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Between Profit and Social Mission"

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Abstract

“There will be no poor people, no beggars, no homeless people.”[1] That is Muhammad Yunus’ wish list for 2050. Having this target in mind, Muhammad Yunus began 30 years ago to develop one of the most important innovations in the world of finances: the concept of microcredits.

Dr. Yunus began 1976 by distributing around U.S.$27 worth of loans from his pocket among 40 extremely poor Bangladeshis and serves nowadays more than six million poor families with loans, savings, insurance and other services. The aim is to understand what the concept consists of, how it must be used, what added value it brings and above all if it can be considered an efficient way to overcome poverty and to provide better options to start new businesses to people that are normally excluded from conventional financial services such as credits.[2] Because of its importance in the fight against poverty, the United Nations dedicated an entire year, the International Year of Microcredit 2005, to this concept. Dr. Yunus was even awarded with the Nobel Peace Prize in 2006.

The microfinance industry is characterized by organizations without a view to profit. Latter are mostly donation-funded non-governmental organizations (NGOs). They often face resource limitations when it comes to satisfy the enormous, increasing demand, which hamper growth and further development. To overcome these obstacles, a new trend could be observed in the recent years: microfinance institutions (MFIs) decided to transform their NGOs into regulated microfinance institutions (RFIs). This form of MFI implicates an orientation towards financial targets.

This paper is devoted to the question, if a transformation to a profit-oriented organization systematically brings a mission drift, meaning a shifting of priorities along, from its initial social mission to the satisfaction of the investors.

[1] See Yunus (2008)
[2] See Orsi (2009)

Zusammenfassung

„Es wird keine armen Menschen, keine Bettler und keine obdachlosen Menschen mehr geben.“[3] Dies stand auf der Wunschliste von Muhammad Yunus für das Jahr 2050. Mit diesem Ziel vor Augen begann er vor 30 Jahren einer der größten Innovationen im Finanzsektor zu entwickeln: das Konzept der Mikrokredite.

Dr.Yunus begann 1976 25U.S.$ unter 40 extrem armen Bangladeschis aufzuteilen. Heutzutage kann er sechs Millionen arme Familien zu seinen Kunden zählen denen er mit seiner gegründeten Grameen Bank mit Krediten, Einlagen, Versicherungen und anderen Dienstleistungen zur Verfügung stellt. Die Herausforderung besteht darin, das Konzept zu verstehen und herauszufinden wie man es effizient zur Armutsbekämpfung anwendet, nämlich extrem arme Menschen zu adressieren, die normalerweise vom konventionellen Finanzsektor und deren Dienstleitungen ausgeschlossen sind.[4]
Durch die Wichtigkeit der Mikrokredite in der Armutsbekämpfung widmete die Vereinten Nationen ihnen das ganze Jahr 2005. Muhammad Yunus bekam sogar den Friedensnobelpreis in 2006.

Im Mikrofinanzsektor überwiegen non-profit Organisationen. Diese sind meistens spendenabhängige non-governmental Organisationen, so genannte NGOs. Diese stoßen oft und bald an Grenzen bezüglich ihrer Ressourcen wenn es dazu kommt die stark wachsende Nachfrage zu befriedigen. Dies wiederum blockiert das Wachstum und weitere Entwicklungen der Organisation. Um diese Hindernisse zu überwinden kann man heutzutage einen Trend verfolgen: die Transformation von NGO Mikrofinanzinstitute in regulierte Mikrofinanzinstitute.

Diese Diplomarbeit beschäftigt sich mit der Frage, ob eine solche Transformation systematisch zu einem Abdriften der sozialen Mission führt, da ein reguliertes Mikrofinanzinstitut finanzielle Ziele, aufgrund der Forderungen der Investoren, nicht außer Acht lasse kann.

3 Vgl. Yunus (2008)
4 Vgl. Orsi (2009)

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1 Introduction

“There will be no poor people, no beggars, no homeless people.”[5] That is Muhammad Yunus’ wish list for 2050. Having this target in mind, Muhammad Yunus began 30 years ago to develop one of the most important innovations in the world of finances: the concept of microcredits.

Dr. Yunus began 1976 by distributing around U.S.$27 worth of loans from his pocket among 40 extremely poor Bangladeshis and serves nowadays more than six million poor families with loans, savings, insurance and other services. The aim is to understand what the concept consists of, how it must be used, what added value it brings and above all if it can be considered an efficient way to overcome poverty and to provide better options to start new businesses to people that are normally excluded from conventional financial services such as credits.[6] Because of its importance in the fight against poverty, the United Nations dedicated an entire year, the International Year of Microcredit 2005, to this concept. Dr. Yunus was even awarded with the Nobel Peace Prize in 2006.

The microfinance industry is characterized by organizations without a view to profit. Latter are mostly donation-funded non-governmental organizations (NGOs). They often face resource limitations when it comes to satisfy the enormous, increasing demand, which hamper growth and further development. To overcome these obstacles, a new trend could be observed in the recent years: microfinance institutions (MFIs) decided to transform their NGOs into regulated microfinance institutions (RFIs). This form of MFI implicates an orientation towards financial targets.

This paper is devoted to the question, if a transformation to a profit-oriented organization systematically brings a shifting of priorities along, from its initial social mission to the satisfaction of the investors. This would be called a mission drift.

[5] See Yunus (2008)
[6] See Orsi (2009)

In this paper, I will start by explaining the concept of microfinance, describing the target clients and will elaborate on the different services included in the term. After giving this introduction, I will define the great macroeconomic impacts coming along with the success or failure of microfinance.

In Chapter 2 follows a focus on the financial institutions providing microfinance, the microfinance institutions, and how they are established.

The next two Chapters elaborate on the process of the transformation from an NGO to a regulated microfinance institution, followed by the chapter where chances and challenges involved before, during and after the decision and procedure of transformation are elucidated.

Chapter 8 examines if MFIs could achieve what they were targeting with the regulation, based on the data collected in the last years from institutions that went through this process.

The key question is answered by evaluating the most known case of transformation, the NGO PRODEM becoming the Banco Solidario, short BancoSol, in 1992.

2 Introduction in Microfinance

2.1 Microfinance

"Poverty is not created by the poor. It is created by the structure of society and the policies pursued by society. Change the structure as we are doing in Bangladesh, and you will see that the poor change their own lives. Grameen's experience demonstrates that, given the support of financial capital, however small, the poor are fully capable of improving their lives." Muhammad Yunus, Grameen Bank, Founder.[7]

Microfinance is a short term of micro financial service and describes small-scale financial services such as savings, loans, remittances, insurance or pensions.[8]
The targeted clientele is characterised by the heterogeneity of their financial needs. To fulfil them, the microfinance institution has to customize services as much as possible and respond quickly to changes with a minimum of bureaucratic procedures.

The remarkable achievement of microfinance is that they found systems and methods to lend to these households and enterprises without formal employment. According to Rhyne, those techniques are developed around the following key principles, also known as core best practices in microfinance:

- Motivating the clients to repay with the promise of continued access to credit, peer pressure, loss or personal assets, and other collateral substitutes
- Following a conservative approach to loan approval and loan size determination based on analysis of existing repayment capacity, or stepped lending
- Having strong management systems, including immediate, personal follow-up, staff incentives, and management, and management information systems.[9]

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7 See About Microfinance, 2009, http://www.kiva.org/about/microfinance
8 See Microfinance Information Exchange (2009)
9 See Rhyne (2002), p.5

2.2 Clients of Microfinance

People can be classified into two categories, bankable and unbanked. They are called unbanked when they have no chance with their actual economical and social situation to access any financial services, such as savings, loans, remittances, insurance or pensions through any type of financial sector organization such as banks, non-bank financial institutions, financial cooperatives and credit unions, finance companies and NGOs. Banked people have access to financial services through their economical activeness, which can lead to income generation, repayment of loans, savings and the building of assets.[10]

"The great challenge before us is to address the constraints that exclude people from full participation in the financial sector… Together, we can and must build inclusive financial sectors that help people improve their lives." Kofi Annan, UN secretary General.

The main characteristics of the targeted clientele are that they are very poor, often not even able to provide a loan security and mostly living in remote areas. The conventional banks therefore consider this segment as unbankable due to the lack of collateral, tangible security. Neither can they borrow against their future income due to the tendency no to have steady jobs or income streams that can be tracked. Microfinance clients often speak a local dialect, which complicates the communication and leads to asymmetric information between clients and institutions. They are also often living far away or in the urban slums so that it would take too long to visit their businesses. The result is that the payout for the financial institution would be inefficient due to the small amounts and the relative high transaction costs.

Microfinance makes unbanked people bankable. Its systems, tools and services to enable it are discussed subsequently.

Women make up a majority of microfinance clients, in some instances even 100%. Considering the total of the microfinance clientele, 33% are men. The clients operate small businesses, such as fishing, small shops or transportation, often owned by them, enabled by microcredits.[11]

[10] See International Year of Microcredit 2005 (2009),
[11] See Consultative Group to Assist the Poor, (2009)

2.3 Microcredit

A microcredit is a small amount of money loaned by a bank or other institution, generally for a productive purpose. Further characteristics are the short-term lending periods and the in-depth client relation.

2.3.1 Strategy of Granting Microcredits

The question we have to ask us is, why the repayment rate of microcredits is higher than the one of the conventional credits. Microfinance clients are excellent credit risks. Even without security deposit, the repayment rate is between 95 and 98 percent, higher than the one of student loans or credit card debts in the United States.[12]

Because of the lack of security provided by the clients, microfinance lenders had to develop other incentives for the amortisation of debts. Two methods are applied predominantly: group and individual microcredit. The difference is that the credit is lent to a single person or to a group of mostly five people as a unit.

2.3.2 Individual Credit

The characteristics of individual lending include the guarantee of loans by some form of collateral or a co-signer, a person who agrees to be legally responsible for the repayment of the loan.[13] Lenders of individual credits need to be innovative to find incentives that could guarantee repayments. The standardized contracts of credits differ in every institution, but following are some effective incentives:

- Contracts terms and conditions can be gradually improved with each new loan as borrowers show their willingness to repay and their capacity
- The promise of future access to other services, encouraging the development of a long term relationship between the lender and borrower
- The use of direct or delegated strict monitoring of repayment behaviour

[12] See Grameen Foundation (2009)
[13] See Ledgerwood, (2002), p. 68

- Seizing of assets if existent[14]

2.3.3 Group Credit

The group credit is characterised by joint liability, meaning that each member is liable for the repayment of the loan and has to repay the total of the outstanding amount in case another member does not repay. Thus, borrowers have a limited liability constraint, meaning that the total dues to the bank cannot exceed the total revenues gained from the project they invested in with the microloan. In case the project fails, group members don't owe the institution anything.[15]

Showcases for this group-lending model would be the Grameen Bank in Bangladesh and ACCION International's solidarity group lending. They form relatively small group of 5 to 10 people and give individual credits to the members. The Foundation for International Community Assistance (FINCA) use the village banking model, where they form larger groups between 30 and 100 people. The microcredit is given to the group itself, rather than to individuals. A clear advantage of this model is that certain institutional transaction costs can be reduced by shifting the screening and monitoring to the group. Self-selection of new group members is very important as people of the same community have normally good knowledge about how reliable other members are. Groups are very careful about whom they let in, given the joint liability. Thus, the MFI is able to reach a larger number of clients, as transaction costs and effort are proportionally smaller considering the number of individuals.[16]

In the case of group lending, the created social pressure within the group substitutes the collateral and the joint liability is an incentive for the repayment of the partial loan.

Two problems can occur within a group, the mismatching and domino effect. The matching problem happens when a members who originally agreed to the same terms and conditions, evolve financially and have different financial needs as time passes during a loan cycle. Different economical targets require diverse preferences concerning conditions of repayment or credit volume. Members needing only a smaller amount of loan could refuse to accept the joint liability for higher amounts.[17]

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14 See Rodríguez- Meza, (2000), S.11
15 See Andersen and Nina, 1998
16 See Ledgerwood, (2002), pp. 69-70
17 See Paxton (1996), p.49

A second negative facet within the group could be the domino effect caused by members deciding not to repay they part of the loan if others default, even if sufficient income exists. Thus blocking the ability to endanger the entire group's future access to credits. The loan default rate rises because "good" borrowers make the decision not to repay because of the financial failure of others.[18]

Examples of Categories of Microloans:

- Philippines: maximum amount of microcredits is approximately U.S.$2,700
- Colombia: microcredits are given to microenterprises with fewer than ten employees and total assets below 501 times monthly minimum wages (approximately U.S.$115.60 in 2003). The amount of the credit to such microenterprise shall not exceed 25 times monthly minimum wages (U.S.$2,890 in 2003)
- Peru: microcredits are loans given to microenterprises with a volume of assets (excluding fixed assets) below U.S.$20,000 and accumulated debts below U.S.$20,000.[19]

2.4 Microsaving

Micro saving is the division of microfinance that enables people and families with very low-income levels to save money in accounts for eventual unforeseen expenses, future investments and education. It has always been a controversial issue, but statistics have proven by now that low-income clients can and do save. Statistical analysis of surveyed institutions state though that the mobilization of deposits depends very much on the macroeconomic and legal environment and has as an example the following connections:

- A positive correlation with the average growth in per capita GNP of the country
- A negative correlation with high levels of inflation
- A positive correlation with high levels of population density

This service does not require a minimum balance and is therefore designed for small amounts of money. Account users are not charged for this service. The provision of this service offers a stable source of funds for the MFI. It can be voluntary or compulsory to clients.

[18] See Paxton (1996), p.48
[19] See Ledgerwood (2006), p. 31

Compulsory savings are more part of a loan product rather than an actual financial product. Borrowers as a condition of receiving a loan must contribute them a percentage of the loan or a nominal amount. Compulsory savings can be a disincentive to clients, as a withdrawal is usually forbidden while a loan is outstanding. For the MFI this kind of saving acts as a form of collateral and enables them to help clients to build up their asset base in a debatable manner.

