



FOCUS ON POVERTY: CGAP 2000

CGAP is committed to the twin objectives of increasing the financial sustainability of microfinance institutions and deepening their poverty focus (i.e. increasing poverty outreach and impact on poorer people). While some still perceive microfinance in terms of tradeoffs and competing positions, we strongly feel that the future of the industry lies in pushing the frontier forward, seeking gains on both the sustainability and poverty fronts. CGAP spent its first few years in building a sizeable body of work in the area of sustainability, given where we felt the industry was at the time. The need to be sustainable has now been broadly accepted and we have felt it important to add a stronger emphasis on poverty issues. CGAP has spent the year 2000 formulating an agenda and developing activities for deepening the poverty focus of microfinance in order to build a strong and integrated complement to CGAP's work on sustainability. Some of our key undertakings include:

- Developing a Poverty Audit to integrate a poverty focus in the CGAP MFI Appraisal Format.
- Creating the Poverty Assessment Tool for transparency on the depth of MFI poverty.
- Initiating the Pro-Poor Innovation Challenge program to identify and award small MFIs doing innovative work in effectively deepening poverty outreach and impact.
- Conducting case studies to document MFI innovations for serving the needs of the poorest.
- Conducting action research to improve MFI performance in working with the poor.
- Integrating a poverty module in CGAP donor training.
- Publishing a set of Focus Notes exploring the microfinance-poverty nexus.

A more thorough overview of these and other activities follows. The activities are arranged according to the stakeholders that CGAP serves (microfinance institutions, donors, and the industry) and according to the type of services provided (funding, technical advice, and exchange, training and capacity building, and technical tools and publications).

Microfinance Institutions

Funding

Pro-Poor Innovation Challenge

In the last year CGAP used all available channels to identify institutions focused on increasing the depth

of outreach to poorer clients. While several innovative examples were identified, CGAP wanted to go further to find out about lesser known, smaller, and younger institutions which are often off the radar screen of donors. To this end CGAP launched an experimental pilot awards program, the Pro-Poor Innovation Challenge, to provide US\$50,000 grants to four poverty-focused microfinance institutions. The objective of the program was to provide an important learning opportunity for CGAP and the industry and a valuable means of identifying small microfinance institutions that may warrant funding but do not often receive it. Despite the deliberately short timeframe in which to apply, over 225 applications were received. More important, most of these institutions were precisely those targeted—small and poverty focused. Most were unknown to CGAP. Some were indeed engaged in very interesting methodologies and instruments to reach extremely poor clients. CGAP announced the four award recipients in May 2000. They included:

- GRET, Cambodia—an experimental project providing health insurance and primary health care facility to the rural poor in Cambodia. Product design is based on extensive market research and participatory demand analysis.
- Swayam Krishi Sangam Microfinance Ltd., Hyderabad, India—a small MFI using the Grameen Bank peer lending methodology. The proposed project is to introduce smart cards to lower the high transaction cost of providing financial intermediation for very poor, low caste clients in remote areas.
- Freedom from Hunger, Ghana—enhancing the capacity of existing financial intermediary institutions through linking credit with non-formal adult education to improve health and nutrition of clients and their family.
- CBDIBA, Benin—providing savings and loan services and non-financial services such as literacy training and information on legal rights to clients in urban and rural areas. Since 1999, CBDIBA has launched new savings and loan products (average loan size: \$17) targeted exclusively at very poor women who are single heads of households in remote rural areas.

The success of the pilot has led CGAP to institutionalize the program. A second round was launched in November. Five MFIs have been awarded. They include:

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- Association Mennonite de Développement Economique (AMDE), Haiti—a community bank program working with very poor people in rural, mountainous areas of Haiti. In an effort to provide a more equitable and sustainable basis to the development of community banks, AMDE wants to provide innovative literacy and business skills training to its members.
- CASHPOR Financial & Technical Services Ltd. (CFTS), India—developing a new loan product for landless agricultural women workers in one of India's poorest districts in conjunction with training on very small-scale poultry rearing. These very small loans (average loan is \$43) will allow destitute women, who are otherwise excluded, to eventually graduate into clients of more mainstream microfinance programs.
- Padakhep Manabik Unnayan Kendra (Padakhep), Bangladesh—introducing a program to provide services to street children, a vulnerable population outside the scope of conventional microfinance. In addition to providing them with financial services, there is an effort to improve STD and AIDS awareness.
- Uganda Microfinance Union (UMU), Uganda—developing a non-cash transfer mechanism to facilitate rural-urban remittances. This will enable small traders vulnerable to the high incidence of armed robbery in the region to trade in different markets free from the dangers of carrying cash.
- Women and Associations for Gain both Economic and Social (WAGES), Togo—running a special program that offers very low loan sizes (\$51) with no preliminary savings to returning refugees around Lomé and very poor people in an environmentally vulnerable region of Togo.
- Nirdhan, a microfinance bank in Nepal—providing sustainable financial services for poor women entrepreneurs in rural Nepal. Its average loan size is about 25 percent of per capita GDP.
- Pro-Mujer, an NGO in Bolivia—deliberately targeting very poor women. Pro-Mujer reaches a significantly poorer clientele than other Bolivian microfinance institutions—the average outstanding loan size is about 5 percent of per capita GDP.
- Fondation Zakoura, an NGO in Morocco—reaching women below the poverty line in poor rural and urban communities. The average loan size is approximately 10 percent of per capita GDP.

