



NOTE FROM THE FIELD

Supporting Innovations in Microfinance

A Consultative Group to Assist the Poor (CGAP) program helps microfinance institutions take risks, maintain flexibility, and develop innovative products and services to reach the poor



Photo courtesy Fonkoze

A client picks up a money transfer from a Fonkoze branch office in Haiti. PPIC support has enabled Fonkoze to be more flexible, adapt to client needs, and collaborate with potential competitors to bring clients better services at lower rates.

Given the opportunity to take risks, innovative MFIs hold the potential to advance practice and deepen outreach throughout the microfinance industry.

While most Notes from the Field feature USAID-supported work, occasionally we post Notes reporting on work that does not receive USAID support but that represents interesting innovation, good practice, fodder for discussion, or all three. The work that follows does not receive USAID funding but we feel that our users will benefit from learning about it.

What does it take to offer sustainable financial services to economically, socially, or geographically marginalized clients?

The CGAP Pro-Poor Innovation Challenge, or PPIC, is helping answer that question by recognizing smaller, “under the donor radar” microfinance institutions (MFIs) that have found innovative ways to reach poorer clients, many of them in remote rural areas. Through cash awards to these institutions, CGAP hopes to encourage them to scale up their programs. The idea, says PPIC manager Rani Deshpande, is “to create a demonstration effect for other practitioners and donors.”

And the idea has caught on. Launched in 2000, PPIC is now in its ninth round and has awarded 49 grants of up to \$50,000 each to MFIs in 35 countries. The awardees credit PPIC for boosting their credibility with public officials, which have turned to many of the MFIs for input on financial sector policies. Investors have taken notice, too: A 2003 survey found that, on average, MFIs saw their assets grow by 79 percent after they received the award. Many awardees credited the PPIC/CGAP “seal of approval” for access to additional funding.

But the real worth of the program is in the creative ideas it’s helped generate, from new products and services (for microinsurance, savings, remittances) to new delivery systems and methodologies for underserved client groups, including the elderly and those living in post-conflict and rural areas. Winners report that other players have been attracted to their markets, replicated their services, or

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collaborated with existing programs as a result of the pioneering efforts of PPIC-supported MFIs. Here's a look at some of these innovations:

Persevering Amid Conflict: LEAP, Liberia

In spite of operating in a country wracked with over a decade of violence, the Local Enterprise Assistance Program (LEAP) managed to build a client base of 4,400 and a portfolio of \$215,000. While other NGOs fled Liberia, LEAP continued business as usual.

During the heaviest period of violence in the late 1990s, LEAP was forced to temporarily close its doors, but reopened only a few months later. The key to the program's success was its steadfast commitment to its clients and its ability to react quickly. By maintaining a continuous presence and contact with its clients, LEAP retained client trust; the program, while not expanding its services, was a beacon of hope.

With PPIC funding, LEAP was able to flex and adapt loan repayment schedules to work to the advantage of its clients and expanded its services to reach hard-hit rural areas. Wendy Ann Rowe, former World Vision program manager, noted, "LEAP encouraged clients to regroup and repay as well as they could; however, clients were required to repay before taking out another loan." Moreover, the organization became an example for other NGOs re-entering the market.

LEAP's quick reaction to the situation through transparent and

flexible client-based solutions allowed for the organization to survive and maintain a strong client base where other returning organizations struggle to recover loans.

Adaptation and Informal Collaboration: Fonkoze, Haiti

One in every five Haitians lives overseas and sends money back home. Anne Hastings, director of Fonkoze, notes that "remittances are what keep the country alive." Fonkoze is Haiti's largest MFI with 26 branches located in rural and urban areas with 31,000 borrowers and over 80,000 savers.

Recognizing the need to reduce the prices of money transfer services, Hastings and her team expanded their credit and savings services to offer low-cost options for clients. To market the new product, Fonkoze hosted a series of "Family Days" offering free, five-minute phone calls to family in the United States. This innovative campaign was effective in raising local awareness of Fonkoze's new services and increased the number of local savings accounts; however, it was not as effective as Fonkoze had hoped in drumming up new remittance business overseas.

Fonkoze concluded that its client advantage was at the local level. It also found that competitors wanted to use Fonkoze's extensive network base to reach the rural areas. While Fonkoze offered the lowest rates in most cases, it found that for smaller remittance amounts (under \$50), competitors' rates were lower for the client.

With this in mind, and in keeping with the organization's fundamental mission—to provide the best service to clients—Fonkoze shifted its message to consumers and has created an informal collaboration with competing services. Hastings noted, "Rather than our slogan being 'Use us—we have the lowest prices!', we now say, 'Come to Fonkoze, where we can help you choose which transfer service to use.'" Fonkoze's innovative and open approach of offering consumer education to clients works to its advantage by gaining overall client trust and confidence in the organization.

Affecting Policy: RIC, Bangladesh

The Resource Integration Center (RIC), founded in 1981, recognized that there was a large and unmet demand for credit among the elderly, especially women. RIC committed itself to actively target elderly women and, today, offers credit to over 3,500 clients in 46 rural and peri-urban villages.

Until RIC opened its doors to this population, credit was not an option—most Bangladeshi MFIs implemented a client age limitation of 55 years because the elderly were considered too great of a risk for MFI portfolios. RIC, with a 96 percent loan recovery rate among its clients, has since proven that elderly women *are* in fact credit-worthy.

Executive director Haseeb Khan took the program a step further in rural Bangladesh to offer non-financial services such as health and nutrition, medical treatment, funeral support, and community

rehabilitation. RIC also created a program, Older Citizen Monitoring Project (OCMP), to facilitate the interaction of the elderly, civil society, and governments to create effective policies and programs to benefit the elderly.

RIC is also on the forefront of a national lobbying campaign to lift the age limitation policies entirely. To this end, the Bangladesh Rural Advancement Committee (BRAC), the largest MFI in the country, has since complied and now offers credit to the elderly. RIC continues to lead in the efforts of inclusive financial services for the elderly and lobby for more MFIs to do the same.

Innovation funds like PPIC can provide a crucial cushion to innovative organizations, enabling them to take measured risks they otherwise could not afford. Given the opportunity to take risks, innovative MFIs hold the potential to advance practice and deepen outreach throughout the microfinance industry. For more information or to read the full PPIC program review, please visit www.cgap.org.

USAID shares CGAP's commitment to innovation and learning through its Implementation Grant Program for financial services (FS-IGP) and enterprise development (ED-IGP). The new generation of FS-IGPs will focus on reaching and retaining very poor clients, and the new ED-IGPs on linking economic growth to poor households through the value chain framework. More information on the IGP can be found [here](#).

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