Dear Readers,

This is the first newsletter for CGAP, the Consultative Group to Assist the Poorest—A Micro-Finance Program. This newsletter is a quarterly publication, and will be one of our key dissemination vehicles to a wide audience of governments, donors, practitioners; and private sector institutions on best practices in micro-finance. Future issues will contain the following features: an article or a viewpoint from a member of the CGAP Policy Advisory Group, an article from the Secretariat, contributions from CGAP member donors on micro-finance support activities, and contributions from practitioners in the field.

We would appreciate your comments and suggestions for future issues.

Muhammad Yunus

Towards Creating A Poverty-Free World

It has been a long way from a tiny village in Bangladesh to the meeting rooms of The World Bank. Our journey began in 1976. What has happened in the villages of Bangladesh and other countries in the last nineteen years has converted many non-believers into firm believers.

Today in Washington, DC and other capitals of the world, the world's leading financial decision-makers are taking micro-finance programs seriously. That is how the Consultative Group to Assist the Poorest (CGAP) was born.

It is a mystery to me why more than a billion people in the world live malnourished, sick, and without hope. It remains a bigger mystery why in an age when we are learning to care for the environment, we remain indifferent to the plight of a vast multitude of our fellow humans. Why is it that when confronted with poverty and hunger we cannot think of anything better than hand-outs? Why is our knowledge expanding with unprecedented speed in some areas but suffering paralysis when coping with poverty and hunger?

The prime responsibility of our civilization should be to ensure human dignity for each and every member of society. It is clear we have failed to meet this challenge.

Ismail Serageldin

The View of the Chair

Over one billion people continue to live in abject poverty, despite all the advances on the development front. Some seventy percent of them are women. Every day some 40,000 people die of hunger-related causes.

Recognizing the need to alleviate hunger and poverty, The World Bank in collaboration with other agencies organized a conference on Overcoming Global Hunger from November 30-December 1, 1993. From the start, this event was conceived as an action-oriented initiative that would yield concrete recommendations for a strategy to combat hunger. It was intended to underline the urgency to promote collaborative efforts to overcome extreme poverty and hunger. Above all, it attempted to reconcile the various approaches advocated by the different groups involved (governments, international organizations, NGOs) and to search for a common ground where institutions could work together to have greater impact.

As a result, three separate but complementary initiatives were undertaken. First, the Bank reviewed its policy on issues of poverty and hunger and published The World Bank's Strategy for Reducing Poverty and Hunger: A Report to the...
THE CONCEPTUAL UNDERPINNINGS OF CGAP—A MICRO-FINANCE PROGRAM

Mohini Malhotra

Since its inception in June, the Consultative Group to Assist the Poorest (CGAP) has expanded from a partnership between nine donor agencies in the field of micro-finance to eighteen. The launch of this initiative poses a basic question: What is CGAP?

Its objective is to improve and increase poor women and men’s access to financial services, to enable them to improve their livelihoods. CGAP’s four key purposes are to: strengthen donor collaboration in the field of micro-finance; disseminate lessons on micro-finance ‘best practices’ to a broader audience; act as a catalyst to improve and increase donor activities and funding in this area, in particular, those of The World Bank; and work with a select number of micro-finance institutions to advance knowledge and learning in this field.

Through this joint venture, donors plan to coordinate policies and procedures for support of micro-finance institutions, thus stretching donor resources farther. CGAP intends to develop ‘industry performance standards’ to measure progress in building strong institutions dedicated to serving poor households.

CGAP will disseminate lessons—on the role of micro-finance in poverty alleviation and in financial sector development, and on ways to build financial systems and institutions for the poor—to a much wider audience than currently reached. The idea is to leverage untapped resources and support for micro-finance from a larger set of actors, including the private and financial sectors.

By ‘mainstreaming’ micro-finance as a development strategy into the operations of The World Bank, and improving the quality of donor programs in this field—CGAP aims to be a catalyst that improves the use of existing resources and encourages more resources for these efforts. CGAP is not intended to be a self-contained ‘special program’ for micro-finance, but a unit with spill-over and seepage effects into the broader funding operations of The World Bank and other donor agencies.

