MICROFINANCE NETWORK

MICROFINANCE ON THE CUTTING EDGE

Summary of the MicroFinance Network Conference on
"Microfinance on the Cutting Edge"
Convened in Arusha, Tanzania November 8-10, 2004

Edited by Kelly Hattel

2005

MicroFinance Network

The MicroFinance Network is a global association of leading microfinance practitioners committed to improving the quality of lives of the poor through the provision of credit, savings, and other financial services. Members of the Network, whether they are NGOs or commercial banks, share the common belief that this sector of the population is best served by sustainable and profitable institutions.

The members of the MicroFinance Network believe in using a commercial approach to establish and develop sustainable financial institutions that reach a large number of clients who are excluded from traditional financial institutions. The MicroFinance Network facilitates information flow between microfinance organizations and practitioners, technical exchanges and publication of best practice materials. It also challenges member practitioners to new levels of excellence and, where regulatory frameworks exist, to become regulated financial institutions.

Number of Members: 29 microfinance institutions, 1 second-tier institution and 3 non-practitioner members

Total Loan Portfolio: $2.8 billion*

Total Number Borrowers: 9.9 million

Total Number of Deposits****:** $3.7 billion

Total Number of Depositors:** 37.4 million

Steering Committee
Maria Otero, ACCION International, Chair; Carlos Labarthe, Compartamos; James Obama, PRIDE Tanzania; Jason Meikle, FINCA Microcredit Company; Yusuf Nawawi, BRI Unit Desa

Regulated Financial Institutions
Banco ADEMI, *Dominican Republic*
Banco del Desarrollo, *Chile*
BancoSol, *Bolivia*
BRI Unit Desa, *Indonesia*
CERUDEB, *Uganda*
Citi Savings and Loans, *Ghana*
Compartamos, *Mexico*
Cooperativa Emprender, *Colombia****
Equity Building Society, *Kenya*
FINAMERICA, *Colombia*
FINCA Microcredit Company, *Kyrgyzstan*
Kafo Jiginew, *Mali*
K-REP Bank, *Kenya*
Los Andes, *Bolivia*
Mibanco, *Peru*
PRIZMA, *Bosnia and Herzegovina*
PRODEM FFP, *Bolivia*
Share Microfin Limited, *India*
SogeSol, *Haiti*
XacBank, *Mongolia*

Non-Governmental Organizations
ABA, *Egypt*
Al Amana, *Morocco*
ASA, *Bangladesh*
BRAC, *Bangladesh*
Constanta, *Georgia*
Fundusz Mikro, *Poland*
PADME, *Benin*****
PRIDE, *Tanzania*
TSPI, *Philippines*
Uganda Microfinance Union, *Uganda*****

Non-Practitioner Members
ACCION International, *USA*
Citigroup, *USA*
Calmeadow, *Canada*

Director
Kelly Hattel

**All figures for 2003 for MFIs*
*** Average of 16 MFIs mobilizing voluntary deposits*
****Second-tier lending institution*
*****In the process of transforming to a regulated financial institution*

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LIST OF ACRONYMS AND DEFINITIONS

APS	Autonomous Points of Sale
ATM	Automatic Teller Machine
BRI	Bank Rakyat Indonesia
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity Management
CGAP	Consultative Group to Assist the Poorest
EFT	Electronic Funds Transfer
EG	Enterprise Group
EO	Extension Officer
FFP	Fondo Financiero Privado (Private Financial Fund)
FINCA	Foundation for International Community Assistance
FFP	Fondo Financiero Privado, Private Financial Fund
GSM	Global Services for Mobile communications
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ID	Identification
IPO	Initial Public Offering
IT	Information Technology
MBB	MicroBanking Bulletin
MEC	Market Enterprise Group
MIX	Microfinance Information eXchange
MFI	Microfinance Institution
MFN	MicroFinance Network
MIS	Management Information System
NGO	Non-Governmental Organization
POS	Point of Sale
PRIDE	Promotion of Rural Initiatives and Development Enterprises
PRPS	Performance Related Payment Scheme
RLF	Revolving Loan Fund
SACCO	Savings and Credit Cooperative Organization
SACCA	Savings and Credit Cooperative Association
SATM	Smart Automatic Teller Machine
SGL	Solidarity Group Lending
STU	Teller Unit System
UMU	Uganda Microfinance Union
USAID	United States Agency for International Development
$	Refers to US$ if not otherwise specified

FOREWORD

The year 2004 was an exciting time for the MicroFinance Network (MFN). We brought in new institutions to enrich and diversify our membership, we launched a worldwide survey on staff incentives, began writing a formative guide on the transformation of microfinance NGOs into regulated deposit-taking institutions, played an active role in helping to define an industry-wide approach to pro-consumer microfinance initiatives and developed a comprehensive brochure that documents the 11-year history of the MicroFinance Network.

The members of the MicroFinance Network continued to pave the way in terms of outreach and innovation from bond issues in Mexico to securitizations in India. The MFN members remain among the strongest microfinance institutions (MFIs) around the world – those that are setting the pace, forging new paths, and providing leadership in their countries and regions. The annual MFN conference has continued to be a unique opportunity to meet in a setting that encourages an open exchange. And MFN members, as in the past, have also expressed their commitment to the MFN by assuming larger membership fees and covering their costs for participating in the conference. We thank the hosts of the conference, PRIDE Tanzania, and all those who participated from around world. We are pleased to share the experiences of the members of the MicroFinance Network as reflected in this report from the conference proceedings with you.

Maria Otero
Chair, Steering Committee
MicroFinance Network
Washington, DC, USA
May 2005

INTRODUCTION

The MicroFinance Network is a global association of leading microfinance practitioners. The Network provides a forum where the most advanced microfinance institutions can convene to engage in high level discussions that allow them to learn from each other's experiences. Each year, the executive directors of these institutions meet for several days in one of the member countries to discuss the most important issues in the industry. This conference report details the 11th meeting of the MicroFinance Network held in Arusha, Tanzania in November 2004. The conference topics focused on a range of issues on the cutting edge of microfinance. The overall conference objectives included:

- Understand the uniqueness of practitioner to practitioner exchanges
- Challenge one another to respond frankly, irrespective of country and regional boundaries
- Engage in critical reflection that opens new ways of analyzing current obstacles to growth
- Reaffirm a common goal to making microfinance sustainable and permanent

Over the course of three days, conference participants examined the different ways MFIs have been able to successfully tap into local as well as international capital markets. They discussed how this might be replicated in different countries, and how investment options differ by country. Participants learned how MFIs can best work with international investors or international lenders. They outlined the prerequisites for MFIs to be ready to engage with these types of funders, and discussed how these interactions compare to working with donors. Participants explored the importance of a pro consumer policy for the members of the MicroFinance Network, for the Network as a whole and for the wider industry. Finally, together with MicroSave, the participants studied how MFIs have expanded outreach and increased efficiency through the appropriate use of technology, innovative rural lending approaches and the effective use of staff incentives.

The Network would like to extend a special thanks to Mr. James Obama, General Manager of PRIDE Tanzania, who helped to host and facilitate this year's conference. He and the staff of PRIDE dedicated much time and effort to ensure the success of the 11th gathering of the members of the MicroFinance Network. PRIDE quite literally opened their doors to the MFN members and invited them to visit branch offices and speak with management, staff and clients. This opportunity was much appreciated by all.

The Network also would like to thank the special honored guests who joined us during the conference. We were honored to have Hon. Iddi Simba (MP), Chair of the Board, PRIDE Tanzania and Hon. Mohammed Babu, Regional Commissioner for Arusha. The Network would also like to thank the two other invited guests, Elizabeth Littlefield, Chief Executive Officer of CGAP and Grace Rubambey, Bank of Tanzania, Board of Directors, PRIDE Tanzania.

The editor of this report thanks Mattias Grammling for editing the joint sessions with MicroSave and Cathy Quense of ACCION International for taking time to review this document and for providing valuable comments on the final draft.

Finally, the MicroFinance Network would like to thank all of its members who contributed to making the conference a success.

WELCOME

PRIDE Tanzania – Conference Host

OFFICIAL WELCOME AND INTRODUCTION OF PARTICIPANTS:

Special Welcome by Honorable Iddi Simba (MP), Chair of the Board, PRIDE Tanzania

At the opening reception of the 11th Annual Conference of the MicroFinance Network, The Honorable Iddi Simba, Member of Parliament and Chair of the Board of PRIDE Tanzania, welcomed participants and guests with the following words:

“Let me first express my profound appreciation for the honor that has been given to me to give a welcoming note in this very special gathering that brings together the microfinance gurus and practitioners in the world. On behalf of PRIDE Tanzania, I would like to recognize the special privilege and honor accorded to us by members of the Microfinance Network for selecting Tanzania and Arusha in particular to be the venue of this year's conference and annual general meeting. I would like to welcome you all to Arusha.

Allow me to congratulate the organizers for a wonderful job of putting together this conference which is a unique forum that has brought together seasoned microfinance practitioners and associate industry experts from various parts of the world. The theme of the conference "Microfinance on the Cutting Edge" could not have come at a better time. It is commendable that the conference participants will get an opportunity to exchange views and experiences on subjects that cover contemporary issues in the microfinance industry. I believe that at the end of the conference you will come up with strategies aimed at delivery of microfinance services in a manner that would maximize clients' value for money while at the same time assuring institutional growth. I would say that the forum is an opportunity worth the time and resources.

My duty on this occasion is to give a welcome note but in addition to that allow me to share with you my personal experience in microfinance, which span over a period of ten years. Typical of the third world countries Tanzania has a huge informal sector that supports millions of ordinary Tanzanians, the majority of whom earn less than a dollar per day. One particular aspect about it all is the prevalence of a seemingly perpetual poverty among this segment of the society which accounts for almost 80% of our population both in the urban and rural areas. Faced with this situation, early 1990s some of us who were concerned about the state of poverty in our country, decided to do something about the problem by setting up an institution that could provide access to credit to the low income population. The aim was to help the economically active poor to grow in terms of business and income and be able improve their livelihood and in the end come out of poverty. This is how PRIDE Tanzania was born and this is how I came face to face with micro finance.

I am one of those who strongly advocate for microfinance as an effective tool for poverty eradication. During my many years in the corporate world that includes banking, I have never heard of people anywhere in this world who got rich without having made use of loans or credit facilities. It is on this tenet that I base my advocacy for microfinance. A good number of our clients who have been with our program testify to the fact that the loans they have taken from us have changed their lives. Although such facts are very encouraging, we feel that we have a big challenge ahead of us. This is due to the fact that out of an estimated projected demand of ten million people, the microfinance institutions in Tanzania have collectively only managed to reach a minute fraction of the target group with financial services. The limiting factor has always been scarce resources and limited institutional capacity. This is a big challenge that needs to be addressed. On our part, PRIDE Tanzania is in the process of transforming into an equity based and regulated entity. We believe that this strategy will enable us to among other things, access funds from the financial markets. I am happy to learn that one of the issues to be discussed is the tapping into capital markets, which I find to be very relevant to my institution and to a good number of others which are represented here.

Allow me also to point out two issues that we are experiencing. First, like in most parts of the world the gap between the poor and the rich is widening in our country by the day. A situation where only a handful of people control the bulk of the wealth leaving the majority to languish in poverty is now widely considered inappropriate and a matter that needs to be addressed. It is common knowledge that where the well-to-do are surrounded by a multitude of beggars they always find themselves exposed, uncomfortable and insecure. It is an aspect that if left unchecked may becomes a recipe for social disorder in our societies. This is why interventions that our institutions provide are valuable contributions in addressing the gap. Further, the initiatives that are undertaken by networks such as yours of bringing together practitioners and experts to deliberate on how best to provide services and to reach out to the millions of the poor in our countries are commendable.

