

ASIAN DEVELOPMENT BANK

TAR: OTH 35011

TECHNICAL ASSISTANCE

FOR

MICROFINANCE OUTREACH INITIATIVES OF THE

CONSULTATIVE GROUP TO ASSIST THE POOREST

April 2001

ABBREVIATIONS

ADB	–	Asian Development Bank
CGAP	–	Consultative Group to Assist the Poorest
MDS	–	microfinance development strategy
MFI	–	microfinance institution
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. The microfinance development strategy (MDS) of the Asian Development Bank (ADB), approved in June 2000,¹ emphasizes the importance of developing sustainable microfinance systems to fully harness the potential of microfinance for poverty reduction in the Asia and Pacific region. The MDS commits ADB to work in close consultation with other funding agencies providing support for the development of microfinance services and increase efforts to improve coordination among all such agencies. The regional technical assistance (TA) is one of the mechanisms through which ADB translates its commitment into concrete action. The TA will establish a mechanism to help the Consultative Group to Assist the Poorest (CGAP) strengthen its microfinance development activities in the region. The TA framework is presented in Appendix 1. Although ADB was one of the pioneering members of CGAP, established in 1995, ADB has not contributed financially to CGAP's operations since its inception.

2. In September 2000, CGAP asked ADB for partial funding for its microfinance operations in the region. Subsequent to this request, ADB staff consulted CGAP executives on CGAP's operations. The scope, implementation arrangements, cost estimates, and financing plan of the TA² are based on those consultations, a review of CGAP's operations during the last five years and its business plan for 2001-2003, and CGAP's annual report for 2000.³

II. BACKGROUND AND RATIONALE

3. Microfinance, defined as the provision of financial services to low-income families and their microenterprises (footnote 1), has increasingly captured the attention of governments, funding agencies, nongovernment organizations, and others interested in economic development and poverty reduction. With this increasing emphasis, the outreach⁴ of microfinance services has expanded during the last decade to serve 14 million-18 million clients in the region. This, however, accounts for no more than 10 percent of the potential market. Most microfinance clients are just below or above the poverty lines of their respective countries. In most countries, the poorest households⁵ remain outside the reach of microfinance services.

4. The microfinance industry has in general shown a significant bias toward the provision of credit. Inadequate attention has been paid to the provision of other services, such as voluntary savings and insurance, although these services are often more important to the poorest people. Beside the low outreach level, this factor has significantly limited the contribution that microfinance could make to poverty reduction on a significant scale. Thus, broadening the services microfinance institutions (MFIs) provide to the poorest people remains a major challenge in the region.

¹ R106-00: *Finance for the Poor: Microfinance Development Strategy*, 6 June 2000.

² The TA first appeared in the *ADB Business Opportunities* in January 2001.

³ Details of CGAP's operations are given in *CGAP. 2000. Consultative Group to Assist the Poorest, Report 2000, Washington, DC, CGAP*. The CGAP web site (<http://www.cgap.org>) is also an excellent source of information on CGAP activities.

⁴ Outreach has two dimensions: the number of clients and the extent of poverty of the clients served.

⁵ The poorest are defined as those in the bottom 50 percent of the households below a country's poverty line.

5. To address this challenge in a systematic manner, a number of inter-related activities are essential. First, innovative ways must be developed for MFIs to reach the poorest households. Second, MFIs must be encouraged to adopt similar innovations in their programs to reach the poorest. Third, the capacity of MFIs must be strengthened so that they can provide financial services to a large number of the poorest households on a financially sustainable basis. CGAP has a well-designed ongoing program that covers all three activities.