Through the micro-finance facility, CGAP will support a number of strong micro-finance institutions in each region. These institutions are intended to have a demonstration effect on policy makers and other institutions, and add to the current wisdom on best practices in delivering financial services to poor households.

CGAP has sought the advice of micro-finance practitioners to develop its strategy. A group of fifty practitioners who participated in a forum held for the CGAP launch recommended that CGAP should focus on: linking micro-finance institutions with capital markets in developing and developed countries; bringing commercial banks into the market and equipping them with the methodologies to serve this market segment; helping those NGOs that wish to transform themselves into banks with the process; and influencing the legal and regulatory framework underpinning financial service delivery.

The 11 leading practitioners of the Policy Advisory Group (PAG) to CGAP,
advised CGAP to build on what has been done, and disseminate what is known to a broader audience of key actors, especially in the first year. In the words of Dr. Yunus (Chair of the PAG), “CGAP should fertilize and irrigate the seeds of wild rice that have been planted, and proliferate their growth.” For operating the fund facility, the PAG advised CGAP to take an entrepreneurial and proactive view, and to focus on a few institutions in each region to increase their outreach and scale, rather than simply disperse scarce resources over a wide number of institutions.

The Secretariat sees CGAP as a vehicle through which to create a resounding chorus from previously dispersed voices in the field of micro-finance. The launch of CGAP coincides with a new juncture in the micro-finance field. The traditional view of the poor as charity recipients needing hand-outs has been overturned by the poor, who have demonstrated their role as active economic agents ready to pay for services tailored to their needs. The practitioners have expanded from grass-roots institutions in developing countries to include commercial and investment bankers in developed countries. The donors actively involved in micro-finance support have grown from a few to many, including The World Bank.

The focus of CGAP is clear. It must advance the “common wisdom” on deepening and broadening the reach of financial systems to include the poor majority. As evidenced by the millions of poor women and men barred from access to financial services, the “common wisdom” is as yet, not all that common.
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My nineteen years at Grameen convince me that poverty is not created by the poor; nor is it sustained by them. The roots of poverty lie in our institutions, concepts, and theoretical frameworks.

When we started the Grameen Bank, pessimists told us again and again that what we were attempting could not be done. Our detractors said the poor were not credit-worthy; and that commercial loans could not be made to “indigents.” We dared question the entire principle of collateral, and today after disbursing over US$1.5 billion to the poorest in Bangladesh and maintaining a recovery record of over 98 percent, we would like to pose a radically different question. “Are conventional banks people-worthy?”

We were told by economists, planners, and experts that even if it were unbelievable—namely that the elimination of poverty is feasible and that there is no reason whatsoever why anyone should be poor on this planet.”

We were told by economists, planners, and experts that even if it were possible to lend money to a handful of poor in half a dozen or so villages and get the money back, surely this could not be scaled-up to reach any significant number of villages. Today we work in 35,000 villages throughout Bangladesh—more than half the total number of villages in the country—operating through 1,048 branches with a staff of over 12,000.

We were told that if we wanted to help poor families we should lend money to the male head of household. Instead we targeted women who generally had no experience with finances whatsoever. Destitute women turned out to be our strongest and most determined weapon against poverty. True freedom fighters! Today 94 percent of the 2 million borrowers at the Grameen Bank are women.

We were told that minuscule loans (around US$140) would not create enough income to alter the poverty status of a family; that poverty was far too
entrenched to be affected by such loans. Today studies show that Grameen borrowers steadily improve their lives and that within a decade, half of them rise above the poverty line. Another quarter comes close to crossing it. Studies also show that our borrowers are far better off than other families with regard to nutrition, child mortality, use of contraceptives, and availability of safe drinking water and sanitation. Our housing loans have provided homes to 225,000 families; another 150,000 have built houses with incomes from their Grameen-funded enterprises.

We were told that the Grameen Bank would always be a sick institution dependent on grant money and limping along on the subsidies of donors. Yet by making our branch-level credit operations profitable we have proved that ours is a sustainable enterprise. In fact, Grameen is the most sound financial institution in Bangladesh.