The second issue that I would like to underscore is the need for members to seriously consider the effect of globalization on the development of small and micro entrepreneurs in our respective countries. I am not against globalization but we need to see how best we can prepare our people to take advantage of the opportunities that globalization offers to them. I am convinced that if not given proper attention the effects of globalization could water down not only the achievements that our institutions have made so far but also those of our beneficiaries in fighting poverty. This is a challenge that I would like to throw to the participants here and particularly to the members of the Microfinance Network.

I welcome the Guest of Honor and all the invited participants to Tanzania and to Arusha in particular. Once again, on behalf of *PRIDE* Tanzania, I would like to take this opportunity to officially welcome you all. I believe that your choice of Arusha was not a mistake. To those of you who did not know, Arusha is a city that was branded the Geneva of Africa by the former US President Bill Clinton during his visit four years ago. It is the gateway for the world natural wildlife attractions which offer a very wide selection of animals that is rare to find elsewhere. I believe you will enjoy your stay in Arusha and strongly urge you to visit at least one of the wildlife attractions before your departure. I wish your conference a success and thank very much.”

OFFICIAL OPENING OF THE 2004 CONFERENCE – GUEST OF HONOR

Hon. Mohammed Babu Regional Commissioner, Arusha, Tanzania

"First and foremost, on behalf of the Government of Tanzania and the people of Tanzania, it is my pleasure to welcome you all to our beautiful country, Tanzania. I was invited to this conference to perform a routine activity, to officially open your conference. However, before I do that, please allow me to make a few remarks on our experience in microfinance.

I understand that the participants in this room today represent the best of the microfinance practice in our world. It is therefore a great honor for me to have been accorded such an opportunity to open your conference. To those who know me, I have always considered myself and indeed conducted myself as a poverty alleviation activist. I have been and remain a staunch supporter of financial services to the poor and more so to the rural poor. I sincerely respect your work and its contribution towards the efforts by your respective governments in fighting poverty.

Poverty stands out as one of the main impediments towards our national economic development. It is also clear that poverty manifests itself in different forms and levels. The paupers, destitute, the poorest of the poor, the economically active poor, and the like are some of the terms used to describe different levels of poverty.

Our government has since independence identified poverty amongst the three key impediments to the national development agenda. To that effect it has initiated a number of measures/interventions aimed at fighting poverty. Of course the specific interventions have been widely varied due to the diversity of the poverty contributing factors. The attempted distinctive classification alluded to earlier is a clear indication that each level requires a different form of intervention, approach or treatment. In general terms we may recognize two distinct categories of interventions namely the social or economic interventions.

While the social intervention such as community based social programs including health care, education, food and other relief services have been focused on the poorest of the poor, the economic interventions have been directed to the economically active segment of the poor. We believe that any successful intervention for poverty eradication must take the form of an integrated, multi-sectoral and holistic approach. However, we also believe that the specific intervention should be focused and targeted to a particular poverty group.

The demand for financial services is enormous. Let me try to characterize that demand by highlighting our national employment pattern:

Tanzania like most developing countries in the world is plagued with the difficult economic conditions resulting into sustained scarcity of jobs in the government, public corporations, and even the private sector. In a bid to redress the unfavorable economic situation facing the country, the government has instituted economic restructuring programs incorporating a diversity of measures. These have resulted in policy changes including the adoption of a policy in favor of privatization. We are witnessing today the divestiture of the state owned enterprises and massive retrenchments of employees in the government and public sector enterprises thus increased unemployment levels.

The government is now encouraging private sector initiatives however, the sector is yet to develop the capacity needed to generate employment to meet the growing demand for the same given the shrinking of the public sector. This has further escalated the level of unemployment. Available statistics indicate that around 1,000,000 job seekers including the educated work force enter the job market each year and, the number is growing at the rate of over 4% per annum. On the contrary, it is projected that less than 300,000 jobs would be created per year if the economy maintains an annual growth rate above 4%.

These statistics show that the labor market has not been able to absorb the growing number of job seekers who keep on either losing formal jobs or pouring from schools and colleges at various levels. More and more people are faced with real poverty or dangers of becoming poor. It is not surprising that a good number of such people tend to opt for self-employment as a means of survival. It is now an undisputable reality that self-employment in the informal sector contributes significantly to the national economy. Our government is therefore committed to support initiatives aimed at the promotion of self-employment as a means for poverty eradication.

Various studies conducted in the country and elsewhere have established credit as a major constraint to the development of micro and small enterprises. Available statistics in Tanzania indicate that less than 2% of the over 4.0 million micro enterprises had access to credit to finance their businesses. Further, it may be interesting to note that to the average startup capital for most of the informal sector activities is in the region of TShs. 50,000/=! Surprisingly though, the TShs 50,000/= initial capital is hard to come by.

There have been attempts to provide credit to the micro enterprises by creating special funds as projects, community based programs, or under the administration of formal financial institutions. Further, the government has at different occasions created and or supported some institutions focusing in the provision of microfinance services. Apart from the problems experienced in the implementation of most of these programs, they all had good intentions that is, to support the development and or growth of micro enterprise and informal sector activities at large. What was lacking was the level of expertise and experience which could be borrowed from the institutions represented in this gathering.

Demand for credit to finance the growth of micro enterprise remains high to date. In spite of efforts on the ground, as demonstrated by various NGOs including PRIDE Tanzania, to bridge the gap between supply and demand for credit in this sector, there is still room for other players especially the private sector to come in and join hands.

A number of NGOs including PRIDE Tanzania are involved in the provision of financial services to the economically active poor. Their main objective is to come to the rescue of such people who through self employment initiatives have established income generating activities but lack capital to improve their businesses. They need economic empowerment without which they will remain poor or even become poorer. We need more than PRIDE Tanzania to be able to assure access to financial services for the millions of Tanzanians.

Our government recognizes the fact that the provision of financial services to the poor can be pursued as a financial service business. As such the main role of the government is to provide and maintain a supportive environment for the development of the financial services industry. In line with that realization, our government is no longer directly involved in service delivery but in support of the service providers. My portfolio in the office of the Vice President Office is focused on poverty alleviation. Apart from other initiatives we recognize the important role of microfinance services towards this end.

As a government our focus has been in the following key areas which we consider important for the development of the industry:

1. The development of a policy framework including a Poverty Eradication Policy and a Microfinance Policy

2. Mainstreaming of microfinance in the national financial system through the amendment of selected statutes, the amendment of the Bank of Tanzania Act, the development of a regulatory framework for microfinance, and the establishment of prudential guidelines and performance standards

3. Financial support to the industry through the harmonization of donor/government support to micro finance activities, the establishment of capital funds to support microfinance initiatives for special interest groups especially women, youth and selected regions, the establishment of apex wholesale lending mechanism from where MFIs could access capital funds for on-lending (e.g. SELF project), and capacity building initiatives aimed at strengthening the industry.

As a result of these efforts, we now have the national micro finance policy which guides the development of the micro finance industry as part and parcel of the national financial system.

Further, our central bank is in the final stages of developing the regulatory framework which will provide for the licensing and supervision of microfinance institutions. There is no better person than Grace Rubambey, Director of Microfinance in the Bank of Tanzania, and also present at this conference, who can eloquently share our experience including the role of the government in this endeavor.

Admittedly, we have a lot to learn from the extensive experience of the participants from other continents. However, I believe that we have also come of age to share some of our success stories with the rest of the world. The Tanzanian experience in the development of the national policy and its successful implementation is a story to be told.

I have been told that your network is a forum of micro finance institutions which aim at attaining financial sustainability and have either gotten there or are on track to getting there and are committed towards commercialization. I am particularly encouraged to learn that the membership includes a number of microfinance institutions in our continent, and more so to have one of our own, PRIDE Tanzania as a member. The network's decision to hold this year's conference in Tanzania, with PRIDE Tanzania as a host should inspire other micro finance institutions in Tanzania to achieve a similar feat.

Your network should stand up as a catalyst for moving more and more microfinance institutions towards financial self sufficiency. Our decision to recognize micro finance as part and parcel of the national financial system pre-supposes the ability to operate microfinance on commercial lines. We need to avoid overburdening our poor clients with unjustifiably high cost structures thus high financial charges. If we are to actually make an impact towards poverty alleviation, we need to build efficient service delivery vehicles for the good of the service providers as well as the clients.

As we uphold the values for efficiency, it is equally important to invest time and resources in innovation. There is evidence around the world and even in our country to prove that your clients today require a wider range of micro financial services just like their mainstream banking counterparts. Innovation will not only widen the play field but is likely to contribute towards improved efficiency.

I have special interest on the issue of innovation. In our country over 80% of the population depend on agriculture and related farm activities. Our rural population distribution is typically sparse. Further, the rural infrastructure remains underdeveloped in terms of roads, telecommunication, electricity and water supply. The poor infrastructure has been cited as the main hindrance towards the development of rural financial services. The rural poor remain largely without access to financial services.

It makes commercial sense to argue that an institution aspiring to operate profitably will always target the highly populated urban locations. However, it defeats the very objective of establishing a microfinance business if 80% of the potential demand remains without access. The challenge is how to develop innovative products and methodologies for effective and efficient delivery of financial services to the rural areas. I am encouraged to see that your conference program includes a session on rural finance. The experiences to be shared from Mongolia and Bolivia should inspire you to incorporate rural finance in your immediate development agenda.

Let me conclude my opening remarks with this humble challenge to the network:

I have heard and read of the successful rural finance initiatives in Asia and Latin America, by some of the institutions represented in this network. I believe I will not be asking for too much to challenge your network to pioneer this course for the sake of the rural based economies like Tanzania. Both the expertise and experience is here within the network membership. I know you already have a theme for this conference "Micro finance on the cutting edge." Possibly you may want to honor us by incorporating rural finance within your goals for the micro finance year.
We would cherish to remember this conference and your network as having championed the focus of microfinance towards the development of rural financial services, practical to the African rural context.

Having said that let me join the Chairman of PRIDE Tanzania in wishing you a successful conference. I understand that this is your first conference in Tanzania and with no intent of sounding selfish; I look forward to it being the beginning of a series of others to be staged in Tanzania.

On this note, I now have the pleasure to declare this conference as formally opened."

KEY NOTE PRESENTATIONS

GLOBAL PERSPECTIVES ON PROGRESS AND CHALLENGES OBSERVED IN MICROFINANCE.

Elizabeth Littlefield, Chief Executive Officer, CGAP

We all share a very powerful vision and mission to see poor clients moving from the marginal and small corner of the industry into the mainstream. It is a vision where all poor people, whether they be very poor or rural or urban poor, have access to the financial service that they need - high quality and affordable services, where the poor people are the center of a country's financial market. The realization of this joint vision, though, hinges upon building domestic markets, not on bringing in more donor money or bringing in more international consultants, but shifting to the creation of truly domestic markets.

This has been something that CGAP has been very vocal about over the last couple of years. We need to build domestic financial intermediaries that can harness the vast savings that exist in poor countries and channel that into the productive use of private credit in these countries. Building domestic markets is a hard job. People have been trying to do this for decades. In a way we are all apprentices. Banks, credit unions and NGOs are learning to create strategic partnerships that are sometimes rather uncomfortable. Donors are beginning to learn how to work with commercial and semi-commercial funders without competing or getting in their way. Rating agencies and credit bureaus are beginning to incorporate small transactions banking businesses into their analyses and databases. Even poor clients are learning to use ATM machines and SMART cards.

Components of the Industry Today

Looking at the microfinance industry today, there are several main components: the financial service providers; governments; funders; as well as the market infrastructure.

1. Financial Service Providers

For financial service providers, integration into the mainstream financial sector is really happening. This may not be taking place everywhere, but in some countries this integration is moving at an incredible pace. Evidence of this has come about in the last two years or so. The main manifestation of this has been an explosion of access points in places where poor people can get and use financial services, not just the bricks and mortar branch network, but virtual branch networks as well. This explosion in access points was not really anticipated five years ago. However, it is going to be the way that we reach millions and millions of people in the future.

