



Canadian International
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POLICY DIALOGUE STUDY □
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CONSULTATIVE GROUP TO ASSIST THE □
□
POOREST (CGAP)

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Canada 

Summary

POLICY DIALOGUE STUDY CONSULTATIVE GROUP TO ASSIST THE POOREST (CGAP)

1.0 Overview of Assessment

Microfinance Development and Microenterprise Development (MFD/MED) programming within CIDA has been recognized as an important tool in addressing the Agency's overall poverty reduction agenda. As part of its support to MFD/MED, CIDA has been actively involved in the multi-donor Consultative Group to Assist the Poorest (CGAP). A policy dialogue study of CIDA's participation in CGAP was identified by the Performance Review Branch (PRB) as being an important element in an overall assessment of private sector development programming being undertaken within CIDA.

The review was commissioned to provide: an overview of the process of policy dialogue engaged in by CIDA in terms of its participation in CGAP; an assessment of the rationale for CIDA's decision to participate in CGAP; and an assessment of the participation including results which have been achieved. The study was conducted through a review of CIDA's files, key documents pertaining to CIDA's participation in CGAP, and interviews with CIDA staff members as well as CGAP and donor agencies.

While the complexities of the policy dialogue cannot be fully captured within a desk review, overall findings show that CGAP has represented an important initiative for CIDA. As a founding member, CIDA has been able to influence the development and priorities of CGAP, and has been a strong voice in ensuring that poverty was included in the CGAP agenda.

2.0 CIDA's Participation in CGAP

CGAP emerged from an international movement in the early 1990's aimed at finding new approaches to addressing poverty reduction. The initiative focused on supporting microfinance programs for reaching the poorest of the economically active poor, improving donor coordination in delivering the support, and disseminating best practices for delivering financial services. Canada's participation was based on the rationale that the concept of CGAP fit well with the focus of *Canada and the World* on poverty and capacity building. In addition, it provided a mechanism for promoting poverty related programming within multilateral institutions and specifically, the World Bank. This had been an international priority of Canada for a number of years.

CGAP was officially launched on June 27, 1995 and given a three-year mandate. As one of the founding members, Canada was actively involved in defining the initial CGAP concept. During the first phase of CGAP, CIDA staff participated in a range of joint activities to improve coordination between donors. As well, Canada participated in

high-level policy meetings and Chaired the Poverty Yardsticks Working Group that related closely to CIDA's priorities of poverty reduction.

A second, five year mandate was given to CGAP in June 1998 and was strongly supported by CIDA based on solid complementarity between Canada's international objectives and priorities and CGAP's new approach and objectives. CIDA's rationale for participating was based on four factors.

- Leveraging support for poverty reduction programming was still considered an important Canadian objective in dealing with multilateral donors.
- Microfinance continued to be a priority within CIDA which was gaining in importance as a tool to combat poverty.
- The objectives and approaches outlined in the second phase of CGAP conformed well with the policies being formulated on microfinance by the Agency.
- CGAP provided a framework for donor collaboration and exchange of best practices that also complemented CIDA's approach to microfinance.

Again, CIDA took an active role in the process, Co-Chairing the Governance Committee that provided key recommendations to define the next phase of CGAP and being a representative on the Executive Committee.

3.0 CIDA's Influence on CGAP

3.1 Assessing CIDA's Influence

CIDA has clearly had an influence on both the priorities being addressed by CGAP as well as how they are being addressed. This can be illustrated in a number of specific areas.

Poverty Agenda – Of particular significance during the startup phase was the ability of CIDA to provide a balance to debates involving CGAP's focus on sustainability and what it meant in terms of the ability to reach the poor. While some participants took the stance that sustainability was a means for expanded outreach with no tradeoff between sustainability and reaching the poor, others indicated that poverty and the poorest should be at the forefront with sustainability being secondary. CIDA successfully brokered the position that the two issues should be melded in programming considerations. CIDA was also instrumental in ensuring poverty and outreach were critical elements of the second phase of CGAP. CIDA was less successful in broadening the agenda to poverty reduction, with microfinance as one component among others such as non-financial services or the promotion of microenterprises.

Poverty Yardstick Working Group - CIDA Chaired the CGAP Poverty Yardstick Working Group (PYWG) with the aim of increasing the understanding of the connection between microfinance and poverty. A review of poverty targeting strategies was funded by CIDA with the key finding that several components were required for targeting schemes. While the Working Group was effective in bringing key issues to the forefront during the early

phase of CGAP, it only represented a first step in outlining methods for effective targeting. With the completion of its mandate, the PYWG has now ended and CIDA has not officially joined any other Working Group.

Governance Committee - As mentioned, CIDA took a lead role in formulating the second phase CGAP approach by Co-Chairing the Governance Committee. The Committee addressed a number of key issues which proved instrumental in structuring the broader, more mature initiative. These included: reviewing membership criteria; defining policies and procedures for Committees; and assessing the composition and role of key Committees.

Executive Committee – An Executive Committee (EXCOM) was formed to allow a more effective method to coordinate the growing Consultative Group membership. CIDA's appointment to the EXCOM allowed Canada to have input into important decisions during the start of the second mandate which enabled significant influence within CGAP. The seat held by the CIDA representative is now held by a USAID representative.

Microcredit Summit and CGAP – CIDA was one of the few donors that took an active role in both the Summit and CGAP, with high level positions held on both initiatives. Again CIDA was able to make some progress as a broker between divergent camps. One saw the Summit as a political forum focusing on generating volume over quality of programming for microfinance. The other saw CGAP as a narrowly based initiative with limited scope for meeting the needs of the poor.