These are only a few examples of what highly-respected naysayers and prophets of doom forecast for us and how wrong they were. We have started believing the unbelievable—namely that the elimination of poverty is feasible and that there is no reason whatsoever why anyone should be poor on this planet.

I firmly believe that the alleviation of poverty is a matter of will. If poverty is unacceptable to us, it can be removed once and for all from the surface of the earth. We can make the twentieth century the last century to know poverty. One day our children will visit museums and read books to learn about the conditions in which we allowed our fellow human to subsist, and they will be horrified.

CGAP NEWSLETTER

Please send contributions (between 600 and 700 words) to: The CGAP Newsletter, c/o the Secretariat. Photographs of programs and activities are encouraged. All submissions must be received one month before publication. Future issues will be on the 1st of March, June, and September 1996.

CGAP ONLINE

The CGAP Newsletter, FOCUS Notes, and general information about CGAP is accessible through the World Wide Web at:


FOCUS NOTES SERIES

FOCUS is a series of four-page notes on key policy issues, research findings, lessons from practitioners, and tools for practitioners and policy makers. Approximately 10-12 notes will be published a year. To coincide with The World Bank/IMF Annual Meetings held in Washington, DC (October 10-12, 1995), CGAP launched the first three notes in the FOCUS Series:

1 Consultative Group to Assist the Poorest, A Micro-finance Program
   Joyita Mukherjee, CGAP Program Analyst

2 Maximizing the Outreach of Micro-enterprise Finance: The Emerging Lessons of Successful Programs
   (Synthesis of a USAID paper)
   Christen, Rhyne, Vogel, McKean

3 The Missing Links: Financial Systems that Work for the Majority
   Nancy Barry, President Women’s World Banking, CGAP Policy Advisor

R Y G R O U P

Seated (left to right)

Renée Chao-Beroff Centre international de Développement et de Recherche
Maria Otero Accion International
Ela Bhatt Self-Employed Women’s Association
Nancy Barry Women’s World Banking

Standing (left to right)

Maria Nowak Caisse Française de Développement
Lawrence Yanovitch Foundation for International Community Assistance
Kimanthi Mutua Kenya Rural Enterprise Program
Dr. Muhammad Yunus Grameen Bank (Chair of PAG)
Martin Connell Calmeadow
Kamardy Arief Bank Dagan Nasional Indonesia
Klaas Kuiper International Agency for Economic Development
OPENING STATEMENT AT THE JUNE 27 MEETING OF CGAP

[AN EXCERPT]

Fawzi Al-Sultan

Poverty eradication is the integrating theme for IFAD and in this regard rural credit is perhaps the most important single weapon to overcome rural poverty. Tangible capital assets are a crucial developmental factor of production. No other instrument in the hands of the poor can lead to asset creation with the same efficiency as credit to the poor.

IFAD's experience shows that the rural poor can be bankable, and that well-managed credit can make a major difference to their economic and social advancement. We have developed a strategy for providing financial service to the poor with a very simple overall objective: to meet the justified need for financial services by our clients in the field.

In Indonesia, group credit to the poor was introduced through self-help groups and linked to a commercial bank. The loans to small farmers and the landless were accompanied by technology packages and extension services, and resulted in exceptionally high repayment rates throughout the project life. This project is known in the country as P4K, and the government has recommended it for wider replication using local resources.

In Benin, a very recent project completion report by The World Bank documented a highly successful IFAD credit component to small farmers through the regional savings and loan cooperative system. The IFAD line of credit is sustainable, and the rural poor show exceptional commitment to the micro-finance institution.

In Sri Lanka, IFAD's early support to Thrift and Credit Cooperatives showed impressive results in terms of outreach to the poor and the piloting of a cost-effective mechanism for rural poverty alleviation.

In the Maldives, IFAD promoted an outreach strategy of a local commercial bank to the poor with a strong impact on the incomes of project participants. In addition, we are testing new models to strengthen credit delivery to the very poor, through instruments like village development funds all over Africa, and special credit lines to rural women.