This explosion of access points is happening in three different ways. First, the microfinance institutions, transformed and non-transformed NGOs at the core of our world, are building up and out, scaling up, and building branch networks. Second, banks and other institutions with significant branch infrastructure that already exist are going down market, driven by competition and by cost saving technologies that promise to enable them to make smaller and smaller transactions cost effectively. And third, partnerships between socially oriented microfinance institutions, bank, non-banks and retail organizations that have large infrastructure are being forged to leverage each others' comparative advantage. ACCION with its service company model provides a good example of this. A CGAP survey of Eastern Europe and Central Asia showed that more than 50% of MFIs in the region had a contractual arrangement with a bank. CGAP has counted about 280 of these bank linkages throughout the world. Clearly, this is becoming a very powerful model. It is almost as if the commercial sector is coming down and the traditional microfinance sector is building up and the two are just about to meet right in the middle.

Some big countries that haven't had access to or haven't necessarily demonstrated best practices in microfinance over the past two decades and who haven't really been a part of the dialogue are suddenly entering the scene through the purely commercial sector. This seems to be the case for countries like India, South Africa, Brazil, Egypt and even Turkey. These countries were not a part of the mainstream development of the microfinance community as much as other countries, particularly in Latin America. Suddenly, they are using their existing retail infrastructure with a very commercial retail orientation. This is sometimes pushed by competition and sometimes pushed by government priority sector lending such as the case in India. Unexpectedly, these countries have the potential to leapfrog right over what we have been doing over the last 25 years and to zoom ahead of the growth we've seen in microfinance so far, bringing millions and millions of clients on-stream in a short few years. This is probably one of the biggest recent developments – big markets with sophisticated financial infrastructure suddenly waking up to the opportunities of reaching the poor and using a purely commercial orientation to do so.

As evidence of this development, CGAP has identified over 200 domestic retail banks or consumer credit companies that either have or are beginning to take an interest in poor clients. The Banque du Caire in Egypt and several other Egyptian banks are a good example. Banks are actually taking over the NGO sector in Egypt. Unibanco in Brazil has over one million clients in its consumer finance business who are informal sector microentreprenuers. These clients could well be using a different package of services than they are receiving right now. All of a sudden, they have one million clients. The State Bank of India with its 13,000 branches, as well as ICICI and several other banks, are beginning to go down market, either by acquiring the portfolios of dozens of microfinance institutions or by planning a build up of thousands of wireless personal computer kiosks attached to low cost ATM machines. In Brazil , the Caixa Economica has more than 7,000 points of service in supermarkets and small shops. Captec, a consumer credit company in South Africa, is working with CGAP to use its 300 branches to shift lending from the salaried workers - the bank's more traditional lending - to the self-employed. Other domestic banks like Teba Bank in South Africa and others in Senegal and elsewhere are experimenting with points of service and cell phone banking. Visa and other money transfer companies are working with these types of banks as well.

So, while in some of the markets mentioned the growth is driven primarily by new and purely commercial players which are rapidly moving down market, elsewhere, the somewhat traditional microfinance markets, the cradle of microfinance where the origins of this business were social, are also moving up to scale, becoming profitable, professionalizing, getting licenses to take deposits, transforming. In many, if not most, of these microfinance markets, the most profitable financial institutions that serve the poor are much more profitable than the leading banks. Fitch, a mainstream rating agency, recently gave Caja Los Andes and BancoSol a higher rating than most of the countries' domestic banks. If you take the top 15 or 20 microfinance leaders, one will likely find that each one of them is more profitable than the most profitable bank in that country. These MFIs are also using technology as well. PRODEM installed points of service throughout a network of petrol stations on rural transport routes. Zambian microfinance institutions are experimenting with cell phone banking. Visión and other banks in Paraguay and elsewhere are issuing visa cards and international credit card networks. PRIDE Tanzania is introducing biometrics to its client data system. Both sides are experimenting, institutions that come from a purely commercial orientation and ones that start from a social orientation. They are meeting in the middle.

Of course challenges remain. While efficiency is improving incredibly quickly in Latin America and parts of South Asia with BRAC, ASA and other MFIs lending at 3-4 cents to the dollar, in Africa, it is stuck at about 50 cents to the dollar. The question about efficiency in Africa leads to the second main challenge which is reaching clients in rural and any sparely populated areas. Could technology be the answer here? The third main challenge is reaching the poorest clients. We know that microfinance does not reach the bottom 50% very well. And we know it shouldn't. We know there are many people too destitute to use financial services. We need to help donors and governments recognize that we need grant instruments and social services that steady and ready the extremely poor to climb up on the ladder of financial services and be able to benefit from them. Microgrant programs that ABA is experimenting with and several other programs in India, Bangladesh and China are promising but they are still very, very small. And even so, donor money is never going to be enough to fund these types of programs. So as a community, we need to work hard to make sure that we are honest about who can reach and clear about government's responsibility to provide social safety nets to those who we can't realistically reach.

2. Governments

This brings us to governments, the second main group. Here the learning and apprenticeship is really taking hold. Most governments throughout the world have absolutely heard loud and clear the message of sustainable microfinance. And very few of them pretend that they haven't heard that message. That said, some of the more politically motivated programs run by governments are still going to be very hard to unwind – particularly in the Middle East and in North and West Africa. While the message has been heard, some are choosing not to hear it. We need to keep giving the message. There are over 50 countries throughout the world either implementing or discussing policies that integrate poor people either as a special category or right in the middle of mainstream banking regulation. In fact, this is the G-8 endorsement of CGAP and its 11 core principles, all of which are about sustainable microfinance, a vision shared by the MicroFinance Network could be a very powerful support to all of our advocacy vis-à-vis our work with the governments.

Despite broad acceptance of these principles, several main challenges remain. First, there are new licensing regimes that are coming on stream, which are basically a promise to the public to protect those deposits. Supervision is going to be a huge challenge for those thinly staffed supervisory agencies whose staff is much more focused on larger and more systemic risk in those countries. Second, low interest rate caps hurt poor people and yet they persist in many countries and are sadly being reintroduced in many other countries. Lifting those interest rate ceilings to enable institutions to charge rates to cover their costs is absolutely essential to expanding access and yet doing so remains a very difficult political thorn that few politicians are really willing to grasp. We need much more work on consumer protection against predatory lending as an alternative to interest rate caps. We applaud the work being done by the MicroFinance Network and ACCION in this area. Third, the new anti-money laundering rules, especially the "know your customer" rules that require in some cases proof of residence or electricity bills and things like that to open a bank account can pose a major threat as they come on stream to microfinance.

3. Donors

On the donor side, it is encouraging to see the actions that have been taken by many donors in response to the very hard hitting and tough peer reviews performed by CGAP on 17 of its members have been very brave and powerful. In response, these donors are taking serious action. They are hiring new staff, they are shutting off facilities that are subsidized. The European Union and the African Development Bank, for example, both have said they will stop forever subsidized credit lines as a component of multi-sector programs. This is billions of dollars that pollute the waters for sustainable microfinance. There is reason to be hopeful on this. There is increasing interest among mainstream socially responsible investors, as witnessed by the 55 funds now dedicated to microfinance. That said, over 90% of the money in these funds is still public money and there is certainly far too many funds out there. Even worse, many of these funds are lending in hard currency without microfinance institutions, their clients, understanding the risk that they are taking on board. Even an investment bank would not sell a product to a client without the clients understanding the risks of that product. This is something that the development community should not allow.

Challenges that remain on the donor side include the imperative need to be relentless on improving the effectiveness of donor aid, working on incentives, staff knowledge, working on the ratio of money spent to knowledgeable technical staff. Fifteen of thirty of CGAP's donors are reporting on their portfolio for the first time. Of those 15 reporting, they have together a portfolio of over $3 billion and together employ only 45 specialized staff, knowledgeable about microfinance. Two or three of these agencies with portfolios of over $600 million have one specialized staff responsible for these funds. In terms of funding needs, there is much more risk with young, start-up institutions. Donors need to focus on funding capacity building at the institutional level but also very importantly at the network level. They need to provide grants. There is nothing wrong with grants. Donors think that equity is sexy and grants are for children. Grants are the donor role in microfinance – grants at the institutional level and grants at the network level. CGAP has done work to provide an evaluation framework for donors to use in order to better understand networks and to better fund them. It is hopefully a way to get networks the funds that they need and merit.

In addition, we need to keep our eye on the ball of building domestic markets, which means finding ways to bring in domestic funders through understanding both the incentives and the disincentives to local branch managers in lending to microfinance and in local currency. And through designing instruments that encourage domestic investors entry into that market. Certainly Compartamos' bond issue is a good example of that. Lastly, among the new social investment funds in microfinance, we need far greater maturity and far greater realism about things like foreign exchange risk, realistic returns, and realistic exit routes where markets are not developed.

4. Financial Architecture

The last area is the financial architecture that we have all built together for so many years. Here there are three interrelated dimensions. First is the high quality information about financial performance that enables microfinance institutions to enter the mainstream. Second are the shared information systems about client credit quality, performance and history (credit bureaus) and third, the new technologies that have enabled financial institutions to make smaller and smaller transactions more cost effectively.

It is the coming together of these three dimensions, credit information, technology, and quality information on financial performance that is going to enable the exponential growth that we have all been working towards for so long. The industry together is making excellent progress in the quality of information about financial performance. The systems and standards are being built, they are in place and they are being taken up. The industry is only making moderate progress on creating credit bureaus in isolated countries like Peru and Turkey and yet we are still very much apprentices, all of us along with the rest of the world in delivering technology that just might revolutionize microfinance. Financial reporting is improving at a healthy pace as international finance reporting standards and microfinance standards converge, audit quality improves. On the MIX, there are over 330 MFIs and 50 funds reporting really high quality data, not always as up to date as it should be, however, it is a valuable asset. The global market for credit ratings is booming. There are about 200 credit ratings being performed every single year. That is up from about 85 two years ago. Mainstream rating agencies are beginning to get into the act. Moody's rated Acleda a short while ago. Credit bureaus as a collection point for microcredit information now exist in 11 countries and another eight are on the way. So the challenges in the area of building financial market infrastructure remain. Perhaps the most important is on the technology side. Experiments are being done with low cost ATM machines, SMART cards, points of service, rural areas connected by wireless lines to allow virtual banking. The main question for the industry is the extent to which technology is going to be able to bring down costs, to be such that commercial players can really reach millions and millions of clients and still make money.

The secret of microfinance at its origin was the idea that poor people pay back loans. We always used to think in the beginning that poor people pay back loans because of the social pressure. But now we understand that the reason that poor people pay back loans is because they value the ongoing access to financial services. That enable the creation of credit bureaus that underpin credit scoring models and if we were able to develop technologies, couldn't' thousands and thousands of commercial banks really reach the last mile of the rural poor profitably without loan officers at all or maybe just one to open an account? To me that is the million dollar question.

Predictions

1. Middle income and the less developed markets will diverge dramatically and we will end up with two microfinance worlds, one with countries like Sudan, Ethiopia and Uzbekistan, markets that are still primarily NGO and donor driven. The second world is the others which are really primarily commercially driven.
2. Technology and infrastructure are the absolute key to our efforts to scale and will be the things that enable us to multiply exponentially points of service.
3. Commercial banks and state banks (non-profit banks) will become core providers.
4. Money transfer fees and other kinds of fee based transactions will drive revenue models for banks and not just income.
5. There will be a major consolidation of the leading MFIs through buy-outs, mergers, contractual permanent partnerships with commercial banks, and the winding down of those MFIs that lack the vision and the capacity to really reach scale as donors raise the bar and cut them off.
6. Domestic sources of funds will become far more important, not the socially responsible funds, not the foreign investors nor funds like IMI. Savings and commercial debt will take its rightful place in our field.
7. Donors will focus more on frontier markets, taking more risk with rural areas and the very poor.
8. And lastly, impact performance and financial performance will become ever more important.

All the work that the MFN is doing both individually and as a group should be applauded. It is really a fantastic network that CGAP has had the privilege to be associated with again individually as much as a group. The MFN has the potential to be an ever more important voice for practitioners in the industry and CGAP would like to help in any way to make that voice heard as a common voice and a common view. I am now your apprentice and I look forward to learning from you over the next couple of days.