Voluntary savings are independent to any loan product and not mandatory to access credit services. Interest rates offered range between very low percentages and slightly higher than the rates given by conventional institutions.[20] For a MFI to consider mobilizing voluntary savings successfully, several conditions have to be fulfilled.

First of all, the macroeconomic and financial sector environments need certain stability. It is difficult convincing the poor to save money during turbulent times in politics and high annual inflation rates. People tend to hedge with nonfinancial assets against instability. Secondly, on the next level, the MFI needs an adequate and effective capability for supervision to provide security of the deposits and to protect clients. Government-owned banks have a clear advantage over private-owned institutions, as it is more likely to be rescued in difficult times. This implicit guarantee provides clients' confidence in the deposit facilities of these institutions. MFIs offering a saving service require an appropriate management of liquidity in case of unexpected rising of withdrawal.[21]

To make the act of saving as simple as possible, clients need to have bureaucratically easy access to their deposits and a geographically easy access to the MFI.

2.5 Remittance

Remittances in microfinance are small amounts of money, sent around the world with the help of technology. The clients drawing in this service are mostly immigrants sending earnings to families in their countries of origin. A second significant clientele are the domestic remittances, between urban and rural areas. A positive correlation has been observed with increased savings rates. Remittances help to channel the funds towards productive uses like education and health of children and therefore leverage their economic impact. They play a very important economic role in countries like India and China. [22] The

[20] See Ledgerwood (2002)
[21] See CGAP (1998)
[22] See Remittances Products (2007)

most outstanding example is probably ACLEDA (Association of Cambodian Local Economic Development Agencies), which transferred about \$7 million in 2001, \$28 million in 2002 and increased to \$68 million in 2003.[23]

2.6 Microinsurance

The concept of the microinsurance is the same as for conventional insurances, with the difference that it is again designed for the needs of very poor clients. It is a nascent industry. Microinsurance includes for example life, health, accidental death or disability, so that losses due to natural disasters, fire or death of a family member cannot endanger the economical existence at one stroke. To fulfil the needs of the poor, the terms and conditions are kept simple and clear, the premium payments are kept to a minimum, and exclusions and requirements such as medical examinations are avoided to the maximum extend possible. [24]
Clients of the Grameen Bank, for example, need to contribute 1% of the credit to an insurance fund. In case of death of the client, this fund is firstly used to cover the outstanding loan of the deceased client and secondly to provide his family with the means to cover burial costs.[25]

3 Impact of Microfinance

3.1 Fighting Against Poverty

“Eradicate extreme poverty and hunger” is the first out of eight goals of the Millennium Development Goals (MDGs), drawn from the actions and targets contained in the Millennium Declaration that was adopted by 189 nations and signed by 147 heads of state and governments during the UN Millennium Summit in 2000. The MDGs are to be achieved by 2015 and respond to the main development challenges in the world.[26]

23 See Fernando (2004), S.7
24 See Microinsurance Products, (2007)
25 See Ledgerwood (2002)
26 See United Nations Development Program (2009)

The World Bank defines poverty as a lack of resources or ability needed to cover the basic needs on an individual or household level.[27] According to Latifee, more than 1.2 billion people are living at the margins of human being, under one dollar a day.[28] Microfinance, especially microcredit, is a very powerful tool to fight this problem.

Johnson and Rogaly consider powerlessness as a further dimension of poverty. It is not only the low levels of annual income per person, but also the economic inequalities. This can occur on different levels: between and within households, as a result of differences in age and gender or between communities or social groups, as a result of caste, ethnicity and wealth. Defining poverty in terms of social power, gives the MFI the challenge to not only offer financial services to the poor in general, but especially to the poor, who are normally excluded from such, due to social inequalities.[29]

3.2 Empowerment of Women

The World Bank defines empowerment as "process of increasing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes."[30]

Since the Fourth World Conference on Women in Beijing in 1995, where women's access to credit has been put on the international agenda, the number of women having access to microfinance has increased steadily. According to the United Nations, the number of women receiving microcredits had more than doubled to 10.3 million poor, and increased rapidly to 69 million by 2005. This last number would represent 84% of the total number of poor having access to microfinance.[31]

According to Bayes, microfinance, especially loans, can help women in three different ways. Firstly, a microcredit enables women to manage an independent source of income outside home, which reduces economic dependency on husbands and help foster their autonomy. Secondly, with their own source of income, comes the exposure to new sets of ideas, values and social support, which makes them more assertive of their social, political and legal rights.

[27] See The World Bank (2009)
[28] See Latifee (2003)
[29] See Johnson et al.(1997)
[30] See The World Bank, (2009)
[31] See General Assembly of the United Nations (2007)

And finally, by having the control over material resources, women's prestige and status in the eyes of husbands and society should raise and gain on importance.[32]

Grameen Bank has a special focus on enabling access to microcredits to women. Muhammad Yunus, founder of Grameen Bank, said at a US Congressional Forum *"women have plans for themselves, for their children, about their home, the meals. They have a vision. A Man wants to enjoy himself"* to justify the fact that 94% of his loans go to women. Statistics show that women proved not only to be reliable borrowers but also astute entrepreneurs.

3.3 Wages

In Theory, microfinance can pull a significant number of people out of the rural labour market by creating self-employment. Families borrowing microcredit could theoretically get a double improvement with the women's profit from the entrepreneurship and the wages of the men increase at the same time. There are only a few empirical evidences for this effect though. Khandker, economist in the World Bank Institute for Poverty Reduction, could only prove that the Grameen Bank raised rural wages. This effect is feasible and testable, but more effort has to be made to control differences in characteristics between villages.[33]

3.4 Nutrition

Loans given to women had a significant impact on the health situation of their children, as the study "Credit Programs for the Poor and the Health Status of Children in Rural Bangladesh" by Pitt, Khandker, Chowdhury and Millimet. According to the study, women's borrowing had very positive effect on children's height and arm circumference, while the effect of credits to men on children's heath were insignificant or even negative.[34]

[32] See Bayes (2009)
[33] See Goldberg (2005), p.39
[34] See Goldberg (2005), p.40

3.5 Education

Nowadays, it is well known that children's education, especially for girls, is one of the crucial ingredients for a country's economic growth and its social development. The UN Millennium Development Goals (MDGs) stipulate that all children, independent of their gender, should be able to complete a full course of primary schooling by the year 2015. Microfinance plays an important role in achieving this goal. Households with access to microfinance came off much better concerning children's education than other compared groups. Khandker came to the result that an increase about 1% of the women's credit at the Grameen Bank, raises the probability about 1.9% that girls are sent to school and even about 2.4% for boys. Is the credit given to men, the probability that boys are sent to school raises about 2.8%, while there is no effect on girl's education.[35]

4 Microfinance Institutions

4.1 Definition of Microfinance Institutions

A microfinance institution (MFI) is an organization providing financial services, especially tailored to fulfil the needs of the poor. Clients are in general too poor to be able to access services from conventional institutions.[36] Thus, MFIs also have in addition to the financial objective a developmental or social objective (the macroeconomic impact has already been discussed above). If you would ask managers of MFIs which of the two is the key objective, they would say the social one.

Among the first organizations lending money to poor without getting guarantees in return was Opportunity International, an NGO with Christian origin, which began to lend in 1973 in Columbia. The non-profit organization ACCION International in Brazil followed in the year 1973 and began to deal with microcredits. The Grameen Bank began in 1976 and soon became famous for the credit-lending model, primarily targeted at poor women in small groups.

[35] See Khandker (2003), p.49
[36] See International Year of Microcredit 2005, (2006)

Since everybody assumed that poor people couldn’t save money, organizations initially focused on providing loans. Only after the transformation of the Bank Rakyat Indonesia (BRI) from a state-controlled bank in a bank for poor, a bank offered for the first time, additionally to the credits, state-guaranteed saving accounts without minimum deposit.[37]

Details about the exact number of currently established MFIs vary strongly. Forbes is saying there are upward of 12.000 issuing loans worldwide[38], while the MIXMarket (Microfinance Information Platform) has only 1.400 institutions listed.[39]
Because of the large range of different types of institutions, it is difficult to make a general statement about the special characteristics of MFIs. Based on the following five indicators of Staschen, it can be demonstrated that they still differ from traditional financial institutions: characteristics of their clients, credit technology, characteristics of the loans, culture and ideology, and institutional structure.[40]

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37 See The Economist (2005), p.2
38 See Swibel (2007)
39 See The MIXMarket (2009)
40 See Staschen (1999)

Characteristics	Specification
Characteristics of Clients	· Low income
	· Employment in informal sectors
	· Lack of normal banking collateral
Credit technology	· Quick access to short-terms loans
	· No complex bureaucracy
	· Group lending as security possible
	· Productive consumption loans
Credit portfolio	· Very volatile
	· High dependency of the risk on management capacity
Culture /ideology (for NGOs)	· Distance to the State
	· Culture of compassion
	· Goal is to break even, not to maximize profit
Institutional Structure (for NGOs)	· Decentralized structure
	· Insufficient external control
	· Quasi equity (allowances and concessional credits)

Table 1: Special Characteristics of Microfinance Institutions, Staschen (1999)

Source: Staschen (1999)

According to Greuning et al., there are three rough categories of MFIs that can be categorized by the structure of the liability side of their balance.

Category A includes those using "other people's money" for funding their credit business. These are mostly allowances and concessional loans from donors. These MFIs are also called credit-only institutions. Category A include three types of non-profit NGOs:

- Using grants and donations to provide microcredits
- Augmenting grants and donations with members' savings and limited borrowings from commercial banks

- Changing their organizational format into incorporate entities and exercising some leverage by mobilizing some “wholesale” funds through wholesale deposits, commercial paper or bank credit lines.[41]

In category B, the member’s money is exclusively used to lend money to members. This category consists of membership-based credit unions and savings and credit cooperative associations. Examples for this kind of MFI are RoSCAs and Credit Unions.[42]
Category C consists of all MFIs using the public’s money to fund their credit business, fully developed financial intermediaries.[43] This category also consists of three different types:

- Corporate entities authorized to operate as specialized banks or finance companies
- Licensed banks with mutual ownership of capital by members
- Licensed regular banks with equity capital owned by individual investors.[44]

Another type of MFI is a formal bank with a microfinance section. Concerning the microfinance portfolio, the banking legislation for regulations is automatically applied, which does not meet the requirements of microfinance. This is still an unsolved problem.[45]

4.2 Minimalist and Integrated Approaches to Microfinance

Joanna Ledgerwood describes two types of Microfinance Institutions, the minimalist and integrated, both illustrated in the following figure.

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41 See Van Greuning (1998), p.4
42 See Van Greuning (1998), p.6
43 See Van Greuning (1998), p.6
44 See Van Greuning (1998), p.6
45 See Staschen (1999)

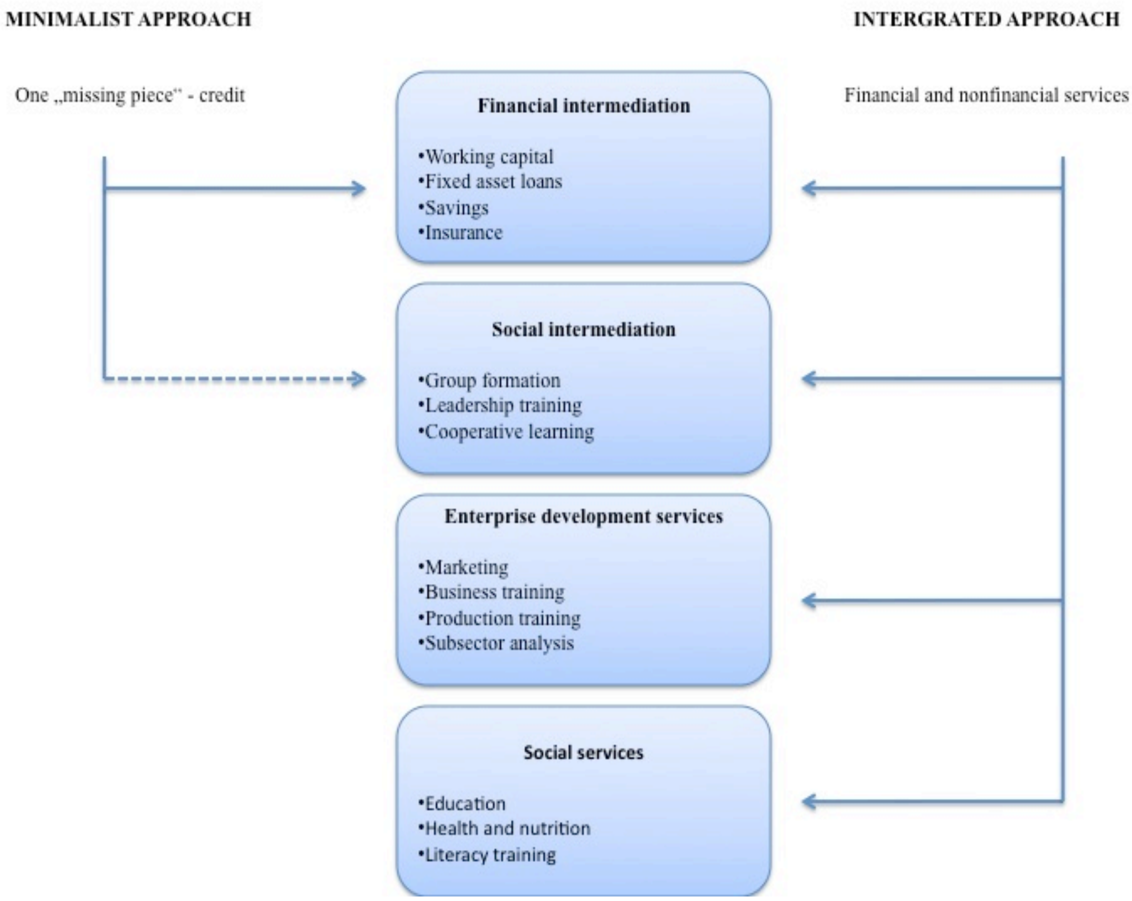

Figure 1: Minimalist and Integrated Approaches to Microfinance

Source: Ledgerwood (1999)

MFIs using the minimalist approach just offer financial intermediations, occasionally limited social intermediation services too. These institutions base their offers on the assumption that there is only a single "missing piece". This piece is considered to be the lack of accessible and affordable short-term loans.