6. CGAP is a global effort to reduce poverty by increasing access to financial services for the poorest households through financially sustainable institutions. CGAP was launched in June 1995 with the participation of 10 bilateral and multilateral assistance organizations⁶ including ADB. During the first three-year phase, CGAP distilled and disseminated lessons and best practices in microfinance to practitioners and policymakers in government and funding agencies, helped develop a supportive policy environment for MFIs, and supported innovation in the sector through direct investments in selected MFIs. Funding agencies extended support for CGAP for another five years beginning 1 July 1998, on the basis of its excellent performance during the first phase. The second phase will build on the achievements of the first, with a more explicit focus on institution building and poverty outreach (Appendix 2). CGAP's institution-building program includes two training programs to be conducted at ADB in March–April 2001 for staff of funding agencies operating in the region, including ADB.

7. In 2000, CGAP launched an intensive program of case studies and action research to document innovative ways in which MFIs reach the poorest households. The case studies and research are expected to (i) expand the focus of financial services for poor households beyond microcredit (ii) identify innovative financial products and services that are more suitable to reach poor households and for potential funding by aid agencies and (iii) encourage MFIs to adapt these innovations to their programs and local conditions. The increased emphasis on poverty outreach is based on the recognition of a continuing significant mismatch between existing financial services and the needs of the poorest households. CGAP's ongoing pro-poor innovation case studies focus on

- (i) Safesave, a savings bank for poor people in Bangladesh, which offers convenient and flexible financial services to men, women, and children in the poorest slums of Dhaka;
- (ii) the Bangladesh Rural Advancement Committee (BRAC) which organizes women into groups within a government safety-net program and provides training in income-generating activities;
- (iii) the health insurance programs of the Self-Employed Women's Association (SEWA) of India, to learn how best to combine financial services with health care provision to protect the poor from vulnerabilities associated with health crises;
- (iv) the Association of Social Advancement (ASA) in Bangladesh, to understand challenges of providing flexible, voluntary savings services to the poor; and

⁶ IN.181-95: *Consultative Group to Assist the Poorest: A Microfinance Program*, 9 October 1995.

- (v) Groupe de Recherche et d'Echanges Technologique Cambodia, which provides health insurance coverage for the poor.
8. The ongoing action research of CGAP includes two projects:
- (i) Increasing efficiency and outreach: this project involving Safesave Bangladesh, explores the possibility of using hand-held computers to lower transactions costs, increase efficiency, and improve internal control. The findings of the project will help extend financial services to the poorest.
 - (ii) Dynamics of MFI competition in Bangladesh: this project examines the level of MFI concentration and the challenges of increased MFI competition for the Bangladesh microfinance industry, including the implications for providing services to the poorest.
9. CGAP's poverty outreach program supports the development of innovative financial products and services that allow MFIs to meet the demand of the poorest households. For this purpose, CGAP launched a special program, Pro-Poor Innovation Challenge, in April 2000 to provide small grants to selected small, low profile MFIs that reach the poorest households through innovative products and mechanisms. MFIs are selected for awards based on the extent of their outreach, innovation, and commitment to sustainability. This program is an important learning opportunity for all funding agencies and an effective means of identifying small MFIs that merit external support to build their capacity to reach the poorest. Through this mechanism, CGAP has supported nine MFIs.⁷
10. New product development is a core challenge for the microfinance industry. Increased competition, lack of outreach to the poorest households, and high dropout rates of clients in many programs have drawn attention to the need to consult with clients to develop demand-driven and viable financial services. CGAP is developing a course on new product development to respond to this challenge and especially to help MFIs interested in reaching very poor clients. The course will be used to train MFI managers who may carry out market research to better listen to and learn from clients and develop client-responsive pro-poor products. This will enable CGAP to disseminate knowledge about pro-poor innovations to MFIs in a systematic manner based on case studies, action research, and information gathered through Pro-Poor Innovation Challenge.
11. The MDS emphasized the importance of expanding the scope of MFIs to include a wide array of services, providing support for pro-poor innovations to increase the outreach to poor segments of the potential market and building the capacity of MFIs to reach such clients in a sustainable manner. CGAP's operations cover these activities and CGAP has demonstrated its capacity to manage these activities efficiently and respond to the demands of small-scale MFIs quickly and in a flexible manner. Thus, ADB's support for CGAP activities focused on poverty outreach is appropriate to the MDS and potential clients in ADB's developing member countries.