A LOOK AT MICROFINANCE IN TANZANIA

Grace Rubambey, Director of Microfinance, Bank of Tanzania

When looking at the program, the topics selected for this conference put microfinance on a higher stage. It is no longer just a social good, it is no longer just charitable organizations trying to do something in this society. It is commercial institutions trying to serve the unbanked the poor that have been marginalized for a long, long time. As the only participant from the public, government sector, there is much to learn from the practitioners.

What are the challenges that are facing the microfinance industry in Tanzania? Looking at Tanzania's neighbors in East Africa, Uganda and Kenya are very similar in terms of infrastructure. In terms of the levels of the development of the industry, Kenya and Uganda have more developed institutions, but in Tanzania is believed to be a bit more advanced in creating an enabling environment.

General Environment for Microfinance in Tanzania

Tanzania is a large country, but sparsely populated, which presents a major challenge to microfinance. However, the country also has a very large rural population with about 75- 80% of Tanzanians living in rural areas. So, if microfinance is to advance in Tanzania it has to take care of the financial needs of this large sector. This is the primary key challenge. Another challenge is the poor physical and financial infrastructure. Tanzania is highly dependent on small holder farming. So, the rural sector is not as diversified as in some areas like in Asia. This lack of diversity means, therefore, that economic activities are mostly farming. Finally, Tanzania's financial markets are very underdeveloped. It is important when discussing issues about accessing financial markets and products that cases such as Tanzania where markets are underdeveloped and yet, also need access to such sources of funding, are also considered.

Tanzania, originally formed as a centrally planned socialist state, had started financial sector reforms by 1991. These reforms have enhanced efficiency in the banking sector, but have unfortunately also widened the institutional gap whereby the low income population, which is the majority, has less access to financial services. This result prompted the government to look at a much broader based financial system and to attempt to mainstream microfinance into the financial system. The government is very committed to supporting microfinance.

The current players in the microfinance sector in Tanzania are banks and non-bank financial institutions. A lot of awareness creation has been done such that some of the commercial banks and some non-bank financial institutions have started downscaling. All of these institutions are concentrated in Dar es Salaam, however, which means the rest of the country is unbanked. These downscaling institutions consider financial services to the poor as risky business so they really don't go into microfinance as a matter of choice. However, one can't ignore the fact that they have abundant resources, even though they lack the expertise to do microfinance. In most cases they lack interest due to the perceived risk of microfinance clients.

The sector is also served by NGOs. With a dominant market share, these are the ones pushing the frontiers of difficult to reach areas. However, they are also mostly urban based. Only a few are really going into the rural areas. They currently don't have a consistent regulatory framework but as a government we have now already formulated regulations for those that are going be regulated and those that are not going to be prudentially regulated we have what we call best practice regulations that will soon come into effect as they are finalized. NGOs are donor dependent, not a unique phenomenon for Tanzania. While this may be the case, the government also knows that donor resources are becoming quickly overstretched. Initially MFIs in Asia and Africa, and Latin America were looking for donors; now with Eastern Europe as well, the funds are being spread thin. As a result, many NGO MFIs have started intermediating on forced savings as the Central Bank cannot do anything until they start regulating them.

We also have the member based organizations, the savings and credit cooperative societies and the savings and credit associations. Tanzania has a very weak cooperative movement due to historical factors. However, reforms have been initiated in this sector as these institutions have limited technical capacity and very limited access to technical assistance. For some reason donors have not found these institutions very attractive but the government is trying to encourage donors to also look at the savings and credit cooperatives because they are potentially effective rural financial delivery vehicles. They are located right in the rural areas, they belong to the people and they should be able to serve them well. Unfortunately, SACCOs have lost credibility among the public. As a result, SACCAs, which really operated like SACCOs have emerged. However, both SACCOs and SACCAs have very limited outreach.

And there are government schemes and donor funded programs. Now these are being discouraged and the government agrees that neither government nor donors should involve themselves in direct delivery of services.

Microfinance in Tanzania - Moving Forward

With that profile of the players in Tanzania, what are we doing to move forward, what have we done to move forward?

The government is very supportive of microfinance and the first thing that was done in 1997 was to establish a government focal point. The Bank of Tanzania, in particular the Directorate of Microfinance, is the focal point for microfinance where donors and practitioners can interface with the government so that there is consistency. The Directorate of Microfinance was responsible for developing the national microfinance policy, one of the rare policies in the region. There are not too many countries in the region who have articulated their policy on microfinance. One notable leading microfinance expert, Elisabeth Rhyne, was part of the foundation of this policy. The government gained a lot from her knowledge, her international exposure. The resulting policy is globally acclaimed as one of the best. With the establishment of the focal point, the practitioners established TAMFI, the Tanzania Association of Microfinance Institutions. As it is still a very young organization, the Central Bank is working with TAMFI in order to help develop the sector and also develop standards for the industry. The Directorate office is also currently involved in putting in place the second generation of reforms, in the context of the financial sector as a whole. This second generation reform is based on an assessment that was made by a FSA financial sector assessment program by the IMF and the World Bank. The Directorate of Microfinance is now following up on that and microfinance is one of the key parts of this second generation reform.

The key objectives of the national microfinance policy are mainly to provide a linkage for the microfinance to the developing agenda – to mainstreaming microfinance into the development agenda and to provide a framework for harnessing these technical interventions. The policy is categorized into four areas, practitioners, donors, the government and other service providers such as trainers, business service providers, auditors and accountants. The key features of the policy are that, first, it follows the financial system approach. It is also based on best practices and above all sustainability. It also articulates an implementation strategy for regulation and supervision, one of the major challenges in the industry. While this is ultimately the responsibility of the Central Bank, those responsible for developing the policy we have tried as much as possible to involve the stakeholders in putting in place the legal and regulatory framework for the microfinance industry. Development and application of industry standards is the responsibility of the practitioners, in collaboration with government, particularly with the Bank of Tanzania. Capacity building is a responsibility of all the actors because capacity building is required at all levels, on the demand side, the supply side, and those that create an enabling environment.

Challenges Facing the Microfinance Industry in Tanzania

The main challenge facing the microfinance industry in Tanzania and the region as a whole is sustainability versus poverty alleviation. There are some in the government and politics who would say that poverty alleviation is the major challenge and that microfinance providers should remain charitable organizations. But it has been proven elsewhere that sustainability and poverty alleviation are not necessarily mutually exclusive goals. And so Tanzania is facing this challenge. It is a very delicate balance, but those responsible are trying to meet it. Another challenge is the creation of an enabling environment. It is necessary to effectively coordinate stakeholder buy-in, coordination of the different sectors that contribute to the effectiveness of the microfinance industry, coordination of the different sectoral policies, and also coordination of getting everybody to speak the same language. While progress has been made, there is still much to do.

From the side of the government and other supporters, these parties need to provide allocation of sufficient resources, particularly for purposes of capacity building. Yet another challenge is the creation of effective demand, mainly the government's challenge. The government does realize the need to increase economic opportunities and increase productivity. However, there is also a need to create public awareness of the critical value of microfinance. Adoption of best practices by all stakeholders is another challenge. Government and donors need to learn from each other and adopt best practices. In Tanzania operational guidelines have been put in place that will guide donors and government on the interventions in the microfinance sector.

Practitioners as well as other service providers have to adopt best practices. The sector is far from achieving a high level in this respect. Diversification of funding sources is also key. MFIs need to look at domestic resources. Donor and government funding is decreasing and internally generated surpluses can only be accessed if an institution does in fact operate profitably. That means capacity building is crucial. Accessing deposits means the institution will have to be regulated and there are a number of regulatory challenges that need to be faced. In terms of accessing commercial lines of credit, commercial banks are not very willing to lend to microfinance institutions. They demand 100% cash collateral and this is a key challenge. The topic of financial markets, to be addressed during the conference, is very important, particularly in the context of countries such as Tanzania with underdeveloped financial markets.

With certain biases coming from the Central Bank, the regulatory and supervisory challenges are numerous. Capital requirements have to be balanced, and it is a delicate balance. The Bank can neither constrain the institutions or else they may create a situation where small unsustainable institutions become regulated institutions and later they die. Ownership and governance issues are other key challenges. The issue of sufficient capacity to regulate and be regulated must be faced by both the institutions and the regulators. These bring about the question of cost of regulation. The fact that there are various sizes and approaches to the delivery of microfinance services is a key challenge to the regulator. In Tanzania there are commercial banks and microfinance companies, microfinance institutions that have been provided for in the law. This is a challenge because certain prudential conditions may be very difficult to put in place when you have varied approaches and methodologies that are being used by microfinance institutions. Despite these challenges, Tanzania is putting the necessary elements in place to facilitate the long-term growth and sustainability of microfinance.

SESSION ONE: PRIDE TANZANIA BRANCH VISIT

Objectives of the Branch Visit:

1. Draw out insights from operations and organizational structure of PRIDE Tanzania
2. Understand PRIDE Tanzania as a whole
3. Expose participants to a broader sense of microfinance in Africa

Discussion of branch visits:

- Groups return to Lodge and reconvene
- Each group selected a moderator and prepared a short presentation on their visit
- Moderator of each group presented observations to all participants

Questions for consideration during branch visit:

- Those of you not familiar with village banking methodology – what is the most significant aspect of the visit you noted?
- PRIDE is starting to offer individual loans – for those institutions who offer individual loans, what advice would you give to PRIDE – for those institutions that do not, what did you observe?
- What one or two key observations or ideas from the visit you will take home with you?

The conference participants were divided into three groups. Each group visited a different branch and had a packet of background material with specific objectives for each visit. After the visits, the groups returned to the conference center to discuss the groups' observations.

<u>Group Break-down:</u>

Group One:
Group Leader: Ruben de Lara

Grace Rubambey
Elizabeth Littlefield
Carlos Labarthe
Maria Otero
Rico Rizal Budidarmo
Fernando Anker
Eduardo Bazoberry
Charles Nalyaali
Kenan Crnkic
Cathy Quense

Group Two:
Group Leader: Alvaro Retamales

Martin Holtmann
Bob Annibale
Elisabeth Rhyne
Sushil Roy
Kurt Koenigsfest
Aminul Alam
Simon Kagugube
Mattias Grammling
Carlos Danel
Tamar Lebanidz

Group Three:
Group Leader: Jason Meikle

Carol Michira			
Juan Buchenau	Motaz Tabaa	Fouad Abdelmoumni	James Mwangi
Lkhagvasuren	Kelly Hattel	Yusuf Nawawi	
Soronzonbold	Richard Shumann	Levan Lebanidze	

PRIDE TANZANIA BRIEF

History

Promotion of Rural Initiative and Development Enterprises Limited (PRIDE Tanzania) is a micro finance institution involved in the provision of credit to small and micro entrepreneurs in Tanzania.

> *The mission of PRIDE Tanzania is "to create a sustainable financial and information services network for micro and small scale entrepreneurs to increase incomes and employment and stimulate business growth".*

PRIDE Tanzania started its operations in January 1994 with its first branch and head office in Arusha. Operations started first on a two-year pilot phase, running from September 1993 to August 1995 involving three branches in Arusha, Tanga and Dar es Salaam. After the successful completion of the two-year pilot phase a five-year expansion phase was approved. The main goal of the second phase was "to expand the program to a network of 25 branches serving 30,000 clients and attain operational sustainability in its fifth year."

Figure 1: PRIDE Tanzania Core Values

PRIDE TANZANIA CORE VALUES

We are committed to a set of values and norms as follows:

Quality

- We strive for highest level of professionalism in service delivery
- We believe in creativity, innovation and continuous improvements of our services;
- We believe in investing in Continuous Research and Development for market responsiveness;
- We nurture knowledge, skills and encourage personal growth and professional excellence amongst staff.