MFIs using the integrated approach go further than just the financial need of the client and offer social intermediation, enterprise development and social services, even though providing financial services stays the primary role of MFIs. In this paper, only financial services will be discussed. [46]

[46] See Ledgerwood (2002), pp.65-66

4.3 Establishing MFIs

Due to the history the development of microfinance, non-profit organizations (NPO) are the most common form of MFIs. Many MFIs have their origin in aid programs, generally initiated and supported by non-governmental organizations (NGO).

In the debate over the statute of the MFIs, GTZ distinguishes between four different strategies of formation[47]:

- Downscaling: a formal financial institution offers products and services to poorer population by changing processes in its organization, e.g. by creating or transforming special departments for microfinance.

- Upgrading: NGOs can gain important market share through institutional growth and by upgrading them to commercial microfinance service providers.

- Linkage: this strategy is linking formal banks with self-help groups. Is has contributed to a significant deepening of the financial sector and enhanced territorial coverage.

- Greenfield banking: establishing microfinance institutions from scratch.

The strategies of upgrading, downscaling and linkage make it difficult to separate the formal financial sector from the unregulated microfinance sector.[48]

All MFIs created by upgrading method are subject to the state regulation and therefore need a concession from the competent supervisory authority to transact business.[49] They can operate as good as formal financial institutions and even outperform them in both the range and quality of their products and services and geographical coverage. As an obstacle to the growth and to assure the survival of these institutions, their charitable nature has been proved. They have a lack of real owners, making sure inserted capital is used efficiently, that means cost recovery and making profit, to secure sustainability.

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[47] See Schliwa (2004)
[48] See Staschen (1999)
[49] See Ledgerwood (1999), p.12

Downscaling enhances the geographical coverage of microfinance business. The challenge of this strategy is to convince Stakeholder of formal banks of the microfinance sector. [50] These projects shown to be successful in transition countries of Eastern Europe and Central Asia, like the Ukraine and Kazakhstan, where financial markets are developing rapidly and many new small businesses are looking for funding.[51]

Financial intermediaries established by the Greenfield banking method usually have the legal form of a corporation and own a banking license from the beginning.[52]

In 2007, Forbes created a list of the World's top 50 microfinance institutions, chosen from a field of 641 microcredit providers. Every institution must have made available their audited financials and must have passed review by a Forbes panel of advisor. The detailed list is located in the appendix. This list gives the rank based on:

- Size of their gross loan portfolio
- Efficiency, which considers operating expense and the cost per borrower as a percent of the gross national income per capita of their country of operation
- Risk, which looks at the quality of their loan portfolios, measured as the percent of the portfolio at risk greater than 30 days
- Return, which is measured as a combination of return on equity and return on assets.

Each category is equally weighted for an institution's overall ranking.[53]
The comparison of the following two rankings is of interest. Based on the highest numbers of clients being compared with their gross loan portfolio, it shows that the placement varies completely. This change is due to the different average loan balance per borrower, shown is the table 4 below.
The MFI with the highest number of active clients was the Grameen Bank with 6.707.000 borrowers, while the MFI with the highest gross loan portfolio was the BRI, with 3.035.685.400 US$ in 2006. Meanwhile, the average loan balance per borrower was 555 US$ at BRI and only 77 US$ at the Grameen Bank in the year 2006.

[50] See Schliwa (2004), p.5
[51] See Terberger (2002)
[52] See Terberger, (2002)
[53] See Swibel, (2007)

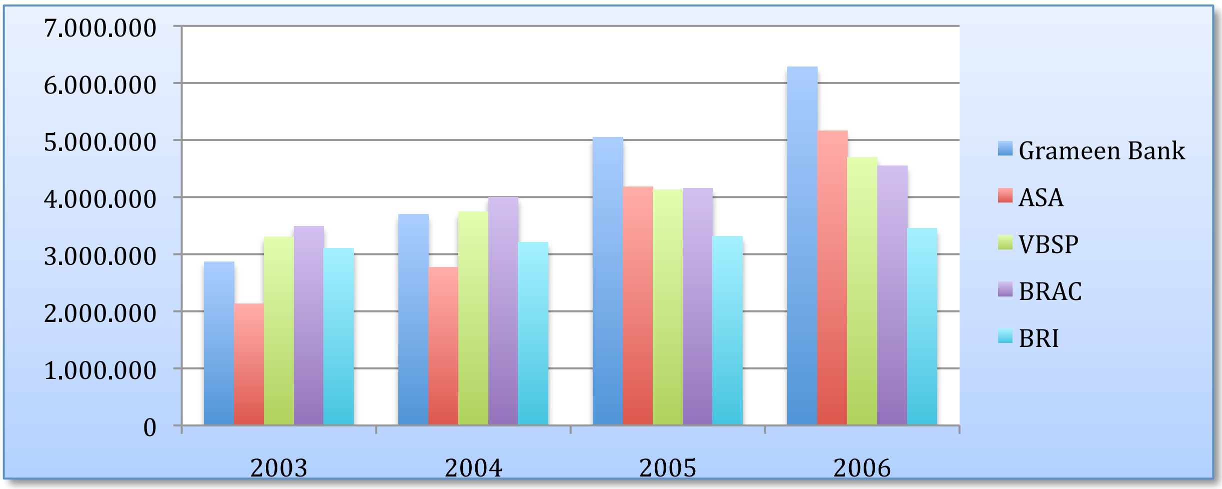

Table 2: MFIs with the Highest Number of Clients

Source: on the basis of The MIXMarket (2009)

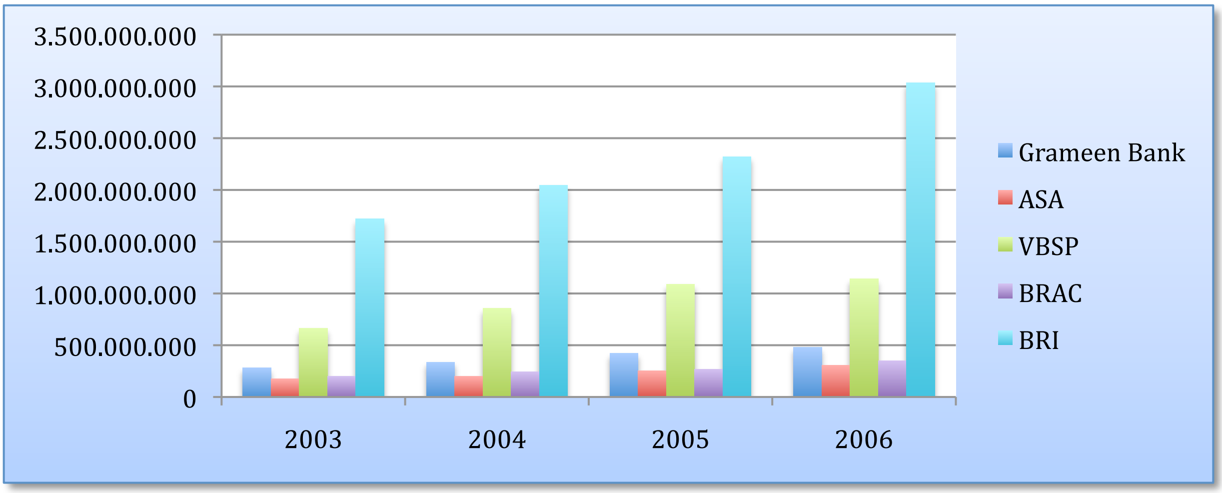

Table 3: Loan Portfolio of MFIs

Source: on the basis of The MIXMarket (2009)

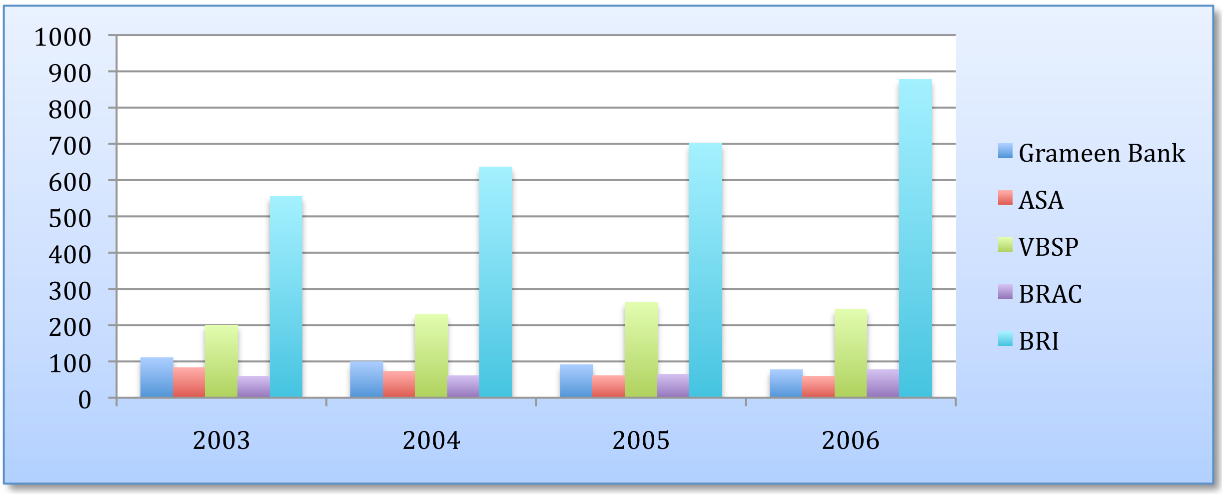

Table 4: Average Loan Balance per Borrower

Source: on the basis of The MIXMarket (2009)

Despite high interest rates most MFIs cannot manage their internal financing. A few institutions actually achieve profit. The majority could not survive without ongoing donations or are dependent on subsidies in the form of more favourable refinancing through donated equity or low interest rates. Instead of striving for profits, MFIs often go for sustainability. In this context, sustainability is an important concept and can be defined as follows: developments that meet present needs without compromising the ability of future generations to meet their needs.[54] This means for financial institutions that they survive by generating income and not using their substance.

However, capital is mostly provided by donations. The Consultative Group to Assist Poor (CGAP), a Wold Bank related consortium of multilateral, bilateral and private donors has indicated that they pour between half and one billion US$ a year in MFIs, in the form of grants and soft loans.[55] Significant amounts also come from private donors, which provide the institutions large numbers of capital at low costs. But given the growing importance of the sector and the exploding demand for microfinance, the requirements of capital often exceed the resources of capital provided by donors.

Thus, more and more microfinance institutions come to the conclusion that profit-orientation is the best way to reach the mass-market of poor people. An economical self-supporting organization that is able to generate profit has access to sufficient capital at reasonable costs to be able to transform microfinance from an interesting niche product into a financial service with the desired scope and importance.

4.4 Résumé

In the previous chapter we had an introduction to the topic microfinance and its institutions. We saw that microcredits are not the only important financial service offered by the microfinance institutions, but also insurances, remittances and the savings. They don't just differ strongly from services offered by formal institutions to bankable people but also among each other, in terms of the providing organization, conditions or the use of the services. The common characteristic of the microfinance services is that they are tailored to

[54] See WECD (1987)
[55] See CGAP (2005)

fulfil the needs of the very poor people, precisely negotiating with very small, undefined amounts of money.

We also discussed what macroeconomic impact microfinance has on the clients in the developing world. Their general goal is to fight against poverty. Alongside, but whose importance is not to be undervalued, microfinance is empowering women, enhancing education and simplifying the access to nutrition and health. The most well-known microcredit model is the Grameen Bank in Bangladesh, founded by Muhammad Yunus, having a special focus on women, providing them access to financial services.

5 Transformation

5.1 Transformation

Most informal and semiformal organizations offering financial services are not subject of the governmental regulations that are applied to other financial institutions such as banks. Some non-banks such as NGOs operate on the fringe of existing regulations, especially with regard to deposit mobilization, which is in sometimes tolerated by the government due to political reasons or simply because they do not have enough capacity or time to deal with it. Another method to dodge governmental restriction concerning deposit mobilization is simply to call it something else.[56]

While in the past most MFIs worked as NGOs or government-sponsored programs, a trend towards the transformation into regulated financial institutions (RFI) can be observed. NGOs are normally private, non-profit organizations, pursuing objectives such as poverty reduction, development or protection of the oppressed. They are characterized by their financial, organizational and legal independence of Governments and authorities. RFI are, on the other side, state-licensed financial intermediaries, which are subject to the supervision of the Central Bank of the supreme regulator of the country. An individual or group of NGOs, transferring their loan portfolio entirely or partially to the RFI, defines the transformation.[57]

[56] See Ledgerwood (1999), p. 20
[57] See Fernando (2004). p.1

More precisely, transformation in the microfinance industry generally refers to “the institutional process whereby an NGO microfinance provider or a microfinance project creates or converts into a share-capital company and becomes licensed as a regulated financial institution”[58]. This may involves becoming a license for taking deposits or just to be a credit institution.

According to Fernando, this idea started with the transformation of the Bolivian PRODEM (Fundación para la Promoción y el Desarrollo de la Microempresa) into BancoSol in 1992 and he further refers to at least 39 other microfinance NGOs converted to RFIs in the years 1992 to 2003, most of them located in Latin America and Asia. The transformation to BancoSol was decided based on the assumption that PRODEMs NGO status could inhibit the continued sustainable growth due to the restricted access to funds on the financial market.[59]

5.2 Is There a Need to Regulate MFIs?

When looking at banking laws, banking business usually “consists of receiving funds from the public by accepting deposits or borrowing from the general public and using such funds for loans and investments at the risk of the institution conducting the business.”[60] In most countries, taking deposits from the public is only allowed to formally specially licensed financial institutions. The expression “public” is used in banking law when speaking of persons beyond a specific number who are not related to each other by law or association. Furthermore, the name “bank” is reserved to entities that are legally organized or licensed as such and lending to public is subject to prior registration with a supervisory authority. As mandatory saving schemes for clients are tied to borrowers credit contracts, non-bank MFIs do not provide bank-type savings services. They are therefore not allowed to leverage its capital by accepting retail deposits from the public.[61]

[58] See Fernando (2004), p.1
[59] See Fernando (2004), p.1
[60] See Van Greuning (1998), p.10
[61] See Van Greuning (1998), p.10

6 Regulation

This chapter looks at internal and external requirements of transformation. Another focus is the analysis of additional requirements and contents as a result of transformation. The most difficult challenge is the economic aspects as former NGOs struggle with the realisation. RFIs come across these struggles because of the regulation and supervision of controlling institutions, requirements of investors, and the implementation of internal management, controlling and supervisory systems and the installation of a risk management.