Technical Advice and Exchange

CGAP offers appraisals, business planning support, general strategic advice, and specific technical assistance to microfinance institutions. Over the last year much of CGAP's technical advice to MFIs has been poverty focused.

SEWA

CGAP is currently providing technical assistance to SEWA to prepare a business plan for their proposed insurance company. SEWA, in India, is a pioneer in organizing very poor women working in the informal economy. Amongst its many activities, including microfinance, it provides (with support from GTZ) life, health and property insurance to 32,000 clients. SEWA intends to set up a formal insurance company to eventually provide services to half a million poor women and their families. CGAP is working with SEWA, as well as GTZ, ILO and other donors, to set up a consortium for capitalizing the proposed insurance company.

Banco do Nordeste do Brazil

CGAP provides advice to Banco do Nordeste do Brazil, a commercial bank working in one of the poorest regions in Brazil, on rolling out its microfinance product. BNB is reaching over 35,000 clients with loan balances per client of US\$253, or 6 percent of per capita GDP. CGAP provides ongoing advice to BNB on the expansion of the program to be undertaken with World Bank funding.

XAC HAS

XAC HAS was established in 1999 with the support of UNDP as a MicroStart project operating in sparsely populated remote areas with very poor clients. It is the first non-bank financial institution focusing exclusively on microfinance in Mongolia. CGAP conducted an appraisal of XAC and is providing technical assistance in internal control, auditing and business planning. CGAP is also assisting XAC HAS to obtain IFC equity.

PKSF

CGAP advised a World Bank mission to PKSF in Bangladesh on the development of a separate com-

CGAP Grants to MFIs

CGAP has always promoted investments in MFIs reaching the very poor. CGAP had earlier invested in SHARE, Compartamos, CARD and Project Dunggulan, which serve some of the poorest clients. Our funding to MFIs had however lapsed since early 1998 as the focus shifted to training for building retail microfinance capacity and developing industry tools. In 2000 CGAP proactively sought out MFIs for funding that were distinctly poverty focused. The following appraisals were conducted during the year. Grant proposals have been completed and several are being submitted to the Investment Committee at the end of January for approval:

- Kashf Foundation, an NGO in Pakistan—serving exclusively women from low-income households with average loan size of about 23 percent of per capita GDP.
- Funding the Poor Cooperative, a specialized NGO in China—working in the poorest counties of China lending to poor households, particularly poor women. Its average outstanding loan size is about 3 percent of per capita GDP.

ponent on microfinance for the extremely poor. A significant portion of the \$151 million credit to PKSF is designed to ensure that financial services are made available in innovative ways for the most destitute and most vulnerable in Bangladesh.

Training and Capacity Building

Courses: Designing Flexible Pro-Poor Products

CGAP is working with its member donors and microfinance agencies (such as ACCIÓN, DAI, GTZ, Micro Save Africa, USAID) to develop the New Product Development course, especially aimed at helping microfinance institutions interested in reaching poorer clients. USAID, GTZ and others have already done substantial work in this area. The course will train MFI managers to carry out market research in order to better listen to and learn from clients and develop client-responsive, pro-poor products.

Member Donors

Training and Capacity Building

Donor Training Course

CGAP has added a specific module on poverty audit in its donor staff training courses on “Overview of Microfinance” and “Appraising an MFI.” The first such integrated course was offered in Norway in October 2000. A second is planned for the Asian Development Bank courses in Manila in April 2001. The poverty module covers issues of MFI vision and leadership commitment to the very poor, targeting strategy, depth of MFI outreach, staff-client interface and staff responsiveness to client welfare, product design, impacts on client well-being, reduction in client vulnerability and poverty alleviation.

Course on Poverty Focus at Boulder

CGAP staff serve as trainers at the Microfinance Training Program (MFT), Economics Institute in Boulder, Colorado. This year, CGAP staff introduced a new training module on the poverty focus in microfinance—on issues of depth of outreach and impact on the very poor. The course concentrated on the tradeoffs between sustainability and poverty focus, on targeting tools and on pro-poor products and services.