Rules, Regulation and Governance

- We are committed to Compliance to legislative, regulatory and industry ethics
- We are committed to Respect, Integrity and Honesty
- We believe in Fairness and Equity
- We believe in working as a team
- We are committed to transparency and accountability to all the stakeholders

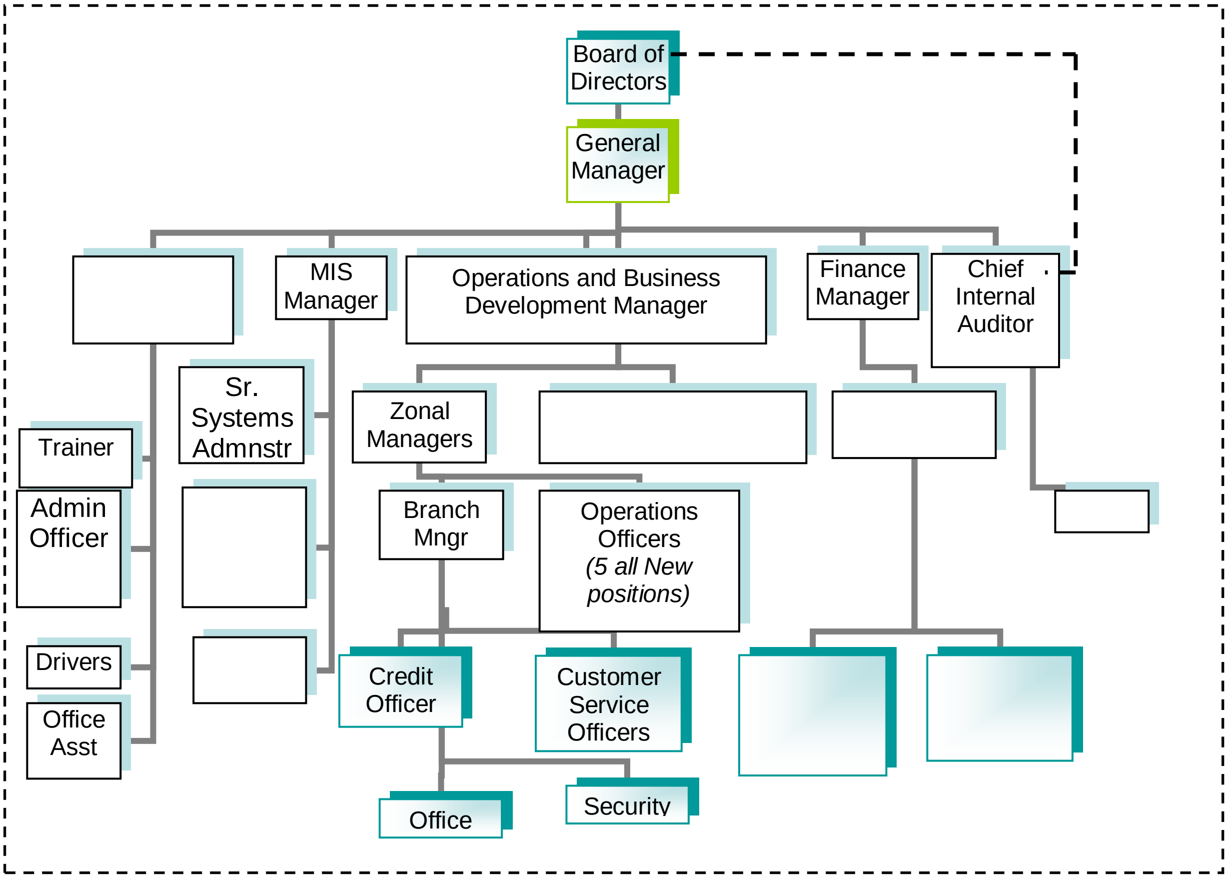
Social Responsibility

- We are committed to the economic empowerment of the working poor with the view to address poverty related courses in our society.
- We promote gender equality;
- We believe in Optimal and sustainable use of Local Resources
- We are supportive of actions leading to environmentally friendly interventions in all sphere of our society.
- We are supportive of HIV/AIDs intervention programs including awareness creation and care for the victims both the sick and the orphans.

Structure

PRIDE Tanzania has a board of directors, which is responsible for overall governance oversight over the program. The General Manager, who is the chief executive officer, reports to the board. There are five heads of departments who report to the General Manager. The departments include operations and business development, finance, management information system, human resources management and audit although the latter has direct access to the board of directors. The detailed structure is shown in the chart below.

Figure 2: PRIDE Tanzania: Proposed New Organization Chart



Performance

The performance of PRIDE Tanzania has been registering improvement over time since its inception. The trend analysis charts (accompanying this document) testify to this fact.

ACCION CAMEL Evaluation - Executive Summary

ACCION CAMEL is a tool for financial assessment of MFIs. It provides in-depth analysis of all areas of MFIs resulting in recommendations to interested parties particularly management. It helps to guide an MFI as it seeks to become a licensed, regulated financial institution. The review covered five main areas namely Capital Adequacy, Asset Quality, Management (including Governance), Earnings, and Liquidity. The review seeks to identify strengths and challenges in the aforementioned areas. ACCION CAMEL review of PRIDE Tanzania was carried out in March 2003. It made reference to previous reviews including CGAP, 2000 and Bank of Tanzania with Vulindlela, 2002. Overall, the evaluation showed that there were some basic weaknesses in the program, which if addressed could turn the program into a highly successful one. The core strengths and weaknesses are summarized below:

The following strengths were identified within the PRIDE Tanzania program:

- Pioneer in microfinance in Tanzania, with dominant market position (wide geographical outreach with presence in almost all regions)
- Very high portfolio quality
- Stable, committed staff, low turnover of employees

- Responsiveness to market needs
- Progress on identified issues – product design, MIS, internal control, LIF, efficiency
- Changes in loan policy attracting new clients and increasing portfolio
- Low leverage ratio
  - Room to increase liability in the capital structure
  - High loan loss reserve sufficiency
- Commendable degree of transparency
- Staff training programs in line with changing institutional needs
- Adequate organization structure with clear roles and responsibilities of management team
- Experienced and committed senior management and board of directors
- Proactive internal audit of operational areas
- Rolling out new integrated portfolio/accounting system
- Automation of branch operations

The following weaknesses were identified:

1. Capital Adequacy
   - Low ability to raise debt capital
   - Ability to raise equity capital is almost non existent
2. Asset Quality
   - Lack of systems for portfolio classification and analysis of risk factors
3. Management and Governance
   - Clarification of future ownership structure, particularly in terms of the exact scope and future disposition of the Government of Tanzania's ownership claim on PRIDE
   - Some weaknesses on strategic planning process, controls and management information systems
4. Earnings
   - Attainment of financial self-sufficiency, through reduction in the operating efficiency ratio and clarification of exchange equalization account
5. Liquidity
   - The need to find access to alternative, external sources of portfolio funding to fund continued growth and overcome liquidity problems

Methodology

PRIDE Tanzania has been offering a single loan product based on solidarity group guarantee. A second loan product, Fahari loan, targeting high-end borrowers from among its existing clients is being piloted in four branches and is expected to be launched early next year.

Loan Products:

The main loan product offered by PRIDE is the solidarity group guarantee loan. This loan is made up of a solidarity group of self selecting members of five called an enterprise group (EG). Ten solidarity groups combined into one large group of 50 called a market enterprise group (MEC) for ease of administration and enhancement of group guarantee mechanism. The loan works through peer pressure and a three-tier loan guarantee system to ensure loan repayment. The groups come together weekly, with meetings lasting for a maximum of one hour. There are compulsory weekly savings collected as part of loan insurance scheme and are refundable upon exit. Access to a loan is subject to a minimum loan insurance balance amounting to 25% of the loan amount, except for the first loan cycle, with loan cycles ranging from Tshs. 50,000 to Tshs.

1.0 million. There is very close involvement of clients in the administration of the program through elected leadership who are responsible for maintaining group discipline, carrying out the loan appraisal process, approving the loan and monitoring loan repayment. Clients are given half yearly bonus payout on compulsory savings.

Another loan product is the Fahari Loan, given to a Solidarity group of three to five self selecting members from among solidarity group clients. These loan sizes range from Tshs. 2.0 million to 10.0 million and repayments are made monthly. Near collateral items are pledged as additional guarantee to reinforce the security supported by a formal legal agreement. A client may select from a variable loan term of between 6 to 24 months, with an optional grace period of one month. This loan product will eventually be rolled out as an individual loan.

Other products still on the drawing board include employer guaranteed consumer loans, education loans, insurance services, health care services, and money transfer services.

Staff Training Needs

A technical needs assessment (TNA) was conducted in early 2004 to establish staff training requirements. The TNA exercise took into account the gaps that were identified in the ACCION report. The training needs were identified and the implementation of staff capacity building to address the training gaps is on going. Specific staff training needs are listed below:

Training Course	Target Audience
1. Advanced Credit Management	Credit Officers
2. Customer Care	All Staff
3. Fraud Detection and Prevention	Internal Audit personnel
4. Management Development programs	All managers
5. Marketing strategies and product development	Members of the PD team
6. Risk Management	All managers
7. Treasury Management	Treasury Manager/Finance Manager
8. Planning and Budgeting	All managers
9. New product delivery methodology	All branch managers, credit officers
10. Corporate Governance	All managers, Board members

Figure 3: Map of Tanzania Showing PRIDE Branch Network

PRIDE Key Statistics

Figure 4: PRIDE Tanzania Key Statistics 1

Year	Number of clients, with or without loans	Portfolio Growth (US$)	Portfolio at Risk Rate	Loan Loss Rate
Dec-00	49,540	5,692,145	0.47%	0.26%
Dec-01	51,076	5,635,033	0.64%	0.65%
Dec-02	52,590	7,440,407	0.67%	0.23%
Jun-03	60,941	8,575,601	0.67%	0.19%
Sep-03	64,476	9,597,073	0.67%	0.14%
Dec-03	62,423	9,637,801	0.11%	0.47%
Mar-04	61,634	9,134,033	0.63%	0.17%
Jun-04	61,536	9,198,556	0.54%	0.24%

Figure 5: PRIDE Tanzania Key Statistics 2

Year	Return on Assets	Adjusted Return on Assets	Operating Cost Ratio	Operational Self-Sufficiency	Financial Self Sufficiency	Capital Adequacy
Dec-00	-3%	-13%	59%	94%	80%	33%
Dec-01	0%	-4%	51%	100%	92%	35%
Dec-02	4%	0%	42%	109%	99%	25%
Jun-03	7%	3%	42%	137%	111%	27%
Sep-03	2%	3%	27%	119%	73%	28%
Dec-03	8%	5%	34%	121%	114%	29%
Mar-04	6%	2%	35%	174%	115%	34%
Jun-04	16%	16%	20%	264%	255%	40%

SESSION TWO: TAPPING INTO CAPITAL MARKETS – THINKING LOCALLY

Moderator: Kurt Koenigsfest, BancoSol

Presenters:
- Carlos Danel, Compartamos (Mexico) – 2003 Bond Issue on Local Markets
- Budidarno, BRI (Indonesia) – IPO Process and Implications/Subordinated bonds in $US and local currency

Background:

All financial institutions have different sources of funding, the main one usually being equity from shareholders. There are deposits from the public, direct lines of credit, inter-banking operations and international capital markets. However, one of the greatest challenges for making microfinance sustainable is sufficient access to capital. Specialized investment funds have stepped in to meet this need. Donors continue to play a significant role in supporting the industry through their contributions to public sector development banks, bilateral and multilateral institutions, international NGOs and many of these specialized funds. For microfinance to fulfill its goal of providing financial services to a large number of low-income people, this industry requires access to commercial capital on a more significant scale and on an ongoing basis. The challenge is to find ways to attract more capital to microfinance. This session considered how two MFIs have looked to local markets to meet their need for capital.

Questions Considered:

1. What are the advantages to accessing capital on local markets?
2. What are the basic processes for setting up a bond issue?
3. What are the long-term implications for sourcing capital locally?