The success of MFI transformations is dependent on an appropriate and enabling regulatory and supervisory environment. The Consultative Group to Assist the Poor (CGAP) defines regulation as the "binding rules governing the conduct of legal entities and individuals, whether they are adopted by a legislative body (law) or an executive body (regulations)" and supervision as the "external oversight aimed at determining and enforcing compliance with regulation"[62] (CGAP 2003, p.6)
Before the authorities in charge are able to regulate a MFI, the internal structure requires a certain level of self-regulation too. Another approach is therefore the internal regulation through governance.

6.1 Internal Regulation

Tasks of the governance are to ensure that no party within an MFI hinders the attainment of corporate objectives by diverting its resources or makes decisions for private gain. It is a system holding together shareholders, members or donors and the board of directors or trustees, executive management, the staff, the clients and the general public. To avoid conflicts of interests, the loyalties of management and the board should not only consist of shareholders or donors, but also of depositors or other sources of funds that provide the leverage to institutional capital.
When a MIF decides to regulate and therefore to grow, they must adapt their management and internal control systems to the different risk profiles and management's changing needs for information to supervise these risks.

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62 See Christen et al (2003), p.6

6.2 External Regulation

The regulating authorities such as bank supervisors, deposit insurance companies and securities regulators become involved in the external risk management process for regulated MFIs because of the compelling interest of the government in the soundness and stability of the banking and financial system for the sake of the rest of the economy. Though, external supervisor cannot prevent institutions from failing. Furthermore, as facilitators of the risk management process supervisors and regulators must evaluate and enhance the statutory framework under which risk management is carried out by regulated and supervised MFIs.

One of the tools to regulate MFIs is the threat and use of penalties. Guidelines, requirements and regulations are easier to implement with a rather painful consequence for nonconformity or non-compliance. Logically, it is impossible for the regulating governance to stay up-to-date about the existence of an entity, especially if reports are not being submitted.
The two main principles of disobedience are fining consequences appropriate to the degree of non-compliance, and the standardization of basic penalties and sanctions for institutions.
Degrees of penalties for financial institutions imposed by the supervising bank could be changed and adjusted to the seriousness and recurrence of the interference of the regulating authority. Cooperative societies have to follow strict guidelines and rules implemented by a board or commissioner.
Incorporated NGO MFIs should have the same regulations to follow, than registered organizations, and should transmit financial statements and reports of operation to a registration agency, preferably audited externally to ensure a equal standard of supervision. Unfortunately, regulating agencies have scare resources of staff and time to execute, control and process these submissions, already with registered institutions, that it is a bigger challenge to the same with incorporated NGO MFIs. Even the smallest requirements, standard or individual, have to be controlled and in the event of non-conformity, be penalized.
Difficulties in operating at acceptable standards carries the risk of not being able to comply with them and some institutions make the choice of terminating its operations instead of adjusting the guidelines to the standards required. Reworking, cancelling or suspending a MFI's basis needs the consideration of the format and nature of the guidelines. A granted license for microfinance activities is the core of such standards.

The appropriate procedure to execute a mandatory suspension of operations and the definition of operating standards and performance should be addressed prior to the existence or termination of an MFI.[63]

6.3 Requirements of a Regulation

6.3.1 External Requirements

The course and success of the transformation of a microfinance institution is strongly dependent of the external conditions in its environment. The levels with the highest influence on the process would be the political, economic, and legal and the position of the financial and banking sector discussed further on.

6.1.3.1 Information and Incentive Problems in Financial Markets

To begin with, the normative theory of regulation should be considered, based on the ideal of perfect and complete markets, to be able to highlight the specifics of the financial markets. Any regulation comes along with high costs. On the one hand, internal costs emerge while the microfinance institution is trying to meet the regulatory requirements. On the other hand, the costs on a macroeconomic level due to the restriction of competition and efficiency losses coming along with the regulation. In perfect and complete markets, regulatory interventions could not be justified. The question is what makes the financial markets not perfect, especially in developing countries. One main reason would be the asymmetric distribution of information between capital seeker and investors.

6.1.3.2 Political and Economic Environment

The macroeconomic and political environment can make the microfinance business very difficult if it is not stable and secure. If the risk of unexpected changes concerning the bank regulation is high, investors loose confidence in the system, which complicates the access to commercial capital. Macroeconomic factors such as unemployment rate, currency stability and inflation affect regulated MFIs much more than NGO, as investors expect certain justification concerning the bottom line.[64]

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63 See Van Greuning (1998), p. 17-18

64 See Campion and White (1999), p.19

6.1.3.3 Legal Environment

If a MFI decides to become a regulated institution, the legal environment needs to provide the existence of an adequate legal form. Furthermore, to win investors confidence, norms must assure the legal enforceability of contracts. The greatest challenges would be though, to find the balance between minimum interference guaranteeing efficiency and competitiveness of the institution and needed supervision to control risks and corruption.[65]

6.1.3.4 Financial and Banking Sector

The financial and banking sector should consider the following aspects if they want to provide an attractive and interesting market to microfinance institutions.

- *Role of governmental banks:* governmental banks can play important roles in case of market failure when they for example provide financial services to the poor population.[66] However, providing subsidized loans can lead to market distortion and can therefore hinder the entry of commercial financial institutions usually unwilling to compete with them.[67]

- *Limits of interest rates:* Upper limits concerning interest rates are often assigned to protect poor people from to high rates.[68] But especially in microfinance business they need to be higher than conventional credits, as they must be able to cover the above-average costs of transaction and administration. If this is not considered, MFI will have to pull themselves out of this market.

- *Minimum reserve and capital requirements:* The more minimum reserve institutions have to deposit at the central bank, the less they have at disposal to accommodate loans. Minimum capital requirements can be expressed as a percentage or as an absolute value. Former, called capital adequacy ratios, indicate the required equity in relation to their risk weighted assets and should not be inferior to 8 percent according to Basel II. Latter could adversely affect and be an obstacle to smaller regulated institutions, as they have an inferior capacity than larger MFIs. [69]

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[65] See Campion and White (1999), p.19
[66] See Lapenu (2000), p.33
[67] See Loubière et al. (2004), p.6
[68] See Loubière et al. (2004), p.7
[69] McGuire et al. (1998)

6.3.2 Internal Requirements

Alongside the significant external factors influencing the transformation to a regulated institution, internal requirements such as economical sustainability, operating efficiency and the ability to charge high interest rate to cover the costs need to be fulfilled as well.

6.2.3.5 Economical Sustainability

If a MFI is economical sustainable, Kabeer, means that it generates enough sources of capital to be able to cover all costs. This is independent of the level of interest rates, financial charges, administrative costs, loan defaults, the composition of the portfolio and the inflation.[70]

6.2.3.6 Operating Efficiency

The share of operating and administrative expenses in the total lending portfolio is significant for self-preservation of the MFI. This share reflects the operating efficiency of this institution and is influenced by the following three factors:

- Average salary of employees
- Average loan per borrower and
- Number of clients per employee

One factor can compensate or abolish another, as for instance by recompensing higher transaction costs with lower salaries.[71]

6.2.3.7 Use of Adequate Interest Rates

Interest rates are the main source of income for MFIs. They can be up to 36% per annum or above. Considering the high number of borrowers, each with a very low amount of credit, the level of the interest rate is justified.[72]

Depending on the extent to which the external and internal requirements have been fulfilled, the transformation from an NGO to a regulated microfinance institution can take place. As

[70] See Kabeer (2006), p.1
[71] See Christen (2000), p.42
[72] See Latifee (2005), p.27

shown in this chapter, external factors are as important as internal, organisational factors during this process. This is on the other hand the qualification to attract commercial capital. The higher the degree of regulation of the MFI, the more opportunities it has to have access to capital on the market.

7 Chances and Challenges of the Transformation of MFIs

In order to analyse chances and challenges of the transformation of MFI, we first need to look at different aspect of transformation. This chapter focuses on target setting and background information why MFIs change. These targets lay out the developments of such a transformation.

Over the past years, the financial system approach became more popular within the microfinance sector. This approach describes the application of market guidelines in the sense of economic principles of providing financial services to the poor to formal financial institutions. On one side there is the focus of profitability for each level of the individual MFI. And on the other side there is the liberalisation or relaxation of restrictions in financial markets.

7.1 Chances and Targets of Transformation

From a microfinance institutions point of view, three main reasons why to transform can be defined:

- To offer more products and services to their clients
- To gain access to capital (debt and equity)
- To expand their outreach.

7.1.1 Provision of Savings Services and Other Products

Some people share the opinion that enabling access to saving services to build assets is the better way to reduce poverty than giving them access to credits and consequently accumulate debt. Taking deposits also brings chances such as having the capacity to increase the number of clients, improving customer satisfaction and retention, improving loan repayment, stabilizing sources of funds and, last but not least, improving governance of the institution. Though in most of the country, taking deposits is only permitted to regulated institutions. In fact, other appreciated services such as specialized housing loans, money transfer or microinsurance may also be prohibited to provide before becoming a licensed MFI.[73]
To fund loans by mobilizing savings from the public is not easy. The question is if it is worth all the trouble. Ledgerwood state that commercial microfinance does make a big difference and that it virtually benefits everyone involved:

- MFIs clients benefit in different ways, as they are helped expending their enterprise, reducing their risks, to store their excess liquidity safely and obtain returns on their savings. Their options and self-confidence can be increased.
- MFIs providing commercial microfinance services are able to increase efficiency and profitability and become viable for the long term.
- Governments no longer do not need to offer subsidized loans or to cover the losses of subsidized credit programs.
- Economies benefit from the augmented production, the positive macroeconomic impact of microfinance and the new resources made available for investments.
- Societies benefit from the establishment of an inclusive financial sector, which creates an enabling environment for the growth of social and political participation.[74]

7.1.2 Access to Capital

MFI being NGOs are strongly dependent on donors funding. Given the actual tendency of unwillingness of donors to permanently fund the growing needs of capital loans and the institution’s limitation in debt they can access, MFIs face continual challenges concerning the desired long-term sustainability. The ability of funding is elementary for a MFI to grow as

[73] See Ledgerwood(2006), p. xxx
[74] See Ledgerwood (2006), p. 17.18

they meet continual demands for credits by new and existing clients and can therefore be the number one constraint to growth.
According to CGAP, the worldwide portfolio of microfinance institutions in 2006 was U.S.$15 billion. When considering the speculation that the business of microfinance is growing between 15 and 30 percent, translating into a demand of between U.S.$2.4 and U.S.$5 billion for portfolio capital and requiring between U.S.$300 and U.S.$400 million in additional equity each year and considering that non-commercial investors (including donors, bilateral and multilateral financial institutions) pay out approximately U.S.$400 million annually to the sector, it is obvious that they can not reach the level of capital required to fully meet the demand, since part of the capital is needed for regulatory changes, information services, sector associations and other sector development initiatives.

Taking deposits is not only an additional services for the clients, but also a possibility to fund larger volumes of credits and access a stable and potentially cheaper local source of funds. Thus accessing clients deposits also means accessing capital, alongside to commercial and concessional debt and equity sources.[75]

It reduces the risk of capital shortage, which is considered to be the main adversary of growth. In the start-up phase, money provided by donors is usually sufficient, while quick and comprehensive access to capital is required during the phase of constant and sustainable growth. Due to the special characteristics of MFIs, a temporary shortage of funding can lead to a ruin of the MFI. Even a rumour of a capital shortage can cause a lot of damage, as clients will stop paying the loan repayment rate to hedge against eventual future illiquidity. Regulated Microfinance Institutions have easier access to cash, through other financial institutions or through the discount window of the Central Bank and can therefore reduce the risk of an institutional crisis caused by a shortage of liquid funds.

The transformation of an NGO into a regulated deposit-taking MFI permit the institution to increase and diversify their capital funding source. Capital includes deposits, borrowing, subordinated debt, bonds, private equity and retained earnings. The creation of a shareholding company, which is usually implied while transformation, opens two more important sources of capital: private and public equity. The equity base is converted from one founded by donation to one composed of share capital, retained earnings, and sometimes

[75] See Ledgerwood (2006), p. xxx

subordinated debt. The following table shows the evolution of funding sources while the MFI is maturing beginning as a start-up NGO and ending as matured transformed MFI.