Tools and Services

Poverty Audit

CGAP has developed a Poverty Audit to integrate a poverty focus in the CGAP MFI Appraisal Format. The Appraisal Format is used by CGAP and donors to determine the institutional health of MFIs and provide a basis for funding decisions. The format has conventionally emphasized financial sustainability. The Poverty Audit, as an integrated part of the Appraisal Format, emphasizes depth of outreach and impact on the lives of the poor. This integration allows a more holistic appraisal of MFIs. CGAP has conducted an

appraisal of Kashf Foundation in Pakistan using the integrated appraisal format.

Poverty Assessment Tool

The CGAP Poverty Assessment Tool (developed in conjunction with the International Food and Policy Research Institute, IFPRI) provides transparency on the depth of poverty outreach of MFIs. It provides rigorous data on the levels of poverty of clients relative to people within the same community through the construction of a multidimensional poverty index that allows for comparisons between MFIs and across countries. It has been primarily designed for donors and investors who would require a more standardized, globally applicable and rigorous set of indicators than what conventional targeting tools provide to make poverty-focused funding decisions. It is to be used in conjunction with other appraisal tools (such as the CGAP Appraisal Format) to ensure a holistic understanding of MFIs. It has been successfully tested in four countries. Exercises are underway to do comparisons with targeting tools such as the Housing Index (South Asia) and Participatory Wealth Ranking (Small Enterprise Foundation in South Africa). A manual for using the tool has also been prepared.

Microfinance Industry

Technical Advice and Exchange

Following a Poverty Workshop recommendation, CGAP has initiated a series of case studies to spotlight experiences of innovative ways microfinance institutions reach and affect very poor people. Through this documentation, CGAP hopes to achieve three purposes: (1) expand the focus of financial services for the poor beyond microcredit; (2) identify innovative financial products and services for CGAP funding; and (3) encourage microfinance institutions to implement or adapt similar innovations into their programs in their local context. The case studies include:

- *Using strategic linkages to include the poorest.* A study of BRAC’s IGVGD program that links microfinance with safety nets so that the most destitute in safety net programs can “graduate” out of such programs and become regular microfinance clients. The report has been completed and a Focus Note will be available at the end of January.
- *Advancing the frontier of protective microfinance.* A study of SEWA’s health insurance program to learn how best to combine financial services with health care provisions to protect the poor from vulnerabilities associated with health crises. This report will be available at the end of January.
- *Exploring client preferences in microfinance.* A case study of SafeSave in Bangladesh exploring the financial service preferences of the poor and how products may be designed to meet such preferences. A Focus Note was published in September 2000.

- *The challenges of going voluntary.* A study on ASA's experience in introducing voluntary savings products. A draft report is available.
 - *Case studies of Pro-Poor Innovation Challenge Award recipients.* Case studies of the first four recipients are ongoing and five new ones will be undertaken.
- CGAP has also undertaken several action research projects with its partners.
- *Flexible financial services—increasing efficiency and outreach.* Exploring the possibility of using technology (palm pilots) to lower transaction costs, increase efficiency and internal control. This research with SafeSave will assist in extending outreach of financial products to the poor.
 - *Dimensions and dynamics of MFI competition in Bangladesh.* Examining the level of MFI concentration and the challenges of increased MFI competition for the Bangladesh microfinance industry. This involves a mapping of MFI concentration at a disaggregated level and a village study of clients and institutions. CGAP is providing technical assistance in this study.

Tools and Services

Focus Notes

A set of Focus Notes exploring the microfinance-poverty nexus has been published. These are:

- *Raising the Curtain on the "Microfinance Services Era"* (Focus Note # 15) discusses the evolution of development finance and reveals some observations about how poor people use financial services.
- *Those Who Leave and Those Who Don't Join: Insights from East African Microfinance Institutions* (Focus Note # 16) examines the reasons why clients drop out of programs or do not participate at all.

- *Microfinance and Risk Management: A Client Perspective* (Focus Note # 17) highlights the importance of focusing on risk and vulnerability as a way of understanding the interface between poverty and microfinance.
- *Exploring Client Preferences in Microfinance: Some Observations from SafeSave* (Focus Note # 18) seeks to understand financial preferences of the very poor and how SafeSave addresses these concerns through their flexible financial products.

Microfinance, Risk Management and Poverty

CGAP is also publishing Jennefer Sebstad and Monique Cohen's book entitled *Microfinance, Risk Management and Poverty*. It is based on the report commissioned by the World Bank for the *World Development Report 2000/01*. The research was co-funded by DFID and USAID. The book seeks to improve understanding of the extent to which sustainable microfinance programs reach poorer households and contribute to poverty reduction.

The Microfinance Gateway

The Microfinance Gateway (www.microfinancegateway.org), established and funded by CGAP, is an industry repository of information and ideas on microfinance. It has been set up as separate and distinct from the CGAP website. It serves as an industry website and deliberately includes a plurality of visions and perspectives. Specific sections of the Gateway cater to issues of poverty. Information is available on MFIs with a poverty focus and on new pro-poor products. It includes an extensive bibliography, abstracts and full text publications on poverty that can be downloaded.