⁷ Four of these MFIs are located in the region: Cashpor Financial and Technical Services Ltd. (India); Padakhep (Bangladesh); Swayan Krishi Sangam Microfinance Ltd. (India); and Groupe de Recherche et d'Echanges Technologique (Cambodia).

12. As a consortium of 27 donor countries and aid agencies, CGAP is uniquely positioned to catalyze the efforts of the funding community and address industrywide concerns in microfinance by advancing of industry knowledge and disseminating best practices. CGAP's activities encompass many countries, institutions and funding agencies and are based on partnerships with a wide variety of players involved in microfinance. ADB's support will enable CGAP to improve its focus on poverty outreach, enhance CGAP's catalytic role in the region, and help achieve ADB's overarching objective of poverty reduction.

III. THE TECHNICAL ASSISTANCE

A. Objective

13. The objective of the TA is to strengthen the capacity of MFIs in the region to provide demand-driven financial services to the poorest households on a financially sustainable basis.

B. Scope

14. The TA includes three interrelated components that are in line with ADB's MDS and poverty reduction objective: (i) case studies and action research on innovative and sustainable ways of providing microfinance services to the poorest households, (ii) support for selected MFIs to develop sustainable pro-poor innovations, and (iii) training of MFI staff on new product development and sustainable ways of expanding outreach to the poorest households.

15. The TA will help CGAP expand the case study and action research program and disseminate its results widely. Special attention will be paid to flexible and convenient savings services; insurance services; and innovative ways of using microfinance to meet the infrastructure needs of poor communities, including affordable water, sanitation, roads, and other facilities. The case studies and action research program will be focused on the experiences of three selected MFIs.

16. The TA will also provide support to expand and continue the Pro-Poor Innovation Challenge program through which CGAP encourages MFIs to develop cost-effective innovations to reach poor households with a wide array of financial services such as insurance and voluntary flexible savings facilities. CGAP received 180 applications for the second round of the Pro-Poor Innovation Challenge, most of them from small MFIs. However, CGAP could fund only five MFIs, including two from the region, because of resource constraints. The resources provided through the TA will enable CGAP to expand and continue the program in the region.

17. The TA will help CGAP to conduct three training programs for MFI staff in the region on new product development and sustainable ways of expanding the outreach to the poorest households. Each program will last four days and include about 20 participants from ADB's developing member countries.

C. Cost Estimates and Financing Plan

18. The total cost of the TA is estimated at \$700,000. ADB will finance \$500,000 on a grant basis from the ADB-funded TA Program. CGAP will contribute \$200,000 in the

form of financial and staff resources, technical advisory services, and administrative support. Detailed cost estimates and a financing plan are given in Appendix 3.

D. Implementation Arrangements

19. The TA will be implemented over 36 months from July 2001, with an expected completion date of 30 June 2004. CGAP will be the Executing Agency for the TA, with responsibility for the selection of MFIs in the region for case studies and action research in agreement with ADB, implementation of case studies and action research, and wide dissemination of their results. CGAP will submit to ADB the draft reports of the case studies and action research, for review and comments; and the relevant final reports. CGAP will also be responsible for (i) screening applications from MFIs from the region for awards under CGAP's ongoing Pro-Poor Innovation Challenge program, (ii) presenting the awards, and (iii) ensuring the necessary follow-up activities. CGAP will organize and conduct training for MFI staff in the region. Given that the exact scope and extent of case studies and action research cannot be determined a priori, the type and extent of consulting services required for this component will be estimated only after MFIs for each case study and action research have been identified. However, it is estimated that the TA will require resource persons for two person-months to provide the training. CGAP will be responsible for recruiting and managing consultants and resource persons as and when necessary to carry out TA activities. The consultants and resource persons will be nationals of ADB's member countries and be engaged by CGAP in accordance with procedures acceptable to, and with the prior approval of, ADB.