Funding sources	Start-up NGO	Self-sufficient NGO	Mature NGO	Newly transformed MFI	Mature transformed MFI
Stages of growth for maturing MFI →					
Deposits from public					
Term deposits				X	X
Demand deposits				X[a]	X[a]
Debt					
Commercial debt			X	X	X
Subsidized debt		X	X	X	
Bond offerings					X
Equity					
Retained earnings		X	X	X	X
Donated equity	X	X	X		
Share capital				X	X

Table 5: Evolution of Funding Sources for Maturing MFIs[76]

According to the MicroBanking Bulletin the average leverage ratios among NGOs is 2,2:1 compared to 10:1 among banks. When leverage increases, it correlates positively with the portfolio size that can again permit an MFI to progress its return on equity, thus providing the capability to attract additional equity capital.[77]

7.1.3 Increased Outreach

Considering the initial and primary mission of MFIs to reduce poverty, as much poor people as possible need to be reached. By offering new products and services and having access to enough capital, institutions can growth as in the volume of credits lent and geographical extension. Market share and outreach can also increase due to the better competition compared to unregulated MFIs, as they are not forced to operate efficiently in order to satisfy stakeholder such as investors, shareholders and regulators.[78]

[76] See Ledgerwood (2006), p.165
[77] See Ledgerwood (2006), p.165
[78] See Ledgerwood (2006), p. xxxi

7.2 Challenges of Regulation

In the last two decades, microfinance has been improving constantly. To reach its goal of satisfying the massive worldwide demand and eliminate poverty, several challenges have to be overcome and will be discussed further on:

1. Inappropriate donor subsidies
2. Poor regulation and supervision of deposit-taking MFIs
3. Few MFIs that mobilize savings
4. Limited management capacity in MFIs
5. Institutional inefficiencies
6. Need for more dissemination and adoption of rural, agricultural microfinance methodologies[79]

7.2.1 Inappropriate Donor Subsidies

A great obstacle of regulation is the continued subsidization of the microfinance industry by donors. It is not clear anymore in what extend donors are discouraging natural market mechanisms. Microfinance are not motivated to pursue more commercial sources of capital such as mobilizing savings and commercial debt and equity funding and stay dependent on donors. The Grameen Bank for example reports U.S.$16.4 million in direct grants and U.S.$126.5 million of implicit subsidies in 1998. Campion declare that this focus on donor support has kept the Bank from implementing loan technologies that would lower operational costs and make savings rates more attractive to clients.

7.2.2 Poor Regulation and Supervision

To provide an effective regulation of microfinance institutions, it is not only dependent of the MFI itself, but also very much of the capacity of the regulatory authorities. Especially in poor countries, where microfinance is needed the most, authorities are not able to provide the capacity required to regulate and supervise institutions. Further, it is a bigger problem for MFIs, as there need a more oversight than others when mobilizing deposits. The regulator

[79] See Campion (2002), p.57-63

must know and understand the differences between MFIs and conventional institutions such as follows:

- Lower capital requirements: it is difficult to define a minimum capital requirement as it must one the one hand be high enough to guarantee the creation of a solid institution and on the other hand low enough to make the market attractive for new MFIs.
- Other level of interest rates: Regulator must accept the fact that MFIs have to charge much higher interest rates than traditional institutions in order to be able to cover the much higher transaction costs associated with offering microfinance.
- Risk weighting: regulators should be aware of the different risk evaluation needed for microfinance. Judgement should not be based on traditional guarantees, as they are mostly missing in microfinance, but on the repayment history and the overall portfolio quality.
- Stricter Provisioning: As portfolios tend to have shorter average maturities in microfinance, they require more aggressive provisioning.
- Higher operating costs: managing small amounts of loans and deposits, operational costs have a tendency to be higher than at conventional institutions. Regulators should allow it if they can demonstrate a reasonable average return on assets.
- Customized reporting: authorities must consider that MFI are mostly not capable to produce the same amount of documentation as traditional banks are.

7.2.3 Few MFIs Mobilize Savings

The majority of microfinance institutions are NGOs and therefore usually not allowed to take deposits. The whole microfinance sector should learn more about mobilizing savings and its benefits. A very good example would be the Bank Rakyat Indonesia (BRI) that managed to drastically grow as a result of its strong commitment to savings mobilization. Its microfinance division were cross-subsidizing the commercial loan division for years and could help the institution stay stable during the recent economic crisis in Indonesia.

7.2.4 Limited Management Capacity

When starting as an NGO, an important challenge is to build the management capacity to efficiently manage a commercial financial institution. Following areas need to be considered:

- Risk management: the board and senior management levels need to be prepared for the additional risks they will have to deal with coming with savings mobilization such as liquidity risk, exchange rate risk, interest rate risk, fiduciary risk and more management risks.
- Management information and internal control: the MFIs needs to make sure the management and internal control systems are reactive to the changing MFIs profile in terms of risk and the needs for information to monitor and control these risks.
- Marketing and customer responsiveness: MFIs need to understand and respond to customers diverse needs and services preferences to better deal with the growing competition in the microfinance market and to satisfy the demand.
- Human resource development: Institutions need to develop attractive human resource policies and incentive systems to retain good employees in a cost-effective manner to avoid loosing them to the competition.

7.2.5 Institutional Inefficiencies

MFIs work hard to improve and reduce operating costs and already found new methods and technologies to increase productivity and efficiency and to lower costs. But when the industry in general wants to be able to attract a substantial amount of commercial capital, more MFI will have to lower operating costs further.

7.2.6 Need for More Rural, Agricultural Microfinance Methodologies

In densely populated areas microfinance had a high demand and was very successful in countries with large informal sectors, whereas donor-supported agricultural lending programs were unsuccessful. Nowadays, rural finance models are being explored, addressing poverty in rural areas and making the rural finance market more attractive for other banks by showing achievements.

To conclude, MFIs should take an eye on several challenges that have to that need to be addressed before the industry can achieve the goal of satisfying the worlds demand. Summarizing, donors should keep away from using direct subsidies that will lead to market distortion. Instead, they should help MFIs by improving regulatory and supervisory bodies by supporting the creation of credit bureaus, other information support systems and networks.

This was, the industry will get more interesting for more commercial capital and be better capable of meeting the demand and needs for microfinance. [80]

7.3 What Activities and Types of MFIs should be Regulated?

An important question is which institutions should be regulated and which one not. Generally, regulation should be applied on institutions taking deposits and not be applied on institutions only providing credits.
The primary task of regulation, from a general view, is to protect the small, unsophisticated depositors. Further duties can be following:

- Formation and operation of MFIs
- Consumer protection
- Fraud and financial crime prevention
- Credit information services
- Limitations of foreign ownerships management and sources of capital
- Tax and accounting issues
- Interest rate policies.[81]

7.4 Framework of Regulation by Van Greuning

Further benefit is definitely the highly improved governance structure leading to sustainability and thus permanent institutions.

The following table identifies a framework for which type of MFI fund generating activities need mandatory external guidelines and to what extend.

[80] See Campion (2002), p.57-63
[81] See Ledgerwood (2006), p. xxix

MFI Type	Activity that Determines Regulatory Status	Proposed Form of External Regulation, if Required	Regulatory Agency
CATEGORY A MFIs			
Type 1 Basic Nonprofit NGO	Making microfinance loans not in excess of grants and donated/ concessional funds (loan capital).	None – Voluntary registration with Self-Regulatory Organization.	None, or Self-Regulatory Organization.
Type 2 Nonprofit NGO with limited deposit-taking	Taking minor deposits, e.g. forced savings or mandatory deposit schemes, from microfinance clients in community.	None -- Exemption or exclusion provision of banking law; compulsory registration with Self Regulatory Organization.	Self-Regulatory Organization.
Type 3 NGO transformed into Incorporated MFI	Issuing instruments to generate funds through wholesale deposit substitutes (commercial paper, large-value certificates of deposit, investment placement notes).	Registration as corporate legal entity; authorization from Bank Supervisory Authority or Securities & Exchange Agency, with limitations on size, term and tradability of commercial paper instruments.	Companies' Registry Agency; Bank Supervisory Authority or Securities & Exchange Agency.
CATEGORY B MFIs			
Type 4 Credit Union, Savings & Credit Cooperative Society	Operating as closed- or open-common bond credit union; deposit-taking from member-clients in the community, workplace or trade.	Notification to and registration with Cooperatives Authority or Bank Supervisory Authority; or certification and rating by a private independent credit rating agency.	Cooperatives Authority, or Bank Supervisory Agency or Credit Rating Entity.
CATEGORY C MFIs			
Type 5 Specialized Bank, Deposit-taking Institution, or Finance Company	Taking limited deposits (e.g. savings & fixed deposits) from general public beyond minor deposits exemption in banking law. Microfinance activities more extensive than NGOs but operations not on scale of licensed banks.	Registration and licensing by Bank Supervisory Authority, with a limitation provision (e.g., savings & fixed deposits, smaller deposits-to-capital multiple, higher liquidity reserves, limits on asset activities and uses).	Bank Supervisory Authority.
Type 6 Licensed Mutual-Ownership Bank **Type 7** Licensed Equity Bank	Non-restricted deposit-taking activities, including generating funds through commercial paper and large-value deposit-substitutes, from the general public.	Registration and full licensing by Bank Supervisory Authority as a mutual-ownership or equity bank; compliance with capitalization / capital adequacy requirements, loan loss provisioning and full prudential regulations.	Bank Supervisory Authority.

Table 6: Regulatory Thresholds of Activities by Type of Microfinance Institution

Source: Van Greuning (1998), p.11

Van Greuning suggest that for MFIs of type 1 and 2, no mandatory external regulation is required. A certain self-regulation through market selection takes place, as donors, government agencies and commercial banks would not invest in MFIs of the type 1 or 2 without the capability for a due diligence and make informed decisions about them.

Types 3 to 7 must be treated like any other social organization and business and should apply to a standard registration requirement covering documents of establishment and governance structure. Existing guidelines for prudential regulation can be adapted to MFIs, there is therefore no need to establish to design and implement an extra structure of regulatory standards and procedures.

Referring to Van Greuning, banking laws should only cover voluntary deposits and not forced savings or mandatory deposits schemes that are specifically coupled with loan contracts. Banking laws normally govern the mobilization of deposits from the public, but can also cover the mobilization of other types of resources to accommodate the financing and investing needs other sectors my have, generally by means of non-deposit financial securities and instruments.

Banks and other conventional regulated institutions in the formal sector mobilize non-deposit funds through capital market activities such as wholesale deposits, commercial paper issues and securitization. Van Greuning suggests that MFIs, respecting the same standard requirements as for other institutions to do so, should have the similar but restricted options to mobilize non-deposits funds too. A market-based regulatory role can be played by external independent rating agencies, already performing in various countries, where institutions have access to capital market.

Non-governmental MFIs mobilizing funds through wholesale deposits, as in type 3, need to satisfy securities registration requirements of the securities and exchange agency. When issuing wholesale-type financial instruments such as commercial paper securities and investment participation certificates, they will have to satisfy additional minimum requirements with respect to their financial standing and ability to service the placement or investment.

Other regulatory thresholds according to Van Greuning are that MFIs of the type 2, 3 and 4 with limited deposit taking in the form of forced or mandatory deposits which are tied to loan contracts should not need a specific license, but should only be authorized under an exemption or exclusion notice under the general banking law. This approach serves to unify regulatory jurisdiction over financial matters in the central monetary authority.

Deposit taking by open-common bond savings and credit cooperatives or credit unions of type 4 in the table could be riskier and require closer attention, comparing them to closed-common band societies. Latter limits membership to a clearly defined group of persons and have in general a limited scale of operations in terms of geography and size of membership base. The former chooses their members more on a geographical base rather than a specifically defined group. They tend to have a larger deposits volume and usually have a wider scope of operations.

Type 5 MFIs are non-bank intermediaries, financing companies or specialized or limited banks. Their limited license enables them to practice deposit-taking activities from the public to an amount limited to a multiple of its total qualifying capital and excluding the ability to create demand deposits, with operations limited to a defined area. Deposits should be secured by liquidity reserves as in predetermined levels of deposits with the banking system or investments in government securities. Through this limited options, the MFI gains important experience in managing liquidity risks and deposit mobilization programs.

The last two types 6 and 7 are mutual-ownership or equity-share banks. They require special licenses and are subject to complete regulation and supervision by the regulatory and supervision by the regulatory authorities. [82]

8 Results to Date

8.1 Evaluation of the Success of Transformation

Taking a look at transformations of MFIs during the last two decades and their position nowadays, it is clear if they could attend the goals they were hoping to attend with the transformation in a regulated institution or not. Ledgerwood illustrates in her book "Transforming Microfinance Institutions" (2006) the results to date, summarized considering the three main goals discussed before.

8.1.1 Provision of Savings Services

The reason to transform bringing the most benefits with it is to getting the license to take deposits from the public. Together, MFIs providing saving services served over 35 million clients in December 2004.

[82] See Van Greuning (1998), p. 12-13

MFI	Country	Gross loan portfolio (U.S.$ millions)	Savings[a] (U.S.$ millions)	Number of active borrowers (thousands)	Number of savers (thousands)
ASA	Bangladesh	201.1	33.6	2,772.7	2,986.6
Banco ADEMI	Dominican Republic	72.2	39.2	25.6	48.6
Banco Los Andes ProCredit	Bolivia	113.8	71.2	64.7	53.8
BancoSol	Bolivia	108.7	81.2	71.6	61.9
BRAC	Bangladesh	243.1	0.5	3,993.5	27.2
BRI	Indonesia	1,953.4	3,347.4	3,210.7	31,271.6
CERUDEB	Uganda	44.6	77.7	52.7	402.7
EBS	Kenya	40.1	57.9	59.3	413.1
Finamerica	Colombia	27.8	18.3	24.4	2.3
FMFB–Pakistan	Pakistan	3.6	6.0	9.5	18.4
K-Rep Bank	Kenya	27.3	6.0	55.4	25.4
Mibanco	Peru	128.7	86.1	113.5	53.3
PRODEM FFP	Bolivia	86.6	61.0	55.9	119.5
XacBank	Mongolia	16.1	12.9	32.0	39.2
TOTAL		3,067.1	3,899.0	10,541.5	35,523.6

Table 7: Deposit-Taking Members of the Microfinance Network, dec. 2004

Source: Ledgerwood (2006), p.xxxiii from MIXMarket

8.1.2 Access to Capital

It is not possible to hide or deny the fact that the transformation brings easier access to capital. If this fact helped the institutions being successful depends on what they see as success. "Estimates vary, but the bulk of the worldwide microfinance portfolio is currently funded by deposits (25 to 30 percent), dept (35 to 40 percent) and equity (30 to 40 percent)"[83].