Our experience demonstrates that much of the success and failure of credit institutions lies not only in their management and systems, but also in the external policy environment. Housing the Secretariat in The World Bank provides CGAP with the opportunity to draw on the significant skills present in the Bank in financial sector development. The synergies between the policy dialogue of the Bank and our efforts to make financial services to the poor more accessible can be considerable.

I believe that CGAP offers the unique combination of experience and skills to disseminate lessons learned, and
make individual donor experience available more widely for the benefit of our clients—disadvantaged households in developing countries. It can be a strong and effective mechanism for collaboration among different donors. CGAP offers a timely opportunity to reverse ‘top-down’ projects and ensure local institutional development. It provides us with an excellent opportunity to interact with key players at the grassroots level and to learn from their experiences. There is already considerable knowledge and experience within the micro-finance institutions and NGOs, on which successful donor programs can be based. IFAD and others have demonstrated that there is ample scope for improving financial services to the poor.

IFAD is keen that CGAP succeeds in spreading the message which has been the central theme of our operations from the very beginning—that the poor are bankable and must be provided with credit support. I hope that The World Bank will put its full weight behind this joint venture and that the donor community will strongly support the CGAP initiative and enable it to tap fully the productive resource potential of the rural poor.

**INTERNATIONAL FORUM ON MICROENTERPRISE HOSTED BY CIDA IN OTTAWA**

On 21–22 August 1995, the Canadian International Development Agency (CIDA) hosted an International Forum on Microenterprises that brought together roughly forty microenterprise practitioners, senior government officials, and representatives of Canadian commercial banks and NGOs.

The main purpose of the forum was for participants to share their international and national experiences, and to discuss key issues pertaining to microenterprise and micro-finance development. The forum also provided an opportunity to draw lessons from successful experiences in developing countries and assess their adaptability to unemployment and poverty issues in industrial countries like Canada.

Huguette Labelle, President of CIDA, chaired the forum and The Honorable Christine Stuart, Secretary of State for Africa and Latin America, was keynote speaker. Ms. Stuart said that the very real contributions made by microenterprises to poverty reduction, economic and social improvement, and the empowerment of women, places them at the forefront of development activities. She pointed out that microenterprise development activities play a key role in CIDA’s poverty reduction strategies. CIDA’s objectives in microenterprise development support are: to strengthen existing microenterprise development institutions; and to fund innovative activities that will contribute to advancing the frontiers of this field. In this spirit, CIDA joined CGAP as one of the founding member donors.

Participants agreed that micro-finance institutions should aim to provide full financial services—credit and savings—to their clients. They also concurred that there was a need to provide non-financial business services, such as access to information and markets. The question of whether the same institutions should provide both financial and non-financial services remained unanswered.

Participants at the forum emphasized that sustainability related not only to the lending institution but to the entire microenterprise system. There was strong consensus that the success of microenterprise development institutions would be furthered by government, the private sector and microenterprise institutions pooling efforts to create a synergistic effect, rather than operating in isolation of each other.

Another issue discussed was trade-offs between economic and social goals—i.e., was it more desirable to reach male microentrepreneurs who have a greater tendency to grow their business by ploughing back profits, or to support women whose profits are invested in improved household welfare?
Some valuable best practice lessons for micro-finance institutions highlighted at the forum were:

- The need for a clear vision with respect to the clients to be served, the products or services to be provided, and the institutional development to pursue.

- The need for high quality leadership that includes a carefully chosen board of directors and competent management to ensure the efficient delivery of services.

- The need for institutional development in order to scale up activities for increased outreach.

On the whole, participants viewed microenterprise finance as one of the greatest success stories in the field of development. Low delinquency rates; operational and financial sustainability achieved by micro-finance institutions; and the relationship of trust and respect built with poor clients by these institutions are some of the measures of success. After being exposed to lessons from developing countries in microenterprise development, participants from Canada planned to hold a forum to discuss the applicability of these lessons from the South to similar problems of unemployment and poverty in Canada.