20. ADB will disburse the funds in two installments using ADB's advance payment facility to enable activities to proceed on schedule. Before ADB releases the advances, CGAP will submit a detailed annual work plan showing the activities planned under each TA component. CGAP will liquidate all advances with receipts and other supporting documentation provided to ADB and submit semiannual progress and financial reports to ADB on TA-supported activities. The second installment will be provided only upon full utilization and liquidation of the first installment. ADB and CGAP will sign a TA agreement. ADB staff will conduct at least one review mission per year, including an inception and a final review mission. Within three months of TA completion, CGAP will submit to ADB a consolidated final report that includes a consolidated financial statement and an evaluation of all activities supported by the TA. Any amount advanced to CGAP but not utilized and properly liquidated will be returned to ADB within three months of TA completion. The Focal Point for Microfinance in Agriculture and Social Sectors Department West will be responsible for coordinating and implementing TA activities in consultation with other concerned departments and offices of ADB.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding \$500,000, for the purpose of Microfinance Outreach Initiatives of the Consultative Group to Assist the Poorest, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Goal <ul style="list-style-type: none"> • Increase the outreach of microfinance institutions (MFIs) 	<ul style="list-style-type: none"> • More of the poorest households served by MFIs 	<ul style="list-style-type: none"> • Microbanking Bulletin statistics • Reports of the Consultative Group to Assist the Poorest (CGAP) 	<ul style="list-style-type: none"> • Macroeconomic stability in the region
Purpose <ul style="list-style-type: none"> • Improve the capacity of MFIs to reach the poorest. 	<ul style="list-style-type: none"> • By the end of 2003, more MFIs with innovative ways of reaching the poorest • MFIs supported by CGAP increase outreach 	<ul style="list-style-type: none"> • Microbanking Bulletin statistics • CGAP reports on outreach 	<ul style="list-style-type: none"> • MFIs are committed to deepen poverty outreach.
Outputs <ol style="list-style-type: none"> 1. Case studies 2. Action research 3. Awards for innovation made to MFIs 4. Training on New Product Development and greater outreach to the poorest households 	<ul style="list-style-type: none"> • Case studies completed before 30 June 2003 • Action research completed before 30 June 2003 • Three MFIs awarded grants under the Pro-Poor Innovation Challenge Program of CGAP • Three training programs conducted before 30 June 2004 	<ul style="list-style-type: none"> • Technical assistance (TA) review missions • Progress reports from CGAP to the Asian Development Bank (ADB) • TA review missions 	<ul style="list-style-type: none"> • Researchers are competent and efficient • CGAP Secretariat operates efficiently. • CGAP Secretariat plans the training program well.

<p>Activities</p> <p>1. Case studies and action research:</p> <p>(i) select MFIs for case studies and action research, and</p> <p>(ii) carry out case studies and action research.</p> <p>(iii) Publish the results of case studies and action research.</p> <p>2. Support pro-poor innovation.</p> <ul style="list-style-type: none"> • Call for nominations for pro-poor innovation awards. • Screen nominations and select three MFIs for awards. • Present the awards. <p>3. Training activities on new product development:</p> <ul style="list-style-type: none"> • select participants for training, • select resource persons, • prepare course materials, and • conduct the training. 	<ul style="list-style-type: none"> • The MFIs are selected by August 2001. • Work on two case studies begins before end-September 2001, and on the other two case studies before September 2002. • Action research on one MFI is completed by 30 June 2002 and another one by 30 June 2003. • Results of all case studies and action research are published before 30 June 2003. • Nominations are requested before 30 April 2002. • Three MFIs are selected for awards and the awards presented before 30 June 2002. • One training program is conducted during each financial year beginning 1 July 2001. 	<ul style="list-style-type: none"> • CGAP progress reports to ADB • TA review mission • CGAP progress reports to ADB • TA review mission • CGAP progress reports to ADB 	<ul style="list-style-type: none"> • CGAP's commitment to reaching the poorest households remains strong. • CGAP staff involved in case studies and action research are not moved. • MFIs continue to show interest in the Pro-Poor Innovation Challenge Program. • Demand for new product development continues to be strong.
<p>Inputs</p> <ul style="list-style-type: none"> • Resource persons • ADB Funds • Counterpart financing 			