Concerning the MFIs in table 6, the majority state that even when the number of depositors exceeds the number of borrowers, they still could not always meet the needed funding of the regulated institution if the mobilization of savings would be the only source of capital. Some MFI have difficulties to mobilize enough deposits to meet the capital needs. The Mongolian XacBank prefers to be less dependent on large institutional deposits and have more smaller, cheaper current account savers instead. Interesting is that a sample of 67 MIX Market-listed MFIs with at least three years experience with deposit-taking have proven that there is no strict correlation between a relatively small average deposit and a low volume of savings, no matter the size or geographical position of the institution[84]. Small deposits can be an effective

83 See de Sousa-Shields (2004), p. xiv
84 See Ledgerwood (2006), p.xxxiv

and significant source of portfolio funding "if a small number of large deposits cross-subsidize the administrative costs of many small savers"[85].

Illustrated by the following table, regulated MFIs have a much higher ability to leverage their funding, as equity funding is only 10 to 20 percent for most of the MFIs involved, rather than the estimated 35 to 40 by de Sousa-Shields.

MFI	Transform-ation date	Public deposits	Loans from Fis/bonds	Other	Total Liabilities	Toltal equity	Debt/ Equity
BancoSol	1992	60	23	4	**87**	**13**	**6,41**
Banco Los Andes Procredit	1995/2005	52	32	5	**89**	**11**	**8,30**
FIE	1997	38	42	7	**88**	**12**	**7,11**
Mibanco	1998	55	17	4	**77**	**23**	**3,26**
K-Rep Bank	2000	51	5	16	**72**	**28**	**2,54**
PRODEM FFP	2000	57	29	5	**92**	**8**	**11,60**
ACLEDA Bank	2001/2004	38	29	13	**80**	**20**	**3,89**
Compartamos	2000	n/a	58	2	**61**	**39**	**1,55**
XacBank	2002	50	33	2	**85**	**15**	**5,50**

Table 8: Funding Structures of Regulated Deposit-Taking Institutions (in percent), 12/2004[86]

Source: Ledgerwood (2006), p.xxxiii

Investors of regulated microfinance institutions are mostly social or non-commercial. Latter rather invest in regulated institutions than NGOs. According to de Sousa-Shields, investments from publicly owned international funds are 88 percent concentrated in regulated MFIs.[87]

Private investments only represent a small percentage in microfinance funding. This results on the one hand from the lack of transparency and quality information about social and financial performance of the MFI, and on the other hand from the lack of understanding concerning the business microfinance. Many potential investors don't understand for example why MFIs so high interest rates. Not knowing that they have to cover the high operating expenses compared to the loan sizes and that the alternative financial source for the

85 See de Sousa-Shields (2004), p.38
86 See Ledgerwood (2006), p. xxxiii
87 See de Sousa-Shields (2004), p. ix

poor, the moneylenders, even charge more. Other obstacles making private investments hesitate from investing in MFIs are inadequate risk/return profiles, a lack of information about countries and their financial markets and a lack of sufficient foreign exchange hedging instruments.

8.1.3 Increased Outreach

	BancoSol	Finamerica	Banco Los Andes ProCredit	Banco ADEMI	Mibanco	K-Rep Bank
Founding NGO (Country)	PRODEM (Bolivia)	Corposol (Colombia)	Procredito (Bolivia)	ADEMI (Dominican Republic)	ACCION Comunitaria del Peru (Peru)	K-Rep (Kenya)
Date of transformation[a]	2/92	10/93	7/95; 1/05[b]	1/98	5/98	9/99
No. of active borrowers of NGO at transformation	22,743 (12/91)	32,022[b] (12/93)	12,662 (7/95)	18,000 (1/98)	32,000 (5/98)	13,201 (12/98)
No. of active borrowers of transformed institution as of 2005	76,904 (5/05)	26,726 (12/05)	72,048 (6/05)	51,045 (3/05)	124,526 (6/05)	55,441 (12/04)
% increase	238	−17	469	184	289	320
Value of outstanding loans at transformation ($U.S.)	4,500,000 (12/91)	11,000,000[c] (12/93)	4,200,000 (7/95)	30,300,000 (1/98)	14,000,000 (5/98)	3,300,000 (12/98)
Value of outstanding loans as of 2005 ($U.S.)	113,321,650 (5/05)	37,400,000 (12/05)	128,470,572 (6/05)	80,848,212 (3/05)	161,192,317 (6/05)	26,743,172 (12/04)
% increase	2,418	240	2,959	167	1,051	710
No. of depositors as of 2005	68,051 (5/05)	1,827 (12/05)	64,240 (6/05)	26,502 (3/05)	48,248 (6/05)	16,355 (12/04)
Value of deposit balances as of 2005 ($U.S.)	96,000,000 (5/05)	26,800,000 (12/05)	89,318,034 (6/05)	51,045,000 (3/05)	55,712,479 (6/05)	11,558,293 (12/04)

Sources: PRODEM: Drake and Otero 1992; Campion and White 1999; MIX Market 2005; MFI self-reported data.
a. First year is transformation to a regulated deposit-taking financial institution; second year is transformation to a commercial bank.
b. Refers to date of official opening and operation as a regulated financial institution.
c. Reflects aggregate for Corposol.

Table 9: Transformation Results: Outreach

Source: Ledgerwood (2006), p. xxxvi

As is apparent from the table above, all licensed, deposit-taking institutions have experienced a fabulous increase in number of borrowers, deposits accounts and in the portfolio volume of outstanding loans.

For the institutions to be able to grow is definitely the owing to the wider range of products and services offered. The Banco Los Andes ProCredit offers nowadays micro and small enterprise loans, consumer loans, housing loans, agriculture livestock loans, saving accounts, time deposit accounts, guarantee slips, national and international money transfer, and

national tax and public services collection. Before the transformation it was an NGO, only able to provide micro and small enterprise loans and gold pawn loans.
The XacBank went from only offering two loan products to offering 17 different loan products and seven savings products.[88]

To conclude one can confirm that MFIs have indeed been able to access a significantly broader range of financing sources, thus greatly improving their ability to rapidly scale up operations by growing, deepening and leveraging their equity bases.[89]

Given the numerous benefits coming along with a transformation, comparatively only a very low percentage of MFIs operate as RFIs. This is referable to the non-favourable environment for MFIs in some countries. If for example there is no adequate form of organization for RFI, the minimum capital and reserve requirements are prohibitively high, or strict interest rates restrictions prevail, the conditions block the transformation of MFI from the outset.

8.2 Experience of MFIs with Regulation and Supervision

We have now discussed what challenges and benefits come with a regulation. Thus it is based on very theoretical perspective and literature. As microfinance has become an important topic, a number of papers have advanced the thinking on the regulation and supervision of MFI over the years. Nowadays are enough examples to bring more practical dimension into the theory of regulation of MFIs.

ACCIÓN international is a private, non-profit organization providing microcredits and technical assistance to those around the world who are under-serviced by local banks. Their mission is to give people access to the financial tools they need to work their way out of poverty.[90] This organization has over 45 years of experience in the field of international economic development. ACCIÓN international conducted a survey with detailed interviews of seven MFIs from six different countries. See table below for more information about the institutions. These institutions, with the exception of Banco Solidario, underwent a

[88] See Ledgerwood (2006), p. xxxvi
[89] See Ledgerwood (2006, p. xxxi
[90] See Rhyne (2002), p.2

transformation from NGO into a regulated institution. Three of them are commercial banks, while four are financieras.

According to ACCIÓN international the purpose of this survey was to investigate the results of the regulation with the perceived costs, benefits and to examine what theory worked in practice and what did not work. Furthermore, this survey outlines recommendations on changes the practitioners would suggest to the content and implementation of supervision.

Institution	BancoSol	Banco Solidario	Caja los Andes	Calpia	Compartamos	FINSOL	Mibanco
Country	Bolivia	Ecuador	Bolivia	El Salvador	Mexico	Honduras	Peru
Founded	1986	1995	1991	N/A	1990	1985	1969
Original Form	NGO	Commercial Bank	NGO	NGO	NGO	NGO	NGO
License Date	1992	1995	1995	1995	2001	1999	1998
New Form	Commercial Bank	Commercial Bank	FFP	Financiera	SOFOL	Financiera	Commercial Bank
Active borrowers	60,976	14,645	41,665	34,39	62,797	15,026	58,088
Portfolio (US$ million)	$ 77,8	$ 6,3	$ 46.8	$ 26,5	$ 10,9	$ 6,3	$ 36,9

Table 10: Institutions Involved in the Survey

Source: Rhyne (2002)

This survey has shown that all institutions involved are overwhelmingly pleased to be regulated and would never consider to revert to their NGO form. Even when transformation does not always flow smoothly, the fundamental benefits as listed subsequently outweigh the cost and efforts related. CGAP roughly estimates that the costs of supervision are equal to 5 percent of total costs during the first year and remains 1 percent thereafter.

The achieved benefits of the transformation are following:

1. Much easier access to sources of funds for equity and debt, especially commercial sources
2. Increase in geographical and quantitative growth: serve more people in more areas
3. Improvement in quality of operations through the higher standards of control and reporting
4. Superior legitimacy and recognition in the financial sector.[91]

[91] See Rhyne (2002), p. 3

One general inconvenient to mention experienced by the institutions involved with this survey is the restrictive freedom to try unconventional ideas of new products or markets that have not proved their viability. To keep the microfinance sector dynamic and as innovative as it has to be to improve within the fight against poverty, the importance of institutions remaining NGOs as seedbeds for experimentation is not to underestimate.

8.2.1 Lack of Understanding

According to the institutions, the origin of the problems occurring while and after regulation is the lack of understanding by the regulating authorities of the unique characteristics of microfinance. This lack of understanding and the comparison with conventional banks let supervisors consider microfinance as a very risky sector. The result is that their try to adapt microfinance to conventional banks, rather than suit policies to the specialities of microfinance. Rhyne names two groups of people whose deep understanding is essential: policymakers involved in design of regulatory frameworks and norms and supervisors responsible for on- and off-site oversight of MFIs. To solve this problem, the staff of regulatory agencies should undergo a special training on microfinance[92].

8.2.2 Observations from the Licensing Process

The whole licensing process is quite difficult as on the long time frame of two years or more and is considered to be the most challenging part of being regulated. The changes made in this period such as internal control, reporting capabilities, branch physical security etc. are commented to be very beneficial on the long run.
Different from what one might assume, meeting minimum capital requirements was not a big deal, once the institutional form has been chosen. And further, because the compulsory capital was, for most of the institutions, as high as the amount of capital needed to achieve and maintain profitable operations or less.

Alongside the length of the licensing process, another core problem is during that period is finding an ownership and management structure that is acceptable to both authorities and the MFI. Among this survey, authorities were unwilling to approve the following constellations of management and ownerships:

[92] See Rhyne (2002), p.4

- In many cases it was considered inappropriate for the original NGO to own a major portion of a licensed institution
- In Honduras it was a problem for foreign institutions such as donor-related ones and international MFIs to be owners
- Individuals in senior management positions having expertise in microfinance but not in conventional banking

Microfinance is a sector where flexibility is required, also concerning its management. So even when owners or managers do not fit standard expectations at the first run, the do compensate with factors such as specialized knowledge, deep long-term commitment or reputation risk.[93]

8.2.3 Regulation and Supervision of Microloan Portfolios

What the best practice is for conventional banking is not necessarily the best way for MFIs. An important challenge of regulation for microfinance is to define its own norms rather than trying to adapt this sector to the norms of conventional banking. The following listing is some areas where the involved MFIs said their best practices conflicted with standard banking regulations:

- The risks classification: through the characteristics of microfinance, microcredits are placed in unsecured categories, due to the non-recognition of standard forms of collateral used in microfinance, such as group lending or non-standard collateral.
- Loan documentation requirements unsuitable for informal business – without actually improving the safety of the portfolio. In fact, both, BancoSol and Mibanco experienced resentment from clients regarding increased loan documentation requirements after they became commercial. Existing clients viewed the demand for such documentation as evidence the lenders no longer trusted them.
- Putting microcredits in the same group as consumer lending. These two kinds of lending are based on completely different lending methods and repayment comes from a different source (salary versus self-employment). Each type of lending must have its own norms.

[93] See Rhyne (2002), p.4

- Ineffective techniques of supervising the portfolio: regulators spend too much time looking at individual loan folders, rather than putting the focus on the quality, timeliness and reliability of MFI and inspecting portfolio quality control systems in general.[94]

8.3 Areas where Microfinance May Need Special Norms

Rhyne uses the rating methodology CAMEL ACCIÓN to summarize the need for rigorous regulatory norms that are adequately tailored to microfinance. The CAMEL technique, originally adopted by North American bank regulators, reviews and rates five areas of financial and managerial performance: capital adequacy, asset quality, management, earnings and liquidity management. Based on this framework, ACCION International developed its own instrument reflecting it's the unique challenges and conditions facing the special sector of microfinance.

The following table show the 21 key indicators classifier in the five main areas and how the differ from the standard banking. It shows areas where microfinance differs from conventional banking norms and would therefore need a special focus.

