

CONSULTATIVE GROUP TO ASSIST THE POOREST (CGAP)*

I. Abstract

The Consultative Group to Assist the Poorest (CGAP) was set up at the World Bank as a three-year initiative (1995–1998) to increase the quality and quantity of sustainable microfinance institutions (MFIs) serving the poor.¹ As a consortium of donor agencies and microfinance practitioners working together to bring microfinance into the mainstream, CGAP acts as a service provider to the microfinance industry by catering to the needs of three stakeholders, namely the MFIs, donor agencies, and the microfinance industry.² CGAP serves these stakeholders through learning and dissemination of best practices, by helping to set up supportive policies for microfinance activities, by coordinating donor initiatives, and by channeling funds to broaden and deepen the outreach of MFIs serving the poor.

Acting as a clearinghouse for the transmission and dissemination of information for the microfinance industry, CGAP adopts variety of information dissemination tools. Best practices in microfinance and other related information is shared among the stakeholders through conferences, seminars, technical guides, and portals, along with several other publications and documents. Training sessions, workshops, and seminars on technical advice and exchange promote active participation of member donors and microfinance practitioners. Furthermore, applicability of technical tools such as financial statement disclosure guidelines, appraisal formats, and poverty assessment tools help enforce accountability in the operations of microfinance practitioners.

II. Background

MFIs offer a range of financial services to low-income people, mostly to people in the informal sector without access to formal financial institutions. Successful microfinance initiatives started in 1984 with BRI-Unit Desa (Indonesia) and K-Rep (Kenya).³ Since then, many institutions in developing countries have started providing microfinance services to the poor. However, the gap between demand and supply of such financial services remains high. Against 500 million people worldwide who are in need of microfinance, the MFIs reach only about 12.5 million.⁴

Recognizing the powerful role of microfinance as a development tool, CGAP was set up at the World Bank, Washington D.C., in 1995, under the leadership of Ismail

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¹ MFIs provide loans as small as US\$50 and saving deposits as low as US\$5. From the 1950s to the 1970s, the scope of microfinance included provision of subsidized agricultural credit to small and marginal farmers with the aim of increasing their productivity and income. During 1980, microfinance concentrated on providing loans to poor women to invest in small productive activities. However, overtime, microfinance has come to include a broader range of services to the poor such as credit, insurance, and savings.

² The “microfinance industry” as used here includes MFIs, donor agencies, the policy and regulatory environment, and the institutional framework of microfinance.

³ BRI-Unit Desa, Indonesia: for more information see: <http://www.gdrc.org/icm/country/unit-desa.html>. K-Rep (Kenya): for more information see: <http://www.enterprise-impact.org.uk/word-files/K-Rep.doc>.

⁴ CGAP Report 2000: <http://www.cgap.org/assets/images/CGAPReport2000.pdf>.

Serageldin and a group of 10 donor agencies.⁵ Although CGAP is housed at and financially supported by the World Bank, it operates as an independent entity with its own governance structure that consists of five groups: the CGAP staff (secretariat), the Consultative Group (board of directors), the Executive Committee, the Policy Advisory Group, and the Investment Committee.

As a consortium of donors working together to build sustainable financial services for the poor, CGAP's mission is to expand poor people's access to high quality financial services from sustainable or potentially sustainable MFIs. CGAP was initially established as a three-year program (1995–1998) with the objective of bringing microfinance into the mainstream through joint coordination with MFI practitioners and donors. Other objectives were to disseminate lessons learned by practitioners, contribute to supportive policies for MFIs, and invest in eligible MFIs to broaden and deepen their outreach and help them to achieve financial sustainability. The second phase, CGAP2 (1998–2003), is building on the achievements of the first phase and has a more explicit focus on institution building, policy and regulation, and deepening the poverty outreach of MF providers. Specifically, CGAP2 focuses on five main areas or strategic themes:

- supporting the development of MFIs;
- supporting changes in the practices of member donors to improve their microfinance operations;
- increasing the poverty outreach of MFIs;
- improving the legal and regulatory framework for MFIs; and
- facilitating the commercialization of the industry.