BOND ISSUANCE - FINANCIERA COMPARTAMOS, MEXICO

Presented by Carlos Danel

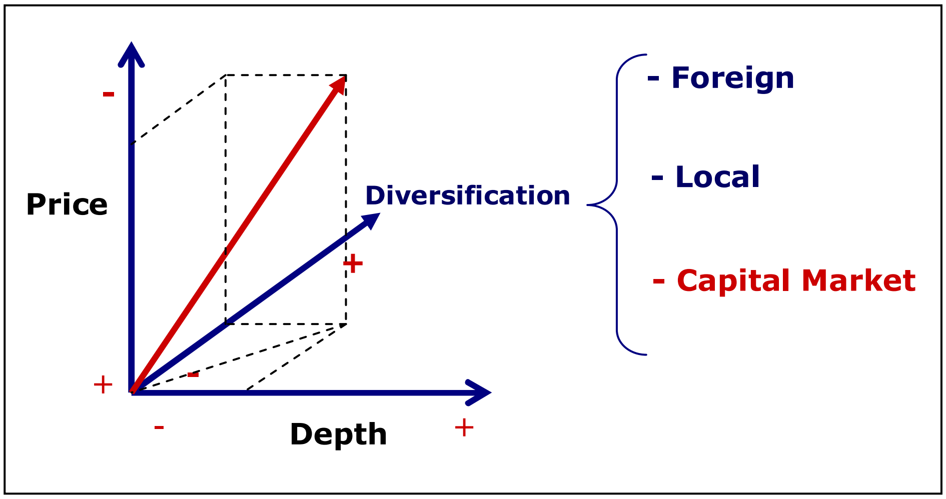
The management at Compartamos believes that local financing should and can be the main source of funding for a sustainable strategy for funding our microfinance institutions. This is certainly the case at Compartamos where the funding strategy has concentrated on developing the local market; the example to be discussed is a bond issuance in the local capital markets.

Compartamos is a microfinance company based in Mexico. As a finance company, the bank is not allowed to mobilize deposits from clients and thus does not have access to savings, which are usually the largest source of local financing for MFIs. As a result, Compartamos must fund its lending activities through accessing the capital markets and taking on debt.

Financing Options

The ideal scenario that Compartamos looks for in its funding strategy is shown in Figure 6 below. The objective is to minimize the price and maximize the depth. This combination allows one to tap into sources of funding that can grow as the institution grows and can really provide large amounts of funding, as opposed to tapping into sources that are very limited. It is important to have to multiple sources so that risk is diversified in terms of the right side of the balance sheet. Compartamos is trying to diversity its liabilities by tapping into three different pools or sources of money, one foreign and two local.

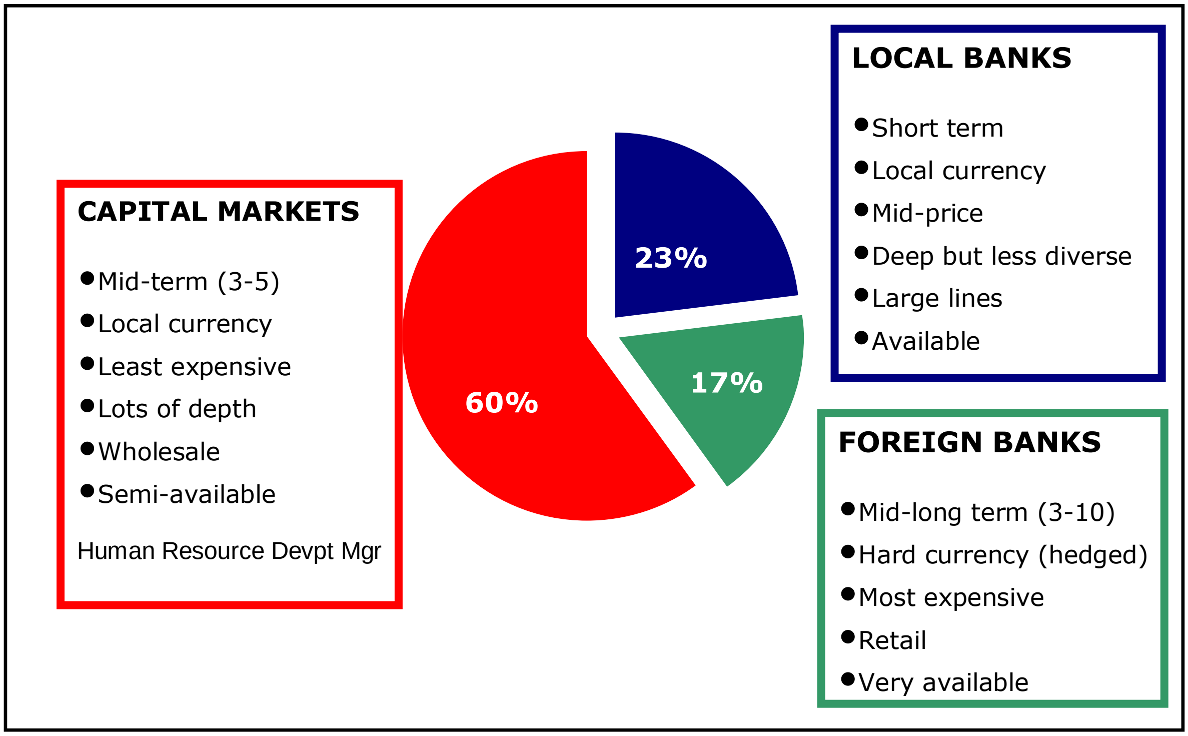
Figure 6: Compartamos Financing Options



By the third quarter of 2004, the liabilities at Compartamos were diversified as follows: 23% were concentrated in local banks, 17% were coming from foreign banks or funds and 60% were in the capital markets with the bond issues that have been done so far.

The main objective is to have a strategy that can be played out with different terms, different pricing and different characteristics. Each of Compartamos' sources is slightly distinct , but as a group they have some common features. For example, all of the money that Compartamos borrows from local banks is in local currency. The pricing structure is considered mid-price and is very deep (lines of credit from 10 to 25 million pesos) and fairly available, but these loans are short-term and less diverse. The relationship that Compartamos has been able to develop over the years with the local banks has allowed them to tap into these institutions and to access these relatively flexible sources of funding.

Figure 7: Compartamos Financing Options



Compartamos taps into is foreign banks, which currently comprise 17% of the total funding portfolio. This type of funding tends to be mid to long-term, at anywhere from 3-10 years. The loans are of course in hard currency, mostly in dollars or in Euros, and are fully hedged.[1] This is important in the strategy of Compartamos; the decision-makers at Compartamos are not experts and do not want to deal with foreign exchange risks. They look for other ways in the market, such as through derivatives, to hedge the position and the exposure. In that sense, the Mexican market is rather well developed or developed enough to get these kinds of products so that for every million dollars that Compartamos gets in funding, they are able to hedge that on a minimum of one to one so that they are not exposed to a foreign exchange event. Even though Compartamos is able to hedge at 100%, they have an internal policy that does not allow the bank to go above 20% of liabilities sourced from the foreign banks. The reason for this is that management believes in the need to build a locally funded financial institution.

Finally, Compartamos currently has about 16% of its liabilities in the local capital markets. This debt tends to be mid-term, between three and five years, all in local currency. These loans are less expensive for MFIs relative to the foreign banks, and they offer a lot of depth as wholesale loans. However, it is necessary to understand the way that the markets work, as they can go through ups and downs. An MFI really has to have the timing right to know when it is a good time to actually offer this product to the market, so that there is the desired demand.

Capital Markets Strategy

Compartamos has a series of debt issues that follow a continuum that begins with private individuals and private investors and moves towards more professional investors, first small

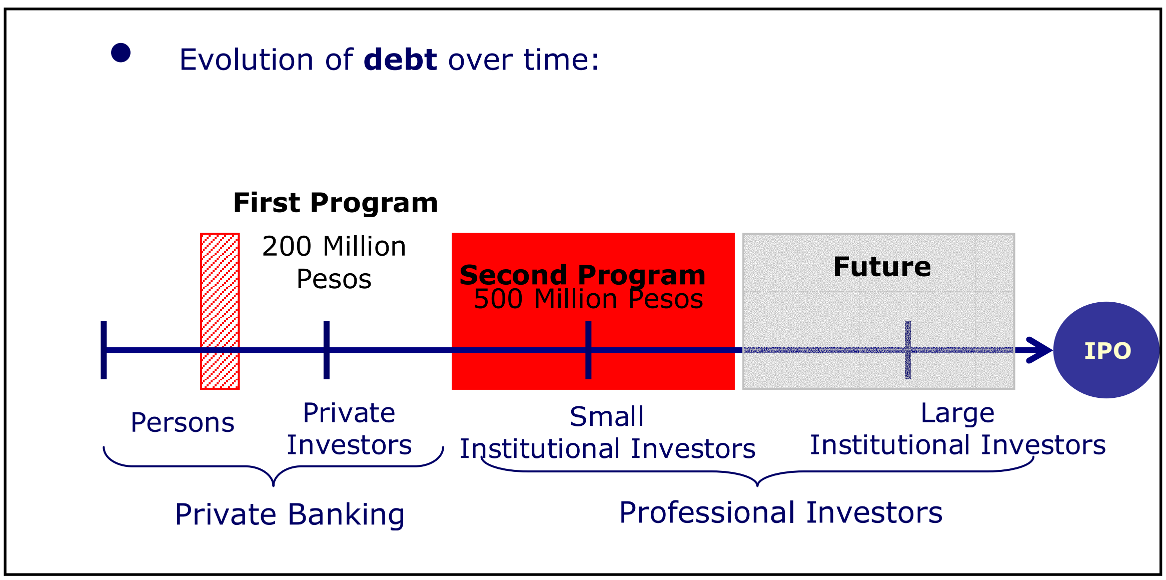
[1] *Hedging is an investment made in order to reduce the risk of adverse price movements in a security, by taking an offsetting position in a related security, such as an option or a short sale. (http://www.investorwords.com)*

institutional investors such as investment funds or small insurance companies, and then large institutional investors such as pension funds. (See Figure 7).

Compartamos's first bond issue in 2002/2003 was roughly $200 million pesos or $20 million dollars, and was geared primarily to the private banking clientele. A second program took place in 2004 where the bank issued 500 million pesos, just under USD $50 million. Now, the focus has moved up to small institutional investors, while beginning to appeal to the somewhat larger private investors. What Compartamos wants to do in the future is to move even further up to focus on the larger institutional investors. This is a strategy that is built on the assumption that one needs to establish a track record with the market as one moves up the continuum towards people who can take on larger amounts of debt. Compartamos believes that this is the best way to fund their significant growth strategy.

Finally, on the funding spectrum, an MFI can move beyond bonds and debt and actually have an IPO (Initial Public Offering). However, if an institution is moving in this direction, one would first have to travel through the road of having the market know your institution, not through equity but rather debt. It is important that one realizes that when dealing with the capital markets you are actually dealing with a new group of clients; clients that are very different from an institution's lending clients; clients that are not microentrepreneurs; clients that are not poor but rather are investors. And they themselves have certain needs and certain demands and expectations. So is very necessary to look into the detail of what each investor wants and to figure out what kind of product your institution should offer to them. Otherwise, if an MFI tries to build a product in the capital markets that is built for large institutional investors and tries to sell it to private investors it just won't work.

Figure 8: Compartamos Capital Markets Strategy



Mexican Capital Markets

Again, it is really important to understand what the investors need. This is sometimes tricky, as the needs of the investors change over time as the markets go through ups and downs. The year 2004 was particularly complicated because of evolving interest rate expectations. There is currently a trend of growing interest rates, which dictates what kind of product an MFI can offer the market. It is important to offer something that is revisable, that has a floating rate. An MFI also needs to understand that these investors need to have some kind of liquidity. While the Mexican debt market is fairly developed, we couldn't really say that there is a lot of liquidity for these types of commercial paper. One needs to be creative and come up with ways of working with other institutions or enhancing the instrument such that the investor has the confidence that there is a secondary market for the bonds if they need to sell the asset because of their own liquidity needs.