**THE INFORMAL SECTOR AND MICRO-FINANCE INSTITUTIONS IN WEST AFRICA**

*IMPLICATIONS FOR THE WORLD BANK*

Leila Webster

High population growth rates, shrinking public budgets, and urban migration have all increased the demand for jobs in West Africa. This demand cannot be met by the formal enterprise sector, and informal sectors across West Africa have absorbed a significant share of job-seekers. As a result, informal sectors account for roughly a third to a half of GDP and a third to three quarters of total employment.

Convinced of the importance of this sector but unclear as to how it could best assist, the Industry and Energy Division of the Africa Region of The World Bank commissioned a Private Sector Development Department (PSD) team to come up with an appropriate strategy. Several questions were key to formulating a strategy. First, we needed to learn more about these informal sectors. What kinds of backgrounds, skills, and motivations are found among informal sector entrepreneurs? What are the major barriers to the growth of their micro-businesses? Second, what types of institutions are assisting these entrepreneurs and what kinds of services are offered? Which of these institutions might be appropriate partners for Bank operations? And third, how should the Bank approach work in this area?

To answer the first question, PSD staff researched and wrote overviews
of the informal sectors in 12 West African countries based on fact-finding visits and on secondary sources. Major findings from these studies include the following:

- Sectoral concentrations among trade, services, and manufacturing vary a great deal by country
- Women are major participants in all informal sectors
- Key constraints include saturated and/or stagnant markets, inadequate access to credit and savings services, weak technical skills, limited information, and poor physical infrastructure
- Microentrepreneurs rely mainly on family, friends, moneylenders, and tontines (informal rotating savings and credit schemes) for financial services
- Microenterprise assistance programs are numerous but unevenly distributed throughout the region and they are of varying quality.

To learn more about the types of assistance institutions on the ground and how we might best work with them, the PSD team selected nine micro-finance institutions with reputations of excellence for in-depth reviews. The objectives of these case studies were: to learn more about micro-finance operations in this region, to assess these institutions’ practices in the context of global best practices, and to identify ways in which the Bank could be of assistance.

The major conclusions from these case studies were the following:

- Institutions receive high marks for outreach as most are providing financial services to very poor, underserved people in remote rural areas. The scale of operations has remained fairly small in most cases (under 10,000 clients), in part because of the difficulties of scaling up in sparsely populated areas. The quality of financial services is high:
  - Terms and conditions of loans are well-tailored to the needs and capacities of clients
  - Borrowers can obtain small loans (on average, US$50) using simple procedures
  - Requirements for loan security (character-based guarantees, collateral and savings deposits) are appropriate for local conditions.

- Microenterprise assistance programs are numerous but unevenly distributed throughout the region and they are of varying quality.
- The nine institutions fared less well when indicators of sustainability are examined. Revenues cover 30-40 percent of operating expenses on average; high administrative costs inflate transactions costs; and expatriate expenses often are a drain on program funds.

Several implications for the Bank emerged from this work. The main business of the strongest micro-finance institutions, both globally and in the countries surveyed, is delivery of financial services to low-income people. Under the assumption that financial systems ought to be able to serve low-income as well as middle- and high-income people, the Bank’s work in the area of micro-finance delivery belongs most appropriately to financial sector operations. A larger number of Bank staff should acquire the skills needed to work effectively in the area of micro-finance. The same minimum operating standards for financial intermediaries should be applied by all Bank teams that are active in microenterprise assistance in any given country. Moreover, Bank staff could better coordinate across the many functional divisions that are active in microenterprise assistance, e.g., human resources, finance and industry, agriculture, urban and infrastructure.

In directly assisting micro-finance institutions, the Bank’s work should focus on helping them increase their outreach and move more quickly toward sustainability. Options would include: funding training activities for staff of micro-finance institutions, possibly involving study tours to other, more successful institutions, and helping managers of micro-finance institutions to improve their management information systems.