CGAP serves the three primary stakeholders, namely MFIs, donors, and the microfinance industry, in the following ways.

MFIs

CGAP attempts to expose MFIs to best practices and greater capacity building. This is done by providing training, access to operational tools, technical advice, and funding to a number of promising MFIs and networks. An investment fund of about US\$7–9 million is maintained every year, from which around two to five institutions are funded annually. The Investment Committee reviews, evaluates, and approves grants to be made from the CGAP fund facility. Apart from direct funds to MFIs and networks, the programs funded include capacity building, industry tools, and services. CGAP hosts a Web portal called “Microfinance Information Mix” that enables MFIs to post their profiles online and thereby come in contact with funding agencies.⁶ The MIX Market Web portal currently provides data on 143 MFIs and 36 investors. Another mechanism for funding is the CGAP/IFAD Rural Pro-Poor Innovation Challenge Award.⁷ Flexible awards up to US\$50,000 are disbursed to less-known financial institutions that offer innovative solutions to extend microfinance to the poor, or that deal with clients who are very poor or difficult to reach.

⁵ Ismail Serageldin was the Vice-President of Special Programs, World Bank.

⁶ For additional information, please see: http://www.mixmarket.org/en/home_page.asp.

⁷ The Pro-Poor Innovation Challenge Award was launched in April 2000, as part of its renewed commitment to deepening outreach to poorer clients.

Some of the other services provided to MFIs are as follows:

- *Impact Assessment Center:* The center promotes understanding on how microfinance services improve the welfare of the poor. It also assists MFIs in designing impact assessment tools to improve their operations and services.
- *Micro-insurance Focus:* The Micro-insurance Focus promotes the learning of good micro-insurance practices.⁸
- *Freeware Center:* The Freeware Center provides access to software and software portals of use to microfinance practitioners and others.⁹
- *MFI Audit Information Center:* The center facilitates learning and exchange of experiences on external audits. Queries of microfinance practitioners are answered by experts.
- *Information Systems Services:* This describes the provision of assistance to MFIs in the process of selecting an appropriate information system application for their organization.

Member Donors

Donor agencies are broadly divided into three categories: bilateral, multilateral, and private. The majority of bilateral agencies provide grants or soft loans, and in limited cases, equity to MFIs. Regional and multilateral development banks mostly provide loans to governments, although several have opened microfinance facilities for direct financing of MFIs. As of 2002, CGAP had a membership of 29 bilateral and multilateral development agencies and foundations.¹⁰ The World Bank, one of the member donors, is the major financial supporter of CGAP. During the first phase, around 80 percent of funds were provided by the World Bank.

Best practices in microfinance among member donors are promoted through technical advice and training. Training courses to donor staff are offered on basic concepts of microfinance and on the use of CGAP's Appraisal Format—one of the CGAP operational tools developed for its member donors. Furthermore, CGAP provides portfolio review and joint due-diligence services to member donors, and responds continually to donor requests for information on project reviews, funding ideas and other opportunities.

Microfinance Industry

CGAP attempts to address issues and implications for the microfinance industry. It provides technical advice to policymakers and regulators on the business environment, regulatory framework, and supervisory issues affecting the microfinance sector in a country. It also supports the growth and development of infrastructure services such as credit bureaus and rating agencies.

⁸ For additional information, please see: <http://www.microfinancegateway.org/microinsurance/index.htm>

⁹ http://www.microfinancegateway.org/extra_soft.htm

¹⁰ For more information on member donors please see: www.cgap.org/html/ac_members_donors.html

III. Impact/Results

Phase I (1995–1998)

Between 1995 and 1998, CGAP played a pivotal role in developing a common language for the industry, catalyzing the movement towards best-practice performance standards, and building a consensus among its varied stakeholders. Reporting standards for MFIs were defined. It developed various operational tools for practitioners and donors on management information systems, business planning, financial projections, appraisal format, and audit standards. It also developed a performance-based funding approach for MFIs through partnership agreements based on the MFIs own performance targets.