CAPITAL ADEQUACY	
Capital Adequacy Ratio	• Minimum capital requirement lower • Leverage ratio higher
Adequacy of Reserves	• Provisioning policy should fir microcredit terms
Ability to Raise Equity	• Unconventional owners (NGOs, donors) may have difficulties with this

[94] See Rhyne (2003), p. 5-6

ASSET QUALITY	
Portfolio Quality	• No need for concern about large loan concentration • Focus on quality of delinquency managemnt systems
Write-Offs and Write-off policy	• Should fit microcredit terms and experience
Portfolio Classification System	• Treatment of loans with unconventional form of guarantee
Productivity of Long Term Assets	*No change*
Infrastructure	• Allowance for low-cost infrastructure suitable for reaching the poor

MANAGEMENT	
Governance/Management	• Unconventional owners and sometimes managers
Human Resources	• Different staff profile, salaries
Controls, Audit	• Internal audit must take lending methodology into account
Information Technology	• Delinquency monitoring focus
Strategic Planning and Budgeting	*No change*

EARNINGS	
Return on Assets	• May be higher than the norm
Return on Equity	*No change*
Efficiency	• Administrative costs expected to be well above standard commercial banking •Indicators and benchmarks specific to microfinance are needed here
Interest Rate Policy	• Interest rates well above standard commercial banking

LIQUIDITY	
Productivity of Current Assets	*No change*
Liability Structure	• May differ substantially from most other banks
Liquidity Ratio	*No change*
Cash Flow Projections	*No change*

Table 11: ACCION CAMEL Key Indicator[95]

Source: Rhyne (2002), p.5-6

From this survey one can conclude that regulation of microfinance institutions is a growing tendency nowadays bringing challenges for the single institutions but also strong benefits for them and therefore for the whole sector. The flexibility to try new products or markets is restricted to a certain extend due to the regulation, so one must underline the importance of MFIs remaining NGO, having more freedom to act as seedbeds for experimentation.[96]

[95] See Rhyne (2002), p.5-6
[96] See Rhyne (2002), p.7

8.4 Rating for Microfinance

MFIs face the challenge to convince potential donors and investors of the profitability of their activities. It can be difficult for them believing in microfinance when used to the transparent, conventional banking. Independent agencies can be hired for evaluation and assessments, but they are mostly expensive and lack a common standard that can be applied to the entire industry.[97]

As already discussed, private investors hesitate from investing in microfinance institutions due to a lack of transparency about social and financial performance. Looking forward, it will be a key challenge for microfinance to grow to increase the attractiveness of this business and the ability of diversified funding, especially private capital. Stakeholders, such as regulators, have identified this chance and are responding to the need of transparency and quality reporting[98].

What microfinance needs is an independent credit rating system respecting the specialities of the field and sending a clear, traceable and creditable opinion about sustainability of MFIs and their activities to donors and investors. Ratings will increasingly get very important in the business of microfinance. Evaluations of agencies can raise the quality and efficiency of MFIs and provide trust and security for private investors. Regulators are able to see ratings and standards as a way to separate well from bad performing institutions. Furthermore, donors are interested in setting performance standards to provide clear benchmarks and guidelines to determine eventual future funds for MFIs. Performance standards can be useful in promoting independent and transparent review of MFIs, which should enhance prospects for the growth in the next step.[99]

[97] See Srinivas (2009)
[98] See Ledgerwood (2006), p. xxxv
[99] See Srinivas (2009)

9 Critics

We have now focused on the challenges and benefits from the point of view of the institution itself and the regulators and supervisor. Even if it is evident that MFIs can better meet clients demand when regulating, many people fear that the regulation will inevitably lead to a shifting of priorities, meaning that profit maximization becomes more important than the initial, social mission microfinance has its origin from. This critic is named as *mission drift*. Mission drift would occur when institutions will offer larger loans to higher income people, as they must meet demands for higher returns from shareholders. The microfinance services would not meet the needs of the very poor anymore.

From an economic point of view, it is much more efficient to give one single loan in the amount of U.S.$100,000 than giving 1,000 loans in the amount of U.S.$100 due to the administrative and transaction costs. This fact gives MFIs inducement to aim for higher credits. Thus with the allocation of higher credits MFIs will address people with higher incomes, which is when mission drift occurred. [100]

Looking at the following table, evidence show that regulated MFIs do provide larger loans than unregulated ones. In fact, referring to the numbers in the table below, the ratio is one to three.

Type of institution	Number of institutions	Average outstanding loan balance (U.S.$)	Average outstanding loan balance as a % of GNP per capita
Regulated financial institutions	78	817	47,2
Unregulated financialNGOs	128	322	23,6

Table 12: Average outstanding loan balances for regulated and unregulated MFIS in Latin America, 1999

Source: Christen (2000), p.32

[100] See Woller (2002), p.14

But the question is, do larger loans automatically lead to mission drift? In the paper "Commercialization and Mission Drift" the author Robert Peck Christen explains other factors that could lead to larger loans than mission drift with the focus on Latin America.

They could just be the result of a deliberate strategy or choice on the part of MFIs. More established and older MFIs in Latin America did not have the initial mission to reach the poorest, but to promote small enterprise development to generate new jobs. There was no mission drift in the case of the first generation of MFIs transformed into regulated institutions.

In strong contrast is the approach taken by most of the new MFIs. Robert Peck Christen divides them into two subgroups:

- Poverty oriented NGOs
- Commercial banks

The new generation of NGOs are mostly unregulated. They seek from the outset to encourage very poor women and bring them into productive activities. Their target clients are much poorer than the clientele of the first generation. Thus, the large difference between the average loan of unregulated and commercial MFIs may simply reflects the fact that the two groups focused on different populations. In the case of unregulated NGO, mission drift has not occurred at all.

Commercial banks are always seeking to achieve high returns. An interesting observed tendency in Latin America is that banks are entering the microfinance markets at or nearly the same level as the pioneering NGOs that preceded them. Banks tend to copy closely the methods that have been proven to be successful in their immediate environment. Reaching the very poorest can indeed be very lucrative. One has to keep in mind though that they do not have a social mission that pushes them far down the socioeconomic ladder, but they do recognize a profitable opportunity, regardless of the client group.

Another factor may be the natural evolution of the average loan balances of NGOs that transformed themselves into regulated MFIs. But the question is, did their loan balances increase in a way that suggests that the profitability drove the terms and conditions of loans and thus the selection of their target market?

Christen answers the question based on the data for 19990 to 1999 from programs supported by two of the most major microfinance supporter in Latin America Acción International and International Project Consult (IPC). Their programs were mostly young in 1990 and thus dominated by new borrower. The following factors could have lead increase the average loan size:

- These programs engage in incremental lending in which loan balances start well below the client's ability to pay the instalments and are subsequently increased through many short-term loans
- The microenterprises financed by these loans could be expected to have grown, as would their demand for credit.
- The boarder economy in which MFIs act much be taken into account as a dynamic economy my benefit microenterprises for example, which in return may require larger loans.

If the average loan size augments as a consequence of one of these factors this does not mean that the MFI has left its initial target group behind. The data demonstrates that the average did not increase beyond levels compatible with the natural evolution of their loan product and target group. Thus, in a typical MFI the average loan size can easily double or triple as both the program and its target group mature.

MFIs such as Finamérica and BancoAdemi having both moved substantially up-market, have different reasons for that. Former was forced to move up-market in response of the insolvency of Corposol/Finansol, from which it was reborn. Latter increased the average loan size as a consequence of a long-term commitment to the upper end of microenterprises, mostly acting in the productive sector. Even in these cases mission drift cannot be observed.[101]

[101] See Christen (2000), p. 31-48

9.1 Case Study BancoSol

9.1.1 History

The story of Banco Solidario (short BancoSol) began 1986 with the foundation of the microfinance NGO PRODEM in Bolivia. Already in 1988 the MFI had grown so fast that they could not satisfy their capital needs anymore, as they were neither permitted to mobilize savings nor to have a high leverage being a NGO. They were very dependent on donations and subsidies. With the main aim to overcome the capital shortage BancoSol has been created in 1992 as first bank specialised in microfinance.[102] Finally, PRODEM conferred a total of around U.S.$6,5 million, about 14,300 established clients, some city branches and some intangible assets on BancoSol. This included lending technology, information capital, contacts, human capital, a serious reputation and involvement in an existing international network.[103]

9.1.2 Analysis of Mission Drift

BancoSol tries on the one hand to go into the matter of their social mission helping the very poor to improve their future prospects. And on the other hand they try to operate as financially profitable as possible in order to obtain economical sustainability due to their bank status.
It is now in connection with the above discussion whether the financial success due to the transformation has occurred at the expense of the social component.

Gaamaa Hishigsuren provides in her article "Evaluating Mission Drift in Microfinance" a framework how to evaluate BancoSol. Hishigsuren proposes to evaluate the degree of mission drift through three factors and their changes before and after commercialization:

- Depth of outreach: demographic statistics such as clients' income levels, interest rates and loan sizes
- Quality of outreach: levels of satisfaction with the products and services, often represented by the client-employee ratio
- Scope of outreach: types of services offered.

102 See ACCIÒN International (2007)
103 See Gonzalez-Vega et al. (1996), p. 5

The first factor is the augmentation of the average loan size from U.S.$326 in 1992 to U.S.$1,572 in 2006, which does raise suspicion.[104] This would be an indication of the target clients to less poor people. But looking at the number of clients and the volume of the total loan portfolio, one can see that all factors increase after transformation. BancoSol took over 14,300 clients from PRODEM. In 2005, the institution accommodate 17,345 loans under U.S.$500 which represents nearly 30% of the total quantity of credits but only nearly 4% of the total loan portfolio, documented in the table below. This indicates that BancoSol did not lent less to poor people, but additionally lent higher loans to less poorer people. As shown in the table below, loans higher than U.S.$10,000 only represent around 22% of the total loan portfolio and around 2.5% of the total quantity of loans.

Loan size (U.S.$)	Total	Share	Cumulated (approx.)	Quantity of credits	Share	Cumulated (approx.)
Under 500	4,544,240	3.49%	3.49%	17,345	28.60%	28.60%
501 to 1,000	8,512,245	6.54%	10.03%	11,360	18.73%	47.33%
1,001 to 2,000	17,626,014	13.55%	23.58%	11,721	19.33%	66.66%
2,001 to 3,000	19,895,392	15.29%	38.87%	7,819	12.82%	79.50%
3,001 to 5,000	30,361,028	23.34%	62.21%	7,663	12.63%	92.17%
5,001 to 8,000	16,588,775	12,75%	74.96%	2,795	4.61%	96.72%
8,001 to 10,000	4,011,417	3.08%	78.04%	438	0.72%	97.51%
10,001 to 15,000	10,491,412	8.06%	86.10%	822	1.36%	98.87%
15,001 to 20,000	5,207,761	4.00%	90.10%	297	0.49%	99.36%
20,001 to 30,000	6,052,290	4.65%	94.75%	249	0.41%	99.70%
30,001 and above	6,815,458	5.24%	99.99%	143	0.24%	99.94%
Total	**130,106,032**	**100.00%**	**100.00%**	**60,652**	**100.00%**	**100.00%**

Table 13: Allocation of Loans According to their Sizes in the Total Portfolio (2009)

Source: on the basis of BancoSol (2005)

[104] See The MIXMarket (2009)

Another factor one should have a closer look at is the upper limit of loans that has increased in a way that brings up the question if these credits still fall in the category of microcredits. Sol individual has an upper limit of U.S.$30,000 and Sol Vivienda of U.S.$100,000.

Gaamaa Hishigsuren comes to the conclusion that because of the higher upper limit, borrowers must be from a higher income level, which is a significant indication of mission drift.

She abstract away from the fact that these higher loans only represent around 3.20% of the total quantity and that this only involves the addition of new markets, not subtraction from the initial social mission.

It can be concluded that BancoSol did not increase the average loan size by having less poor clients and offering higher credits but by diversifying the portfolio and serving additionally new, less poor clients.

A further factor to consider would be the interest rate. According to Hishigsuren, they turned out to be determinedly higher than before transformation, making credits less accessible to lower-income clients. They were also allowed to fluctuate with the market, which also excludes some clients when they rise. On the other hand, savings interest rates still remained accommodating to poor clients.

The quality of outreach is determined by the ration of loan officers to clients. Although it increased significantly after regulation, the staffs of BancoSol are still on a par with NGOs, since they are specially trained for poverty alleviation. In this case, mission drift cannot be proven.

The scope of outreach according to Hishigsuren is a clear indication of mission drift, as BancoSol is strictly limited to financial services, while PRODEM offered additionally nonfinancial services such as health and education.

It must be mentioned that BancoSol has been established to allow stronger clients to grow with their microenterprise. The NGO PRODEM remained to concentrate on the poor population in rural areas. It was the ulterior motive of the transformation to grow to be able to support microenterprises.[105]

[105] See Barzelay (2008)

Barzelay state that BancoSol did not disregard its social mission of alleviating poverty and providing loans to the poorest. The institution must now behave more as a real bank, which causes suspicion to mission drift. BancoSol must operate efficient to get high returns for the investors. But this does not mean that they do not focus on helping the poor anymore. BancoSol is a good example for pursuing the two goals that seem incompatible with and has no significant evidence to mission drift.[106]

10 Conclusion

The result of the evaluation lead to the conclusion that the transformation of PRODEM into BancoSol was successful on both levels: social and economical. The two objectives seem incompatible at first view, but the case of BancoSol shows that MFIs can reconcile them with another and achieve a satisfying outcome.
This does not mean that this success story is applicable to all MFIs. While in a lot of countries MFIs must struggle with political and economic instability, repressive financial systems or lack of business knowledge, BancoSol were acting in a microfinance-supporting national environment with a well-developed urban infrastructure. Furthermore, some internal factors such as visionary founding members, a strong regular clientele, established contacts to potential investors and the integration into international networks also contributed to the success of the transformation.

The case study of BancoSol illustrates moreover that indications of a mission drift such as increase of the average loan size can have different reasons and does not necessarily mean that mission drift has actually occurred. Only by having a closer examination, one can recognize that these indications are actually due to a positive development. In the case of BancoSol it was due to the growth of microenterprises and the banks' diversification of the loan portfolio by additionally targeting less poorer groups. Further approach demonstrates that it may simply be the function of different factors such as choice of strategy period of entry into the market, or natural evolution of the target group.[107]

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106 See Barzelay (2008)
107 See Christen (2000)

However, if the environmental conditions are not favourable to regulated microfinance institutions, NGO MFIs are much better off and can efficiently pursue their social mission to fight against poverty. Both forms of organization, the regulated and non-regulated, should coexist in a microfinance market, as they fulfil complementary tasks. An adequate separation of responsibilities for both forms seems to be a reasonable solution.