THE CONSULTATIVE GROUP TO ASSIST THE POOREST

A. Introduction

1. The Consultative Group to Assist the Poorest (CGAP) is an effort by several donor countries and aid agencies to reduce poverty by increasing access to financial services for the poorest households through financially sustainable institutions. CGAP was launched in June 1995 by 10 bilateral and multilateral funding agencies. The founding members are Canada, France, Netherlands, United States, African Development Bank, Asian Development Bank (ADB), International Fund for Agricultural Development, United Nations Capital Development Fund, United Nations Development Programme, and World Bank. Another 17 countries and funding agencies have since joined the original 10 members to support CGAP initiatives. They are Australia, Belgium, Denmark, Finland, Germany, Italy, Japan, Luxembourg, Norway, Sweden, Switzerland, United Kingdom, European Bank for Reconstruction and Development, European Commission, Inter-American Development Bank, International Labor Office, and the United Nations Conference on Trade and Development.

B. Organizational Structure and Funding

2. The consultative group, CGAP's board of directors, is responsible for setting strategic directions, making policy decisions, approving the budget, and reviewing achievements. The consultative group has 27 members and is currently chaired by a vice president of the World Bank. The group has formed a six-member executive committee. Each member represents a constituency of the consultative group. The executive committee facilitates communication among the consultative group, the policy advisory group, and CGAP Secretariat. The Secretariat consists of a team of 14 professionals responsible for implementing CGAP's mandate. The Secretariat is housed in the World Bank and managed by a chief executive officer. The policy advisory group is composed of distinguished microfinance practitioners and experts. This group plays a strategic role in guiding and advising the consultative group and CGAP staff on CGAP's strategy and agenda.

3. For the first three years of CGAP's operations, funding came primarily from the World Bank which accounted for 80 percent of the total funding agency commitment of \$38.2 million. Nine other agencies accounted for the remaining 20 percent of this amount. Funding agency commitments for 1999 and 2000 amounted to \$9.28 million and \$12.1 million, respectively. The commitment for 1999 also came from the World Bank (67 percent) and 9 bilateral agencies. The World Bank accounted for 58 percent of the total commitments for 2000 while 14 bilateral agencies accounted for the remaining commitments for the year. Thus bilateral contributions increased from 33 percent in 1999 to 42 percent in fiscal 2000. ADB has not made any cash contribution to CGAP since its inception.

C. CGAP's Activities and Clients

4. The first phase of CGAP consisted of three years commencing in July 1995. In the first phase, CGAP played a pivotal role in developing a common language for the industry, catalyzing the move toward best practice performance standards, and building consensus among its varied stakeholders. The second phase of CGAP began in July 1998. Building on the achievements of the first phase, CGAP plans a sharper focus on institution building and increased outreach to the poorest households. CGAP's work focuses on five strategic themes: (i) supporting the development of microfinance institutions (MFIs), (ii) supporting changes in the practices of member funding agencies to improve their microfinance operations, (iii) increasing

the outreach of MFIs to cover more of the poorest households, (iv) improving the legal and regulatory framework for MFIs, and (v) facilitating the commercialization of the industry.