During the first phase CGAP managed a small grant facility to support eligible MFIs that served the poor. By June 1998, roughly 57 grants totaling US\$26 million had been approved by CGAP's investment committee.

In 1997, CGAP started the capacity building initiative in Africa. Since then, two regional training hubs have been established along with partnerships with local organizations in more than 40 countries. Together, these partners now deliver six-week-long training courses in six languages around the world. The course evaluations have revealed high levels of satisfaction among the participants. Course participants have implemented microfinance activities in Albania, Armenia, China, Jamaica, Moldova, and many African countries.

By 1998, CGAP publications (the *Focus Note* series, a semiannual newsletter, and the Occasional Paper series) were distributed widely to over 6,000 readers. CGAP also entered into partnerships with 12 practitioner networks worldwide to promote learning and exchange among practitioners.

Phase 2 (1998–2003)

CGAP has been instrumental in funding microfinance projects around the world. As of June 2000, CGAP had directly or indirectly invested nearly US\$21 million in 35 MFIs worldwide. Together these MFIs serve about 2 million clients, 80 percent of whom are poor women.

In May 2000, CGAP launched the Pro-Poor Innovation Challenge award. The award has completed four rounds of funding, with 24 MFIs in Africa, Asia, Eastern Europe, and Latin America collectively receiving a total of US\$ 1.1 million in funding.

CGAP independently funded the Micro Banking Standards Project with the objective of helping MFIs compare their performance with their peers, for establishing industry benchmarks and performance standards, and for enhancing the transparency of financial reporting.¹¹ In 2001, 148 leading MFIs from 48 developing countries participated in the project.

¹¹ Under the project, participating MFIs supply confidential financial information regarding their operations. The data is adjusted according to a common analytical framework for the effects of inflation, subsidy, and appropriate provisions for write-offs and nonperforming loans. The data thus compiled is fed into a database that presents

As of December 2002, more than 6,100 participants representing 45 countries had attended 300 training courses. The African capacity building initiative is expected to expand to Asia and Eastern Europe and become more institutionalized in the near future.

General Impact

CGAP has been instrumental in linking microfinance practitioners, governments, and several donors, and in coordinating their efforts towards mainstreaming microfinance.

Text Box 1: Facilitating Partnerships in Tanzania

In Tanzania, CGAP facilitated the formation of a partnership between the World Bank, the Bank of Tanzania, and several CGAP donors to advance a national strategy for developing the microfinance industry. A national workshop was organized bringing together 13 donors, Tanzanian government officials, practitioners, and training institutes. Guidelines for supporting the industry were agreed upon, consistent with national framework and according to each group's comparative advantage. Similar efforts were undertaken by CGAP in Brazil, China, Ethiopia, Peru, Vietnam, and nine West African countries.

CGAP has collaborated with the World Bank in several countries and held technical discussions on several existing and proposed microfinance lending operations and regional activities. The collaboration has improved the design of lending operations, resolved operational and technical issues, and increased the pace of financial reform in more than 25 countries across the globe.

IV. Key Elements of Empowerment

Access to Information

CGAP provides easy access to comprehensible and systematic technical information to microfinance practitioners, donors, and governments. Most of this information covers broad technical and operational areas such as measuring delinquency, setting interest rates, designing appropriate lending products, and developing business projections. For this purpose, the following information dissemination mechanisms have been adopted:

- CGAP organizes conferences and policy seminars.
- Operational tools are provided in the form of technical guides. The following text box presents a list of technical guides produced by CGAP for the benefit of the microfinance practitioners and funding agencies.

MFIs as "peer groups" based on target clientele, methodology, scale of operation, and the like. The average performance and degree of variation on various indicators is calculated and published in the *Micro Banking Standards Bulletin*.