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Table of Appendix

Appendix I: Millennium Development Goals (MDGs)

Box 1 **Millennium Development Goals**

Goals and Targets (from the Millennium Declaration)	**Indicators for Monitoring Progress**
Goal 1: Eradicate extreme poverty and hunger	
Target 1.A: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	1.1 Proportion of population below $1 (PPP) per day [1] 1.2 Poverty gap ratio 1.3 Share of poorest quintile in national consumption
Target 1.B: Achieve full and productive employment and decent work for all, including women and young people	1.4 Growth rate of GDP per person employed 1.5 Employment-to-population ratio 1.6 Proportion of employed people living below $1 (PPP) per day 1.7 Proportion of own-account and contributing family workers in total employment
Target 1.C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	1.8 Prevalence of underweight children under-five years of age 1.9 Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education	
Target 2.A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	2.1 Net enrollment ratio in primary education 2.2 Proportion of pupils starting grade 1 who reach last grade of primary 2.3 Literacy rate of 15–24 year-olds, women and men
Goal 3: Promote gender equality and empower women	
Target 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	3.1 Ratios of girls to boys in primary, secondary and tertiary education 3.2 Share of women in wage employment in the non-agricultural sector 3.3 Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality	
Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	4.1 Under-five mortality rate 4.2 Infant mortality rate 4.3 Proportion of 1-year-old children immunized against measles
Goal 5: Improve maternal health	
Target 5.A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	5.1 Maternal mortality ratio 5.2 Proportion of births attended by skilled health personnel
Target 5.B: Achieve, by 2015, universal access to reproductive health	5.3 Contraceptive prevalence rate 5.4 Adolescent birth rate 5.5 Antenatal care coverage (at least one visit and at least four visits) 5.6 Unmet need for family planning
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 6.A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	6.1 HIV prevalence among population aged 15–24 years 6.2 Condom use at last high-risk sex 6.3 Proportion of population aged 15–24 years with comprehensive correct knowledge of HIV/AIDS 6.4 Ratio of school attendance of orphans to school attendance of non-orphans aged 10–14 years
Target 6.B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs

continued.

Millennium Development Goals (continued)

Target 6.C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	6.6 Incidence and death rates associated with malaria 6.7 Proportion of children under 5 sleeping under insecticide-treated bednets 6.8 Proportion of children under 5 with fever who are treated with appropriate anti-malarial drugs 6.9 Incidence, prevalence, and death rates associated with tuberculosis 6.10 Proportion of tuberculosis cases detected and cured under directly observed treatment short course
Goal 7: Ensure environmental sustainability	
Target 7.A: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	7.1 Proportion of land area covered by forest 7.2 CO_2 emissions, total, per capita, and per $1 GDP (PPP) 7.3 Consumption of ozone-depleting substances 7.4 Proportion of fish stocks within safe biological limits 7.5 Proportion of total water resources used
Target 7.B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	7.6 Proportion of terrestrial and marine areas protected 7.7 Proportion of species threatened with extinction
Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	7.8 Proportion of population using an improved drinking water source 7.9 Proportion of population using an improved sanitation facility
Target 7.D: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	7.10 Proportion of urban population living in slums [2]
Goal 8: Develop a global partnership for development	
Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes a commitment to good governance, development and poverty reduction – both nationally and internationally Target 8.B: Address the special needs of the least developed countries Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction Target 8.C: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly) Target 8.D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	*Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries, and small island developing States.* Official development assistance (ODA) 8.1 Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income 8.2 Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) 8.3 Proportion of bilateral official development assistance of OECD/DAC donors that is untied 8.4 ODA received in landlocked developing countries as a proportion of their gross national incomes 8.5 ODA received in small island developing States as a proportion of their gross national incomes Market access 8.6 Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty 8.7 Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries 8.8 Agricultural support estimate for OECD countries as a percentage of their gross domestic product 8.9 Proportion of ODA provided to help build trade capacity Debt sustainability 8.10 Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative) 8.11 Debt relief committed under HIPC and MDRI Initiatives 8.12 Debt service as a percentage of exports of goods and services
Target 8.E: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries	8.13 Proportion of population with access to affordable essential drugs on a sustainable basis
Target 8.F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	8.14 Telephone lines per 100 population 8.15 Cellular subscribers per 100 population 8.16 Internet users per 100 population

PPP = purchasing power parity, GDP = gross domestic product, HIV = Human Immunodeficiency Virus, AIDS = Acquired Immune Deficiency Syndrome, CO_2 = carbon dioxide, OECD = Organisation for Economic Co-operation and Development, DAC = Development Assistance Committee, MDRI = Multilateral Debt Relief Initiative.

1 For monitoring country poverty trends, indicators based on national poverty lines should be used, where available.

2 The actual proportion of people living in slums is measured by a proxy, represented by the urban population living in households with at least one of the four characteristics: (a) lack of access to improved water supply; (b) lack of access to improved sanitation; (c) overcrowding (three or more persons per room); and (d) dwellings made of nondurable material.

Source: Asia Development Bank, URL: http://www.adb.org/Statistics/mdg.asp

Appendix II: Sample Transformation Budget

	Estimated Cost (U.S.$)	Estimated Consultant Days (if relevant)
Transformation Management and Strategic and Business Planning		
Hire a full-time Transformation Manager (budget assumes salary plus housing, transport, and education costs).	120,000	12 to 18 months
Finalize business plan (financial projections) for the next 3 years.	20,000	20
Subtotal	**140,000**	
Market Analysis and Competitive Positioning		
Engage consultant to coordinate and interpret market research.	20,000	20
Engage a local firm to conduct market research.	15,000	
Develop corporate image, brand, signage, promotion materials.	20,000	20
Subtotal	**55,000**	
Savings Products		
Market research and product design.	15,000	15
Test market strategy for savings; pilot and evaluate new and revised products and subsequent rollout.	30,000	30
Document savings policies and procedures.	20,000	20
Train staff on new products and services.	10,000	
Support development and refinement of back office operations.	15,000	15
Subtotal	**90,000**	
Credit and Other Products		
Assess and refine lending methodologies and new product development.	20,000	20
Pilot and evaluate new products and subsequent rollout.	30,000	30
Document current and revised credit policies and procedures.	10,000	10
Train staff on new and refined products and services.	10,000	
Subtotal	**70,000**	
Ownership and Governance		
Establish valuation or institutional rating.	20,000	
Develop marketing prospectus and strategy for attracting new investors.	15,000	15
Design and implement profit-sharing plan.	20,000	20
Retain legal advice on share structuring.	20,000	
Subtotal	**75,000**	
Legal, Licensing		
Analyze options of legal structures and process registration, articles, and so on.	20,000	20
Transfer assets and liabilities to new entity; legal costs and tax advice; legal work on license application.	30,000	
Subtotal	**50,000**	

Sample Transformation Budget (continued)

	Estimated Cost (U.S.$)	Estimated Consultant Days (if relevant)
Regulation and Compliance		
Conduct regulatory and policy analysis of systems and upgrading for compliance.	30,000	30
Provide training (ongoing) on regulatory, policy, and compliance requirements.	20,000	
Subtotal	**50,000**	
MIS and IT Consultancy		
Conduct systems audit for compliance with central bank reporting.	25,000	25
Design branded forms and passbooks for computerized teller services.	10,000	
Migrate data from existing to new system (data cleansing and input).	15,000	
Train users on new system.	15,000	
Subtotal	**65,000**	
Human Resources Development and Staff Training		
Review performance reward systems.	5,000	5
Review organizational structure, job descriptions, policies, and procedures.	25,000	25
Develop human resources development strategy and plan.	20,000	20
Subtotal	**50,000**	
Financial Management		
Engage a consultant or advisory service on capital structure.	15,000	10
Design and implement a budget model.	10,000	10
Develop treasury risk management policies and procedures.	15,000	15
Train new staff members on financial risk management.	10,000	
Subtotal	**50,000**	
Internal Controls and Audit		
Train additional internal audit staff members.	10,000	
Review internal controls, audit, and supervisory functions.	20,000	20
Review, finalize, and document policies and procedures.	15,000	15
Subtotal	**45,000**	
TOTAL CONSULTANCY EXPENSES	**740,000**	
MIS and IT Capital Costs		
Network setup for branches and head office.	10,000	
Upgrade and integrate or interface loan tracking, savings, accounting.	250,000	
Purchase new or upgrade hardware.	250,000	
Subtotal	**510,000**	
Infrastructure		
Upgrade branch infrastructure: banking halls, teller counters, strong rooms, 10 branches.	**250,000**	
TOTAL CAPITAL COSTS	**760,000**	
GRAND TOTAL	**1,500,000**	

Source: Ledgerwood (2006), p.92

Appendix III: Forbes' Top 50 Microfinance Institutions

RANK	NAME	COUNTRY	SCALE	EFFICIENCY	RISK	RETURNS
1	ASA	Bangladesh	14	83	56	40
2	Bandhan (Society and NBFC)	India	108	49	42	1
3	Banco do Nordeste	Brazil	46	27	213	25
4	Fundación Mundial de la Mujer Bucaramanga	Colombia	58	72	193	1
5	FONDEP Micro-Crédit	Morocco	119	26	196	1
6	Amhara Credit and Savings Institution	Ethiopia	56	126	118	42
7	Banco Compartamos, S.A., Institución de Banca Múltiple	Mexico	15	24	295	11
8	Association Al Amana for the Promotion of Micro-Enterprises Morocco	Morocco	17	212	133	1
9	Fundación Mundo Mujer Popayán	Colombia	53	181	141	1
10	Fundación WWB Colombia - Cali	Colombia	27	206	155	4
11	Consumer Credit Union 'Economic Partnership'	Russia	82	300	19	1
12	Fondation Banque Populaire pour le Micro-Credit	Morocco	59	126	219	1
13	Microcredit Foundation of India	India	75	142	7	185
14	EKI	Bosnia and Herzegovina	66	102	242	1
15	Saadhana Microfin Society	India	263	79	73	1
16	Jagorani Chakra Foundation	Bangladesh	136	176	128	1
17	Grameen Bank	Bangladesh	8	280	100	62
18	Partner	Bosnia and Herzegovina	64	169	230	1
19	Grameen Koota	India	209	106	156	1
20	Caja Municipal de Ahorro y Crédito de Cusco	Peru	48	99	222	119
21	Bangladesh Rural Advancement Committee	Bangladesh	10	159	126	205
22	AgroInvest	Serbia	84	195	222	1
23	Caja Municipal de Ahorro y Crédito de Trujillo	Peru	20	163	220	101
23	Sharada's Women's Association for Weaker Section	India	229	207	55	13
24	MIKROFIN Banja Luka	Bosnia and Herzegovina	60	240	205	1
25	Khan Bank (Agricultural Bank of Mongolia LLP)	Mongolia	19	149	280	59

Forbes' Top 50 Microfinance Institutions (continued)

26	INECO Bank	Armenia	96	173	202	39
27	Fondation Zakoura	Morocco	51	268	194	1
28	Dakahlya Businessmen's Association for Community Development	Egypt	200	215	102	1
29	Asmitha Microfin Ltd.	India	80	254	73	111
30	Credi Fe Desarrollo Microempresarial S.A.	Ecuador	28	252	206	34
31	Dedebit Credit and Savings Institution	Ethiopia	50	246	80	154
32	MI-BOSPO Tuzla	Bosnia and Herzegovina	128	120	283	1
33	Fundacion Para La Promocion y el Desarrollo	Nicaragua	173	89	171	100
34	Kashf Foundation	Pakistan	123	194	219	1
35	Shakti Foundation for Disadvantaged Women	Bangladesh	170	221	151	1
36	enda inter-arabe	Tunisia	198	90	257	1
37	Kazakhstan Loan Fund	Kazakhstan	120	118	320	1
38	Integrated Development Foundation	Bangladesh	300	134	140	1
39	Microcredit Organization Sunrise	Bosnia and Herzegovina	114	103	341	17
40	FINCA - ECU	Ecuador	125	138	264	54
41	Caja Municipal de Ahorro y Crédito de Arequipa	Peru	23	126	220	215
42	Crédito con Educación Rural	Bolivia	135	152	298	1
43	BESA Fund	Albania	109	135	345	1
44	SKS Microfinance Private Limited	India	61	395	141	1
45	Development and Employment Fund	Jordan	83	388	135	1
46	Programas para la Mujer - Peru	Peru	292	82	242	1
47	Kreditimi Rural i Kosoves LLC (formerly Rural Finance Project of Kosovo)	Kosovo	213	158	247	1
48	BURO, formerly BURO Tangail	Bangladesh	137	207	186	91
49	Opportunity Bank A.D. Podgorica	Serbia	49	234	319	23
50	Sanasa Development Bank	Sri Lanka	86	206	93	241

Source: Matthew Swibel (2007) , Forbes, URL: http://www.forbes.com/2007/12/20/microfinance-philanthropy-credit-biz-cz_ms_1220microfinance_table.html

Curriculum Vitae

Education

Sept/2009 **Master of International Business Administration**
University of Vienna, Austria
Specialisation in Financial Service and eBusiness

Jun/2001 **International Baccalaureate** (IB)
French lyceum in Vienna, Austria
Specialisation in economics

Work Experience

Sept/2008 Internship at the **Erste Group Bank AG Hong Kong Branch,** Hong Kong, China

Sept/2007 Internship at the Private Bank **Sal Oppenheim jr. & Cie. AG,** Vienna, Austria

Jul/2006 Internship at the **Erste Bank New York Branch**, New York, U.S.A

Jul-Aug/05 Internship at **ThyssenKrupp Elevator**, Shanghai, China

Jul-Aug/04 Internship at the **International Atomic Energy Agency**, Vienna, Austria
Division of Budget and Finance

Sept/2002 Internship at **Ogilvy and Mather** (Publicity Agency), Vienna, Austria

Languages

German:	mother tongue
French:	excellent knowledge, written and oral
English:	excellent knowledge, written and oral
Spanish:	very good working knowledge, written and oral
Italian:	basic knowledge

Nov/2003 **Business English Certificate Vantage**
University of Cambridge, Cambridge Institute Vienna, Austria

Jul/2002 **D.E.L.E.** (Diploma de Español como Lengua Extranjera), 2002
University of Salamanca, Spain

Apr-Jun/09 **Business Spanish course**
i-diom, Vienna, Austria

Special Skills

- Microsoft Office (Word, Excel, Power Point)
- Proficient in the use of Bloomberg and Reuters databases