5. To achieve its goal of reaching the poorest households, CGAP serves three main stakeholders: MFIs and practitioners, member funding agencies, and the microfinance industry. CGAP offers direct and indirect technical assistance to MFIs and practitioners. It also provides training for practitioners and funding agency staff; produces technical publications and operational tools; invests in MFIs; and advises government officials, commercial banks, and other industry players. In short, CGAP has evolved into a service center for the global microfinance industry.

6. Although it is not a major source of funding for microfinance, CGAP uses its grant facility to support a small number of promising MFIs. By June 2000, CGAP had directly or indirectly provided about \$21 million to 35 MFIs around the world. These MFIs vary in structure but share two features: (i) they reach the poorest households, and (ii) they show potential for massive growth in outreach and steady progress toward commercial viability. CGAP has also invested about \$1.5 million in local and regional networks to enable an exchange of learning among MFIs. As part of its renewed commitment to extending outreach to the poorest clients, in April 2000, CGAP launched the Pro-Poor Innovation Challenge. The program provides an important boost to CGAP's poverty agenda by (i) awarding grants to MFIs that reach the poorest clients through innovative products and delivery mechanisms, and (ii) providing a learning opportunity for the industry on products, services, and delivery systems for the poorest.

7. CGAP has provided technical assistance to a number of MFIs in the region. These include CARD Bank and Project Dunganon in the Philippines, and XAC HAS in Mongolia. Currently, CGAP is assisting SEWA Bank in India to establish a microinsurance company to provide life, health, and property insurance services to very poor women. CGAP also played a major role in the establishment of the China Microfinance Training Center at the Rural Development Institute of the People's Republic of China.

8. CGAP's services to member funding agencies include technical tools, funding agency staff training, and technical advice on microfinance programming. CGAP currently offers two training programs for funding agencies and will offer these at ADB in March-April 2001 for staff of funding agencies operating in the region, including ADB.

9. As part of its efforts to increase the focus on serving the poorest, CGAP has developed a poverty audit to integrate a poverty focus into CGAP's MFI appraisal format. The format has conventionally emphasized financial sustainability. The poverty audit emphasizes the extent of outreach and impact on the lives of the poor. This integration allows a more holistic appraisal of MFIs, and of poverty focus and sustainability as the twin objectives of the microfinance industry.

10. CGAP has developed a comprehensive web site as a means of communicating with, and disseminating information to, its stakeholders. The web site provides up-to-date information on CGAP's operations and services to its clients. Recently it has added a microfinance gateway to its web site to improve practitioners' access to microfinance documents. The web site can be accessed through www.cgap.org.

COST ESTIMATES AND FINANCING PLAN

Item	Total Cost (\$)
A. ADB Financing^a	
1. Case Studies and Action Research	
a. Remuneration and Per Diem for International Consultants	38,000
b. Travel	12,000
c. Reports and Communication	8,000
d. Remuneration and Per Diem for Domestic Consultants	24,000
e. Domestic Travel	8,000
f. Administration and Support Costs	10,000
Subtotal (1)	100,000
2. Pro-Poor Innovation Challenge	
a. Awards to MFIs	150,000
b. Administration and Follow-up Reviews	10,000
Subtotal (2)	160,000
3. Training on New Product Development	
a. Remuneration and Per Diem for Resource Persons	30,000
b. Travel for Resource Persons	16,000
c. Production and Translation of Course Materials	12,000
d. Organization and Conducting of Training	95,000
e. Administration and Support Costs	22,000
Subtotal (3)	175,000
4. Contingency	65,000
Subtotal (4)	65,000
Subtotal (A)	500,000
B. Financing by the Consultative Group to Assist the Poorest	
1. Financial Resources for Pro-Poor Innovation	55,000
2. Staff Resources	100,000
3. Office Accommodation and Logistical Support	25,000
4. Communications	10,000
5. Publications and Reports	10,000
Subtotal (B)	200,000
Total	700,000

ADB = Asian Development Bank; MFIs = microfinance institutions

^a ADB-funded TA program

Source: Staff estimates

(Reference in text: page 5, para. 18)