at the forefront of work in this area. **Transparency:** 1) The Microfinance Information Exchange continues to be the leading business information provider for microfinance. As of December 2007, 1,200 MFIs (85% of total supply) and 95 microfinance funders reported to the MIX. 2) From 2001 through 2007, the Rating Fund co-funded 460 MFIs ratings and assessments, all publicly available. 3) The Financial Transparency Awards were presented for the third consecutive year, attracting 230 entrants from 62 countries. The non-monetary awards are given to MFIs that comply with international financial reporting standards and CGAP's guidelines. 4) Progress was also made with regard to transparency on social objectives. In FY07, CGAP and the Ford and Grameen Foundations launched the Progress-out-of-Poverty Index, a scorecard that allows institutions to track clients' poverty levels and is now used in more than 20 countries. **Policy Environment:** CGAP significantly scaled up its policy work in FY07 and broadened its areas of engagement from regulation and supervision to issues such as the role of state banks and consumer protection. 1) provided short-term policy advice, consultations, and reviews of draft policies and legislation affecting microfinance, in almost 30 countries. 2) developed a tool to assess the regulatory environment for branchless banking and conducted first-time diagnostics in 7 countries. 3) The Law Library, an online database on the regulatory framework in 50 countries, continues to be one of the most popular resources on the Microfinance Gateway. **Aid Effectiveness:** Emphasis was placed on engaging with increasingly diverse new funders, increasing transparency on funding flows, promoting good practice standards, and providing advisory services to funders.

### Partners

**Bilateral donors:** Australia, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, UK, USA. **Multilateral donors:** African Development Bank, Asian Development Bank, EBRD, EC, EIB, IADB, IFAD, ILO, UNCDF/UNDP, World Bank and IFC; **Private Foundations:** Ford Foundation, Bill and Melinda Gates Foundation, Dell Foundation, Omydiar Foundation.

### Governance and Management

CGAP is governed by the Consultative Group (CG) of member donors, which sets CGAP's strategic directions and provides input to the workplan and budget. The Operational Team (OT) reports to the Executive Committee (Excom), a small subset of CG members and leading industry practitioners, and reports to the full CG during the annual meeting. The OT is responsible for implementing the activities of CGAP. It consists of 40 full-time staff and is housed in the World Bank's Financial and Private Sector Vice Presidency. A Bank Task Manager periodically reports to the DGF and FPD on CGAP's performance and alignment with the Bank's objectives. Fiduciary oversight is provided by the Investment Committee, staffed by senior World Bank Group experts, which reviews and approves all major investments undertaken by CGAP. The main reporting mechanisms to the CG are the annual CG meeting, an Annual Report, updates on key initiatives, and through the Excom. CGAP restructured its membership in 2007 by making core funding a requirement for full membership.

### Exit Strategy

CGAP has reduced its dependence on DGF funding through annual phased reductions of \$400,000 between FY01-FY05, and starting again in FY09. In June 2007, based on the recommendations of an independent evaluation, CGAP members voted to extend CGAP to a fourth phase (2008-2013) and mandated it to focus on three roles that draw from its comparative advantage: 1) developing standards and providing advocacy and advisory services on access to finance; 2) providing high-quality market intelligence complemented by sector data and analytics; and 3) supporting new approaches, delivery channels, and product designs that improve poor people's access to finance.