When looking to capital markets, at least in the Mexican case, private banking plays a role, but the largest volume of money is available through professional and institutional investors. So it is necessary to appeal to them, remembering that they speak a language that is very different from even that of the private banking clients. The Mexican capital markets are significantly risk adverse, as a result of the history of financial institutions in Mexico. Mexico went through a very deep crisis in the end of the 90's, not only in the banking sector but also for financial intermediaries in general. Many investors are now risk adverse when it comes to people that offer financial services, and because of this, Mexican institutional investors tend to stick with AAA rated institutions; demand for even AA rated institutions is weak. This is a problem for institutions like Compartamos who, even with a very good local rating of an A+, do not appeal to most institutional investors. Because of this, an MFI needs to come up with some way of enhancing the institution so that rating agencies can upgrade you to AA. Even though the Mexican market is developed, there are no more than about 68 issuers. Compared to the markets in the US or Europe, it is still a small market, perhaps not in terms of volume, but in terms of issuers. It is also one that is growing as more and more corporate paper is now being issued.

Key Benefits and Challenges

An important benefit of this capital market strategy is that it is a very good way of diversifying an MFI's funding base, because it reaches out to different types of people and builds a track record with them. The low funding cost and the fact that the product is in local currency are key advantages.. Mexico is not a dollarized country at all so Compartamos has not been able to put assets in dollar denominated products; our loan products all go out in pesos. So it is important for Compartamos not to be exposed to foreign exchange risk. The way that Compartamos avoids this risk is through local currency funding, which is easier to manager and us and is much more sustainable in the future, because you are building a local market.

Compartamos' strategy, is, in many ways, very innovative and has certain marketing appeal for the investors. When an institution like Compartamos goes out and issues debt on the local market, it not only benefits Compartamos, but it also benefits the industry, as it is introducing a new asset class and educating investors about MFIs. In addition, the rating agencies are getting to know the industry and understand the risk profile of MFIs, as are the institutional funders, who have access to very large sums of money. It is a challenge to deal with a new, very sophisticated, client. Consider the small institutional investor; they will probably not be willing to invest just $1million. They have to do the analysis, go through the numbers, and look at the prospectus, and are not interested in small amounts. They are looking long-term for somebody that can provide a fair share of their own portfolio so that it is worthwhile for them to invest in that company upfront. Thus, one of the key points of issuing is the importance of size. For example, the first tranche that Compartamos did was a bit less than $20 million. This is about the bottom end of the size that these investors are willing to look at for an issuance. So, hopefully in the future, issuing $30, then $50 million and eventually $60 per tranche will be something that appeals much more to the investors. Again it is essential to create a name and a track record. While many people may know Compartamos in the microfinance field, it is unknown in the financial and capital markets and few in these markets know microfinance. So in the Mexican case, Compartamos really started from scratch, going through the whole selling process, managing all the risk_ its own risk and the risk for the investors. An MFI must be sophisticated in this process, as many parties are involved. It is critical to devote a lot of time coordinating with a large group of stakeholders who are not likely to be as familiar with your institution or with the microfinance industry.

Stakeholders

Who are the stakeholders in this? Who really participates? There are four key groups: the underwriters, the raters, the attorneys and the guarantors.

First, it is necessary to have someone who can actually do the underwriting and structure the deal. In the case of Compartamos, it was Banamex, the local bank for Citigroup. It is strongly recommended that the MFI use someone who has done an issue before; somebody that is a strong player in the market and knows how to introduce a new asset class to these investors. Banamex and Citigroup built confidence in the investor community, as their reputation lent credibility to the bond issuance and greatly helped the selling process.

Second, the rating agencies need to be mainstream rating agencies as the specialized MFI raters have no name when it comes to dealing with the capital markets. Again, the MFI must work with the rating agencies to help them understand what microfinance is all about, where the risks lie. . Practitioners need to build a bridge and really start speaking the language of the market, rather than isolating microfinance by saying that it is very different from mainstream banking. In the case of Compartamos, the rating agencies used were Standard & Poor and Fitch; at least two ratings were needed in order to have institutional investors look at the product.

The third group of stakeholders was the lawyers, who worked closely with the raters. Again, it is important to have legal counsel that is familiar with the workings of the local markets and that lends credibility to the process of introducing a new asset class.

Finally, Compartamos' second bond issue required a guarantee for 34% of the principal or interest outstanding. This was provided by IFC, a shareholder in Compartamos. Compartamos looked at several different options and chose the IFC, not only because they knew microfinance, but also because they have a very reputable name. The raters felt that the IFC guarantee could bring Compartamos up a couple of notches in a rating from being an A+ to a AA, which would enable them to go to the institutional investors.

Lessons Learned

1. Preparation and Planning

The process of building a track record in a local market is essential well before an MFI can begin to think of issuing a bond. There is much preparation, including determining how an institution manages its transparency, how it deals with its figures, how it informs and educates the investors, rating agencies and other stakeholders. Now that Compartamos has public instruments in the market, they are required by regulation to disclose everything in the institution's financials, on the web and openly to the public. Even prior to this requirement, Compartamos began providing S&P with their financials consistently since 1998 - every quarter. This preparation took four years of providing financial information, of building confidence and of building transparency. This all really has to come from within the institution. This cannot be done just because it is a requirement of regulation, but rather because the institution itself is convinced that the way the way to build confidence in the market is through transparency.

2. Educating and Understanding the Market

Education and understanding the market is also an important learning process. The market needs to know what microfinance institutions do, but service providers also need to understand the markets. MFIs need to understand how these types of investors work, how they think, what their rationale is, how logical their investment is or not.

3. Knowledge of the needs of the market & being flexible.

Really understanding the needs of these investors and being flexible is key. Markets tend to be very dynamic so you can't have something too rigid. An MFI has to be open to offer something flexible that can change at the right time so that something competitive can be offered to the market. Again, in speaking the investor language, MFIs need to work through the rating agencies. We need to understand what their concern is about size, about liquidity, about the industry, about risk and really address these issues deeply and in great detail so that an MFI is ready with the right answers for these investors.

4. Scale

An MFI does need to have certain scale; this cannot be done for small packages. First of all, investors won't go for such a small package; also, the costs will bury you without appropriate scale. Just the cost of the intermediaries or the law firms will make this not cost effective.

5. Good Governance

Finally, just like financial transparency, markets look very closely at governance practice. This is also not something that an MFI starts from one day to the other because of preparing for a bond issue, it is something that must be developed over time. By the time an MFI is ready to go to the markets, there should be credible, transparent, very visible and explicit good governance practices in place. These include issues of how the decisions are made in the institution, who is leading it, what kind of succession issues have been addressed, what kind of shareholders issues have been discussed. Investors are becoming more and more sensitive to these governance issues. This is certainly the case in Mexican markets, and it is also the case for an industry like microfinance because of the great learning still going on with investors. So, investors are really going to look at who the shareholders are, what the institution is trying to do and how it runs.

6. Speaking the investors' language

One of the things that really needs to come across to these investors is the acknowledgement of the social purpose of the company. This must go into marketing of what is being offered to investors. But remember that when it comes down to their investment decision, they are looking at this as any other company and they want to see performance. They want to see what things are being done risk-wise.

7. Understand investor concerns

Investors want to see a certain stability, so they are actually doing their analysis just as they would for any other corporate paper. The MFI really needs to come across with a very clear message about where the institution wants to go, how it will build this vision, and how serious the MFI is even in terms of being self-sustainable rather than profitable. This is speaking in terms of the markets. It is something that MFI practitioners are probably not used to doing and is something that most institutions are not even comfortable doing. But if an MFI wants to grow locally and build a large pool of local currency funding through the markets, this is the road that must be taken.

BRI (INDONESIA) – IPO (INITIAL PUBLIC OFFERING) PROCESS AND IMPLICATIONS/SUBORDINATED BONDS IN US$ AND LOCAL CURRENCY

Presented by Rico Budidarno, Head of Investment Banking, BRI

BRI is a commercial bank that takes deposits and makes loans as well. As such, BRI has access to very cheap sources of funds from time and other deposits.

High Margins

One very important issue for BRI is that they have to maintain a very good margin. Taking deposits into consideration, BRI can get a very low cost of funding at about 5% and then can lend to microentreprenuers at 25-30%. So the margin is very high. However, there is a correlation between this higher margin and the problem with financing, particularly from capital markets. In the case of BRI, this outside funding is quite expensive.

Strong Market Position

BRI's advantage in the market is that it is has a strong position in higher margin micro, retail and SME segments. They have good quality assets supported by prudent corporate government standards. With a 107-year history of banking in Indonesia, they also have strong brand recognition and customer loyalty. They have experienced management with a record for growth and expansion. Thus, the bank, with the most extensive branch network in Indonesia, is well-positioned for growth in an improving the macroeconomic environment.

BRI works in large remote areas. With over 4,000 small branches, BRI employs over 40,000 employees. The system is run using a combination of traditional funding and capital market alternatives.

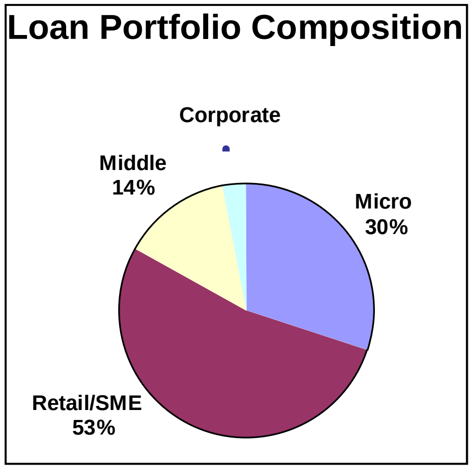
Figure 9: BRI Distribution Network

BRI Distribution Network

Head Office	1
Regional offices	13
Branches	324
Sub-branches	147
Syariah branches	8
BRI Units	3,931
ATM (excl.Cirrus)	>6,000
Employees	31,971

Microbanking is only 1/3 of BRI's business. With funding from microlending around $3 billion and loans of $1.7 billion, this piece of the bank's business represents 1/3 of BRI's asset exposure.

Figure 10: BRI Loan Portfolio Composition



Diversify in Key Growth Areas

The next step is to maintain a strategic position because BRI wants to keep its core business in small and medium enterprises (SME) and microbanking, both of which already give BRI a low NPL. About five years ago, BRI tried to go into the corporate banking business, but with the Asian economic crisis it was a difficult sector to enter at the time. Therefore, BRI determined instead that it needed to finance investments in information technology. So, with many branches around Indonesia and many small branches without good systems at present, BRI needs enough sources of funding to invest further in this information technology infrastructure. Already BRI has been successful in using technology to enhance operational efficiency through their BRINets network deployed throughout branches and units-322 branches (99%) and 115 units (3%) integrated. This system enhances information access across the network on timely basis, reduces manual operations and human processing errors, and increases the bank's ability to cross-sell and identifies product development opportunities. BRI has also sought to strengthen risk management strategies in the bank by adopting a risk-based audit process (ISO 9000/2001 certified) and integrating risk management systems across the credit, operational and market risk areas. BRI also plans to tap the growth in agriculture, retail trade and consumer goods segments of the market and to leverage the branch network to cross-sell and increase marketing in this sector.

Funding Strategy

BRI is the fourth largest bank in terms of loans and the loan to deposit ratio is very strong as compared to others in the industry. As mentioned earlier, in the case of BRI, funding is not an issue because it has access to such inexpensive deposits. With BRI, however, the difficulty is with the capital adequacy ratio, which two years ago was quite low as compared with other commercial banks. Because BRI did not have any problem with liquidity at the time, the government who has 100% ownership of the bank, did not give the bank any position to put more money in the bank. So BRI had to tap funds from capital markets because they had no other choice.

