

January XX, 2008

The Honorable Robert Zoellick
President
The World Bank
1818 H Street, N.W.
Washington, DC 20433

Dear President Zoellick,

Thank you for coming to meet with members of Congress on October 3, 2007, to discuss the World Bank's investment in microfinance for the very poor. We appreciate and applaud your commitment to improve and enhance the World Bank's efforts in its work with almost 1 billion people living on \$1 a day or less.

However, we believe that even greater success can be achieved. We would like to ensure that U.S. funds that are pledged for development assistance to the International Development Association (IDA) reach those most in need. We encourage you to commit to ensuring that the Bank redirects IDA microfinance funds so that at least half of those funds reach very poor clients.

To reiterate our initial requests, we continue to ask that the World Bank increase investment in microfinance, commit at least 50 percent of funds to reaching the poorest, require the use of cost-effective poverty measurement tools, and report annually on results. We were very pleased with your openness to microfinance and look forward to additional work together in the future.

We also ask for clarification on a few points that were discussed at the meeting:

- 1. Reaching the very poor:** There are nearly 1 billion people —200 million families — living below the international poverty line. While understand your concerns about that it is reaching the very poor, especially in rural areas, these difficulties are not insurmountable. We must not allow these challenges to keep us from finding creative, effective ways to reach those most in need. Microfinance institutions (MFIs) have provided several avenues to reach those living below the poverty line. As you know, the Grameen Bank in Bangladesh and Jamii Bora in Kenya have successfully empowered those struggling on less than \$1 a day. The Grameen Bank has reached 100,000 beggars with an average loan size of \$15. Jamii Bora started seven years ago with loans to 50 beggars in one of the worst slums in Nairobi and now has 170,000 savers and 60,000 borrowers. We encourage the World Bank to study the methods and practices these two institutions so that they can be successfully exported to other impoverished areas. **In order to facilitate the study of microfinance best practices, we recommend the creation of a center of excellence, possibly at Jamii Bora or the Grameen Bank.** This center could serve as a clearinghouse of information for MFI lenders from Africa and from around the world by helping them learn successful strategies for reaching and empowering the very poor. **We are eager to hear your thoughts on how to best export models of microfinance and welcome any feedback you may have.**
- 2. Problems of sustainability.** It is clear that the costs per loan are higher and the returns lower for smaller loans to the very poor. However, there is ample proof MFIs who focus on the very poor

are in fact sustainable. The Consultative Group to Assist the Poor (CGAP) notes that research shows “programs that target very poor clients perform better than others in terms of cost per borrower, an efficiency indicator that neutralizes the effect of smaller loan sizes. Their efficiency comes from higher productivity” of more loans per staff member than institutions that service a broader range of clients. This research also notes that many MFIs are showing that, “with strong management and efficient operations, the massive scale required to reach the billion people targeted by the MDGs is possible.”¹ At the Asia/Pacific Microcredit Summit held in Dhaka, Bangladesh in February 2004, CGAP CEO, Elizabeth Littlefield said that “there is no evidence of a necessary trade-off between poverty and sustainability.” In addition, New York University professor Jonathan Murdoch notes that “reaching the very poor while making profits is within sight — but it is not easy and takes time, even for this group of industry leaders. This is one reason that continuing support from international donors can be pivotal.” **We ask that the World Bank follow this advice and increase its support of MFIs that target the very poor as they continue to grow and become financially sustainable.**

Further, we welcome your response to the following questions:

3. **IFC microfinance funding:** During our meeting you noted that 2.5 percent of the budget of IFC goes to microcredit. **What percentage of those funds reached the very poor, and for what programs was this money allocated?**
4. **IDA’s role:** You remarked that there is more flexibility in funding for the poorest through IDA, and then turned the discussion to the need for Congress to appropriate additional funds. While Congress will consider the need to increase the United State’s contribution to IDA, this response does not answer the critical question of how much of IDA’s microfinance funding goes to the very poor. **What assurances can you give us that at least 50 percent of the funding reaches the very poor, and how can we measure this funding level?** Also, you recently announced that the World Bank will increase its IDA pledges by over 100 percent. **Will these increased funds be directed to microfinance for the very poor or on microenterprise/business development projects that focus on those living on \$4, \$5 or more per day?**

Finally, we are pleased to hear that you are supportive of governments creating autonomous microfinance funds with the goals of sustainability and transparency. We also believe that these are important goals and support you in your efforts to achieve them.

Again, thank you for opening this dialogue on steps the World Bank can take to do more to ensure that microcredit reaches the very poor. We look forward to your reply and to meeting with you again to further this important discussion.

Sincerely,

¹ Elizabeth Littlefield, Jonathan Murdoch, Syed Hashemi, “Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?” *CGAP*, January 2003.