Text Box 2: CGAP's Technical Guides

- *Management Information Systems for MFIs: A Handbook.*
- *Using Microfinance 3.0*—a handbook for operational planning and financial modeling.
- *External Audits of Microfinance Institutions: A Handbook*—an online resource center and specialized training materials for auditors.
- *Improving Internal Control: A Practical Guide for MFIs*—step-by-step instructions and suggestions for improving management of the risks facing MFIs and other concepts.
- *CGAP Product Costing Tool.*

- The Microfinance Gateway is a Web-based bibliographic database of about 2,000 microfinance documents with abstracts and another 5,000 online documents.
- The *CGAP Newsletter* is a semiannual publication that acts as a forum for donors and practitioners to share experiences and to discuss strategic and operational challenges.
- CGAP funds and contributes to the *Micro-banking Bulletin*, an industry journal that provides extensive information on the financial performance of MFIs globally.
- CGAP provides technical advice and exchange, such as advice on key operational and management issues like client retention and outreach, portfolio delinquency, staffing needs, information systems, internal controls, and financial performance
- The MIX Market is a microfinance information exchange Web portal offering information on MFIs, donors, and other investors. MIX facilitates interactions between MFIs, private investors, governments, and other participants in the microfinance market and is proposed to act as a one-stop shop for information.¹²
- The *Focus Note* series is CGAP's main instrument for information dissemination on current trends and best practices in microfinance to governments, donors, and private financial institutions. The *Notes*, 17 to date, are available in English, French, and Spanish and are distributed to more than 5,000 institutions in over 100 countries. In addition, several Occasional Papers, working papers, and other documents have been published.

In addition to the resources listed above, CGAP has set up online knowledge resource centers for MFIs and donor staff:

- *Client Targeting Center.*¹³ The center provides information on tools that MFIs use for targeting of poor and vulnerable groups and helps generate ideas on reaching the very poor. Statistical data on the outreach levels of different MFIs is also generated.

¹² The MIX Market was launched in September 2002 by UNCTAD (United Nations Conference on Trade and Development) and CGAP. For additional information see: http://www.mixmarket.org/en/about_mix_market.asp.

¹³ For additional information see: www.microfinancegateway.org/poverty/index.htm.

- *Donor Information Resource Center.*¹⁴ The center offers user-friendly information on microfinance donor practices to donor staff. The Web portal is equipped with donor briefs, presentations, training modules, and case studies specifically developed for donor staff and their managers.

Inclusion/Participation

CGAP conducts capacity building exercises for MFI practitioners through training sessions and workshops. The CGAP Skills for Microfinance Managers program offers training in the form of short practical courses to managers of MFIs for improving the quality of services, financial performance, and outreach to poor clients. Most of the courses are responsive to local MFI needs. The External Audit Capacity Building Program provides donors and MFIs with procedural guidance for conducting high-quality audits.

Competence among donor staff is promoted through technical advice on microfinance programming, projects, and training of donor staff. Furthermore, important microfinance issues are addressed by organizing workshops and policy seminars, which facilitate the active participation of donors, practitioners, government policymakers, and private nonprofit foundations. CGAP has also entered into partnership with microfinance practitioner networks to promote learning and exchange among developing-country practitioners.

Accountability

In 2001, CGAP started an Appraisal and Monitoring Service for helping donors—especially those without a strong team of microfinance technical experts—to identify, appraise, and monitor good MFIs. Under this service, CGAP rates and shortlists MFIs on the basis on their potential to extend sustainable financial services to the poor. The reports so compiled are passed on to the potential donors. Such information helps member donors to assess the capability of the MFI to utilize the loan amount effectively. After the extension of funding, CGAP monitors the performance of MFIs on behalf of the donor agencies by evaluating semester reports and arranging one monitoring visit per year. This holds the MFIs to account for their performance.