Note: This article is based on a preliminary publication, The Informal Sector and Micro-Finance Institutions in West Africa, edited by Leila Webster and Peter Fidler, September 1995. Copies of this document can be obtained from:

Mary Dutch, PSD Department
The World Bank, 1818 H Street, NW, Washington, DC 20433, Tel: 202. 473 3209
Workshop on developing village banking in the Northwest mountainous region of Tunisia

The Office de Développement Sylvo Pastoral de Nord Ouest Tunisia, The World Bank, GTZ, and the European Union sponsored a workshop in micro-finance in Tunisia to guide stakeholders on best practice principles to be adopted in developing a village banking program for the Northwest mountainous region. The workshop was attended by roughly 70 participants including government officials, NGO representatives, commercial bankers, and microentrepreneurs. Anne-Marie Chidzero (CGAP Program Analyst) and Lawrence Yanovitch of FINCA International and CGAP Policy Advisor also participated in the event. As a result of the workshop, the following principles were agreed to be incorporated in the Tunisian village banking program: it should be run independently from the government; it must strive for institutional viability and financial sustainability; services should be adapted to the needs of clients; and a progressive and flexible approach should be used in implementation. The process adopted in Tunisia provides an important lesson in using a participatory approach to develop microfinance institutions in countries with little experience to ensure that stakeholders endorse fundamental underpinnings of micro-finance operations.

Conference on Regulation and Supervision of Micro-finance Institutions in Latin America, The World Bank, Washington, DC

ACCIÓN Internacional hosted this conference with the co-sponsorship of The World Bank (via the CGAP Program), the Inter-American Development Bank, The United States Agency for International Development and the Corporación Andina de Fomento. Conference participants included bank supervisory agency representatives from sixteen countries in Latin America, staff from the sponsoring donor agencies, and micro-finance practitioners. Richard Frank, Managing Director, World Bank, and Michael Chu, President, ACCIÓN International, inaugurated the conference. Keynote presenters included Robert Christen, Micro-finance Consultant, and Jacques Trigo, Superintendent of Bolivia. The proceedings will be forthcoming as part of the FOCUS notes series.
Development Community, which details a coordinated program of actions that the Bank, in collaboration with other organizations, will promote. The study highlights that combating hunger effectively requires a wide range of actions, such as: investing in people, supporting agriculture, targeted nutrition and health programs, focusing on environmental sustainability and expanding participation for the very poor. Adjusting government policies to create an enabling environment for such actions is an obvious necessity.

Second, the Bank is working with NGOs and governments to conduct detailed in-country consultations on the best ways of alleviating hunger and extreme poverty. The first of these consultations was hosted by the Government of Mali in collaboration with local NGOs and the Bank to exchange views on different strategies, approaches and programs to fight hunger, and to explore ways to promote partnership. As a result of this first consultation, a tripartite participatory project will be implemented in Mali. The project will aim to: strengthen community participation in identifying priority needs and in designing and implementing interventions in partnership with NGOs, local authorities and national programs; improve living conditions of selected disadvantaged communities; and provide institutional support at the national level to help set up an appropriate decision-making structure to achieve this objective.

Third, the Bank has established CGAP. This initiative represents perhaps the greatest challenge for the donor community. For the first time, donors will join forces to systematically expand the level of resources available to the very poor, especially poor women, and deepen outreach in order to serve those who are in the greatest need.

The participation of the Bank in this collective effort will help orient its sectoral and policy dialogue towards creating an enabling environment for micro-finance institutions. This initiative will also complement ongoing efforts within the Bank to alleviate poverty.

Micro-finance is a proven instrument to assist the very poor. Studies have shown that the very poor, especially women, repay their loans at the phenomenal rate of more than 98 percent and that the benefits of such loans translate into improved conditions for the entire household, especially children. Very poor women can pull themselves out of poverty through successive loans of this type.

The success of this program rests largely on the willingness of the 18 member donors to vigorously commit to making a difference in the lives of those who we are trying to reach. Through collaboration and partnerships, we can achieve this objective. The Policy Advisory Group of CGAP is an essential vehicle to bring the voice of the practitioners into the decision-making of the CGAP and thus make it a more effective instrument.

The CGAP framework will allow donors to learn how best to support the expansion of successful programs so that they reach greater numbers of those in need, as well as the poorer segment of the population. It will allow donors, such as The World Bank, to mainstream the lessons learned into its regular operations; governments to learn how they can better create a climate in which
such successful micro-finance institutions can flourish; and practitioners to
learn from each other. Through its efforts, CGAP aims to have an important
multiplier effect.