3.2 Issues Blocking Participation

While CIDA has been able to influence the development of CGAP, some issues have impacted the effectiveness of participation to date.

Focus of Involvement – With the startup of the second phase of CGAP, the initiative has matured and the means for maintaining an influence within the organization have shifted. CIDA was extremely active in the initial startup of the first and second phases of CGAP. CIDA has now decreased its involvement with the movement off the EXCOM and Working Groups. While CIDA remains committed to the concept, new avenues must be identified to ensure Canada maintains its influence as CGAP evolves.

Coordinating Input – The organizational structure of CIDA is not conducive to undertaking thematic initiatives such as CGAP. While attempts have been made to involve all Branches within CIDA and build consensus for effective participation, the process has not been smooth. A lack of clarity within CIDA in terms of the roles of various Branches regarding multi-donor sectoral programming is evident, with each group approaching CGAP involvement from its own mandate and perspective. Of concern is how to mobilize input which balances broader issues of CIDA multilateral agendas with some of the specific sector or geographic issues.

Role of CIDA's Microfinance Partners – CIDA has a number of strong Canadian partners in the microfinance arena and has developed methods for integrating them in the CGAP process. A number of issues complicate this, however, including: melding CIDA's commitment to pursuing a broad approach to microfinance with individual partner interests; the ability to promote Canadian groups for roles within CGAP which furthered Canada's objectives and met CGAP criteria; and resolving conflicts between supporting Canadian partner with a specific model and CIDA's stated priority toward best practices approaches and innovation.

Ability to Monitor Microfinance Portfolio – During the first phase, much of CIDA's portfolio of microfinance programming appeared not to conform to best practices agreed to under CGAP involvement, and would be difficult to convert. A new generation of microfinance projects may be necessary to overcome this issue.

4.0 CGAP's Influence on CIDA's Programming

It is evident that CIDA's role in CGAP has strongly influenced the policies and approaches to microfinance within the Agency. CIDA has developed key policy documentation which have highlighted important shifts to programming including: concentrating on initiatives which have possibilities for sustainability; and ensuring conformity of CIDA's programming to international best practices.

As a result of CIDA's participation in CGAP, a *Microfinance Workplan (February 5, 1999)* was formulated by CIDA that outlined five specific activities to be undertaken by various Branches within CIDA. Substantial progress has been made to date in implementing the Workplan and best practices within the Agency.

Inventory of Microfinance Projects – An inventory of projects that provided examples of results that can be achieved with MFD/MED programming was published for 1997-1998. An update for 1998-1999 has been recently published. Difficulties with project coding have complicated the process, particularly in identifying new generation projects that do not fit with the more traditional views of microcredit schemes.

Microfinance Knowledge Network (MFKN) – The MFKN was established to provide an opportunity for CIDA staff to meet and exchange ideas on best practices and experiences, as well as international experiences through outside speakers. While recognized as a valuable concept, the MFKN faces two challenges. First, it is perceived as a CGAP initiative. Some staff feel it should be driven by CIDA's agenda as opposed CGAP's. Second, a lack of clarity of the role and mandate of the MFKN within CIDA diminishes its potential impact within the Agency as a forum for improving CIDA's programming.

Microfinance Reference Guide – A Reference Guide was developed for the sector which outlines basic information for CIDA staff to facilitate more effective development and monitoring of microfinance projects. It has also been useful as an initial guide for integrating best practices in microfinance projects.

Non-Financial Impacts of Microfinance – CIDA has funded a study of the impact of microfinance on social capital formation.

Training of CIDA staff – The capacity of staff to understand microfinance issues has been recognized as critical if a best practices approach is to be implemented throughout the Agency. An inventory of training needs has been developed by various Branches. Training courses taken by CIDA staff offered by outside groups have generated positive feedback.

5.0 Conclusions & Lessons Learned

CGAP represents an important initiative for CIDA. As a founding member of CGAP, CIDA was able to influence its development and priorities, and has committed to mainstreaming best practices within the Agency. While best practices are only beginning to be fully integrated into CIDA programming, the involvement with CGAP has been an incentive to start the process of systematically addressing some of the needs for information and new approaches to microfinance. A number of lessons learned have been identified from the experience to date.

Ability to influence CGAP

- Early entry as a founding member gave CIDA more status and influence.
- To be effective in international initiatives requires a solid commitment of time. While CIDA's actual monetary contributions to CGAP have been limited, the human resources expended were extensive. Without dedicating resources, limited impact will be seen.
- Initiatives such as CGAP evolve over time and influencing them requires a strategic approach which shifts as the initiative matures.
- CIDA's ability to influence the development of CGAP was partly based on the fact that Multilateral Branch acted as a strong champion within CIDA to build strategic partnerships. The need for a strong champion was clear.
- High level interventions are needed to ensure status at the bargaining table and to gain influence and respect for ideas.
- A strategic approach needs to be taken which presents clear ideas and a credible program to back them up.

Agency's ability to undertake sectoral initiatives

- The process of participation within CIDA is as important in getting organizational buy-in as positions taken within the thematic groups. It is critical to find a process of consensus building.

- Clearer roles and responsibilities for thematic interventions need to be determined within CIDA.

Approach to Thematic Initiatives

- The need exists to have both strategic and technical perspectives throughout the process with both groups involved from the beginning and roles evolving over time.
- A consultative process needs a balance between persistence, accessibility and flexibility. It is often difficult to meld broader CIDA or Canadian objectives with specific items of interest to staff members.
- It is difficult to restructure an existing microfinance portfolio towards best practices approach.