In order to induce transparency in financial statements, CGAP has published the *Disclosure Guidelines for Financial Reporting by MFIs*. The guidelines indicate the minimum level of information to be included in financial reports by MFIs. Exposure to such information ensures a meaningful analysis of financial reports by readers and users. Some of the other tools inducing for transparency in MFI operations and thereby maintaining a continuous check on them are listed below:

- The Appraisal Format and Spreadsheet helps donors to evaluate an MFI with regard to its operations, management, and governance.
- A Poverty Assessment Tool enables assessment of the poverty level of microfinance clients and the client outreach level.
- The *Handbook on External Audits* guides donors in commissioning audits of MFI partners.

¹⁴ For additional information see: <http://www.cgap.org/direct>.

- The *Microfinance Bulletin* provides benchmark financial data on MFIs worldwide.

The transparency of financial reporting is enhanced by the Micro Banking Standards Project that facilitates the comparison of individual MFIs based on certain performance indicators.

V. Issues and Lessons

Challenges

In spite of the growth of MFIs, their poverty outreach in terms of number of clients served remains limited. Market penetration of microfinance services remains as low as 2.5 percent.¹⁵

MFIs do not pay sufficient attention to “internal control”—a mechanism that helps institutions monitor their own risks. Such a control is critical, as microfinance is a cash-based business where processes need to be streamlined and decisions need to be decentralized in order to keep the costs down. MFIs not paying attention to the internal control system often run into serious problems such as outbreaks of delinquency, employee and client fraud, or erroneous financial information that misleads all stakeholders.

The process of external audit, whereby a third party audits the credibility of the financial statements, has been unreliable. Such a situation results from a lack of knowledge on the part of the donors and MFIs that contract auditors, and audit firms’ lack of knowledge and understanding of the microfinance business. A number of reputable audit firms have failed to detect impending crises or large-scale frauds in audited MFIs.

Although benchmarking—a mechanism for comparison of financial performance within peer groups amongst MFIs—is gaining popularity, the results of individual MFIs are rarely published. This prevents benchmarking from becoming a powerful tool for improving MFI performance.

Key Lessons

- In order to reduce the gap between the demand and supply of microfinance services commercial sources should also be tapped. However, availing funding from such sources would be possible only when MFIs present transparent, credible, and easily available financial reports that commercial players need to assess their performance.
- Accurate and transparent financial information attracts donors and other potential investors to MFIs. Such financial information helps investors make informed funding decisions and gives them a clear picture of the forthcoming results and performance indicators.

¹⁵ CGAP Report 2000: <http://www.cgap.org/assets/images/CGAPReport2000.pdf>

- Internal control systems are crucial for sound financial performance of the MFIs and hence need more attention.
- CGAP's focus should be on few MFIs in each region to increase their poverty outreach and scale, rather than simply dispersing scarce resources over a wide number of institutions. [AUTHORS: Change OK?]

Outlook

In April 2002, based on an independent external review on the CGAP system and the changing needs of the microfinance industry, CGAP was renewed for the third phase CGAP3 (2003–2008) on an interim basis. This phase will focus on broadening and diversifying financial services for the poor.

CGAP has been successful in developing a common language for the microfinance industry. The group built on the achievements of the first phase during its second phase, CGAP2 (1998–2003).

VI. Further Information: References and World Wide Web Resources

CGAP home page
URL: www.cgap.org

“CGAP: Helping to Build a Microfinance Industry: The Demand for Microfinance Services.”
URL: <http://www.gdrc.org/icm/cgap-mfindustry.html>

“Focus on Financial Transparency: Building the Infrastructure for a Microfinance Industry.”
URL: <http://www.cgap.org/assets/images/3620-01.CGAPBrochure.final.pdf>

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http://www.cgap.org/assets/images/DB7_Printer_Final_Version.pdf

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Seshagiri, Radha. “Institutional Innovations in Financial Services for the Poor.” *Tools and Practices* 12, Washington, D.C.: World Bank. URL:
<http://www.worldbank.org/poverty/empowerment/toolsprac/tool12.pdf>

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http://www.cgap.org/assets/images/CGAP%20III%20Strategy_forWeb.pdf

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http://www.cgap.org/html/p_focus_notes01.html