BRI has had to maintain a certain net interest margin, because most investors who buy BRI paper and shareholders want BRI to maintain at least a 9% net interest margin (NIM). That is quite high in terms of NIM as compared to the industry.

Key Targets

The key target for the next four years will be the most difficult challenge for BRI - to maintain the capital adequacy ratio at around 12%. In the usual case, companies have enough capital from retained earnings. But in the case of BRI, shareholders want to be paid dividends of 50% from the profit, and retained earnings are not enough to meet this requirement. Every year BRI's capital adequacy ratio is going down at 1% because the loan expansion is coming from retained earnings.

In order to maintain capital, BRI has three options:

1. Debt issue
2. Subdebt issue
3. Retained earnings (most difficult option because government stipulates 50% dividend on retained earnings)

An Initial Public Offering

In 2003, BRI decided to issue subordinated debt papers. The problem with the first bond issue was that there were two options – going to the domestic market or the international market.

The problem with the domestic market was that it was not as good as the Mexican case because the Indonesian market, especially for subdebt, is very limited. Most of the pension funds do not like to buy this kind of paper. And most of the biggest investors for subdebt are the asset benchmarks. Banks cannot buy this kind of paper. This is why the domestic issuance is very limited. Then BRI tried to combine a domestic and Euro bond to achieve a minimum carry level at the time.

The other option that BRI chose was to raise funds from an IPO. This IPO process is quite unique in that it took place because the government needed money. Because of its ownership control, BRI did not have any choice. In 2003 BRI had an IPO of almost US$500 million. In terms of its success, it seems that the foreign investors were more interested in these papers because when BRI issued this IPO, it was 15 times oversubscribed. However, the problem with the IPO was first that BRI had to decide if it was better to have strategic sales or to go public. BRI at the time had decided that the IPO was a much better way than a strategic sale because of the strategic sale that BRI had done before. It seems that the government and the parliament did not fully agree with BRI doing a strategic sale because BRI is owned really by the public. In the case of BRI, there are some important issues worth discussing.

The option to raise funds from the capital market, especially for subdebt was a temporary solution for BRI in terms of raising capital. Because even though the maturity is ten years, because of central bank regulations, they need to amortize in five years. The speed of loans increasing compared with the returned earnings that BRI has was not comparable even if they increase their profit. The next issue is the currency mismatch risk. Because of the limitation of the domestic market at the time, BRI decided to go to a European option. But this also brings the problem because BRI's typical business is in the domestic area. They do not have any large US dollar loans. This is a difficult situation also in terms of capital adequacy. They needed funding from a capital market in order to keep a good capital adequacy ratio. But on the asset side, they mostly have domestic exposure.

Based on the options available, BRI decided on an IPO. BRI was at the time in the lowest recap bond position of all major state-owned banks as the selling shareholder was the Government of the Republic of Indonesia. The Global Offering of 3,811,765,000 common shares consisted of the concurrent International Offering and an Indonesian Offering.

The International Offering was characterized by qualified institutional buyers in the US relying on Rule 144A under the Securities Act, and certain non-US persons outside Indonesia and the US in offshore transactions in reliance on Regulation S under the Securities Act

With the Indonesian Offering, the use of the proceeds was a total of US$488.4 million of which is US$180.4 million was used to enhance BRI's regulatory capital and approximately 10% of the proceeds were put to fund future growth, including research and development, and the Bank's ability to make loans and provide other financing products to its customers. Approximately 60% of the proceeds will be used to invest in technology, including upgrading the management information system, implementing the core banking system and making capital investments. Approximately 30% of the proceeds will be used to expand BRI's network including opening branches in, among others, Jakarta, Padang and Banjarmasin regional offices, and opening other sub-branches and units throughout Indonesia.

The shares, underwritten by UBS and Bahana Securities, were listed on the Jakarta Stock Exchange (JSX) and the Surabaya Stock Exchange (SSX) on November 10, 2003 under the symbol "BBRI".

Important Issues

Important issues that became apparent during the IPO process had to do with the loan expansion target versus decreasing the capital adequacy ratio due to subdebt amortization and the dividend payout ratio. Another key factor to consider was the currency mismatch and interest rate risk. In terms of the interest rate risk, the option to raise funds form capital market is expensive for BRI but they didn't have any other option. BRI's reason to go to the capital market was not for liquidity purposes but just a matter of increasing their capital adequacy ratio. Finally, how the funds would be used was another important consideration for BRI in deciding which road to take. Because some of the proportion of funding is in USD, BRI needed to show investors that they would use this kind of funding in an appropriate way. This presents a challenge to maintain and balance between assets and liability.

Session Conclusion:

The session presented two different approaches for getting funds from the market on local and international levels. Compartamos raised funds through a bond issue and in the case of BRI, they made an IPO. In both cases they tried to raise more money from the markets as their portfolios were increasing. There are different approaches, different realities in every country. In some other places an MFI might find direct lines of credit or have access to multilateral sources. MFIs can also raise capital from their own shareholders.

BRI had a problem that had to do with capital adequacy, not with liquidity. The minimum required by law in Indonesia is 12% and they were operating at 8%. So, they needed to increase capital in order to be under the regulations. They had this problem because their portfolio was growing at a higher rate than their retained earnings. So even though they were making good returns, they didn't have enough capital to support that growth in portfolio. Another key factor was that the Bank had a policy of paying 50% dividends out of the earnings. Because of this policy, they had a lot of money going out to the shareholders instead of staying as capital. With this scenario, they had three options: raise capital – which if you have a dividend policy of paying out 50%, you can't really do; issue debt, or retain more earnings.

They went to the local market with an IPO to solve this problem. They realized then that their operation was probably too big for the capital market in Indonesia. As you have seen BRI is a very important player in the market. Despite this, the reaction of the market was very good, with 15 times the demand to the offer when they came out with this. It was an issue of $48 million. They also issued subordinated debt of $115 million and with that they had been able to solve their problems. In the case of Compartamos, they have had four experiences in issuing bonds in the local market.

It is important to consider the relative advantages of going local versus going international. In two experiences it was less expensive to go local than international, and provided more control and greater stability. In addition, local currency may limit unnecessary foreign exchange exposure. Most of Compartamos' issues are in pesos, local currency based. This is an important advantage. If an MFI has the option to do this in a local market, it is normally preferable.

Another important consideration is the demonstration effect of these debt and equity issues in introducing the microfinance industry to the market. Many people keep saying that rating agencies and international banks do not know the industry. However, from the example of Compartamos and from some of the messages from the discussion, it is our task to spot light the industry, to show what we are doing and show them our numbers. Also, it is clear that there needs to be volume when accessing local capital markets in order to attract investors. Finally, if an MFI is going to go to the capital markets, it is important to go with the big names, the big players, in order to lend credibility to your institution.

Group Discussion:

Use of Deposits

Ruben de Lara of TSPI wanted to know about Compartamos' available financing options from local sources since nothing other than local banks was mentioned. Does Compartamos require a collateral deposit from clients? Carlos Danel responded the Compartamos does still have forced savings (10% of loans), but this money is kept at local banks. It is a way for Compartamos to understand the income capacity of the client. This money cannot in any way come back to Compartamos for financing or as collateral as Compartamos is not allowed to mobilize savings. So the clients who do save, save at local banks. It is similar to if someone was to apply for a credit card, the company asks for a reference from a bank. The clients' savings serve a similar function for Compartamos.

Ruben followed up with a question about the case of capital markets where Compartamos has 60% of total amount. He wanted to know if tapping funds from foreign banks is something Compartamos will continue with knowing that this is quite an expensive source and that it will require continued hedging. Carlos responded that he did believe it is important to tap into these sources, but that, for Compartamos, it will not go over 20 – 25% of the liabilities even if there is more available. Compartamos wants to keep it at this level. But it will grow as the liabilities grow, it will grow as an absolute amount.

Credit Enhancements

Regarding credit enhancement and the different between an A+ to a AA, Elisabeth Rhyne inquired about what kind of credit enhancement would be necessary and can an MFI go forward with the issue without one? How much did hedging add to the cost of funds? Carlos replied that the first program that Compartamos had was geared towards individuals in private banking. They are individuals who are not as sensitive to the rating as institutional investors, so for them the product was good enough with an A+ rating, which is the stand alone rating. But as Compartamos wanted to move towards the institutional investors, they do require higher ratings to actually be able, within their policies, to invest in corporate paper. The minimum that most of them would invest in would be an AA rating, and as a stand alone, Compartamos was not able to get a AA rating. This is where IFC's role came in, proving a partial guarantee, and a liquidity facility for that program. So with the structure between Compartamos and IFC, the corporate paper could be rated a AA and therefore that would be a product that would be attractive for institutional investors. It has to do with who an MFI is targeting as its investor and what their needs are. When and if Compartamos taps to the larger pension funds, most of them won't do anything below AAA. According to their regulations they can go as low as A, but in practices, they are still not doing it. That might change in the future also because to date there is enough offering of AAA paper, mostly by the government or by government companies so they can build their portfolio on those types of issues. In the future, because they are growing so much, they might have to diversify and go deeper into lower ratings.

Regarding the issue of Compartamos raising their own rating, according to Fitch and S&P, when they issue a rating, they actually provide detailed information as to why they think the company is an A+ or whatever, they indicate what the strengths and weaknesses are of the company and both of them agreed that basically two things need to happen in order for Compartamos to receive a AA rating: more time operating as a microfinance institution and then also that "the industry becomes more mature". For them this is still a new industry and it still has certain things to prove. This is good and bad news. It is nothing that Compartamos can have a direct influence over such as the need for an increase in capital or lowering leverage, but it is just mostly time and growth of the industry. On the issue of hedging, right now the condition of the Mexican peso has been quite stable for the past few years. The way that Compartamos has chosen to hedge has been about 1-2% on the all-in cost of having the issue in dollars. It is a bit more expensive than in the case of the Euro because the Euro has been appreciating. Most of what Compartamos has in hard currency is in dollars.

MFI Readiness for an IPO? Long-term Strategies

Maria Otero shared the observation that BRI really was looking for equity. The possibility of MFIs being able to carry out an IPO right now is really not possible. Perhaps BRI is the only organization that could do this at this point. But it is important to see that as the goal that one wants to arrive at is to understand where an institution wants to go. That is one important way of understanding how that relates to what we are doing. The one thing that is really important to think about, is time frames, especially in listening to the example of Compartamos, which was about debt. When thinking about one's own organization, many try to finance portfolios thinking short-term. Thinking that the portfolio is growing, there is a need to finance it. In considering the available options, sometimes they are cheap or expensive. However, managers don't often think about developing a capital markets strategy or the way in which liabilities are going to look long term. When considering Compartamos' capital markets strategy, they are looking very long term. In order to arrive at that point, Compartamos had to do many things for many years to be able to get to that point.

Can This Happen in Other Markets? / Asset Liability Management

Maria mentioned another important point regarding the emphasis on being able to tap the local markets. Is this possible to do in all the markets in which microfinance operates? Mexico is a fairly well developed capital market, so the question remains if this is possible in other markets.

Carlos Danel responded that in his mind, one of the least talked about issues at microfinance conferences is asset liability management. It is becoming increasingly important as this industry grows because there is huge demand from clients and MFIs need to fund their portfolio and it is not as easy or as straightforward as it used to be. So thinking about asset liability management is fundamental, not only in thinking about how to grow the portfolio, but also thinking about the right side of the balance sheet. "What is my equity going to look like, what are my liabilities going to look like in terms of the mix of liabilities in terms and pricing, exposure and many things that you want. You need a strategy. You can't really have this happen accidentally or not think about it." This topic of asset liability management is increasingly becoming important.

Regarding the question about other markets, Bob Annibale of Citigroup commented that before Citigroup began working with Compartamos on their first issue, they had done the ground work on this already. Citigroup has also done a local issue in Peru working with Mibanco. It was, as in the case of Compartamos, a private placement sold to investors that had already been lined up. With the issuer they tried to get to know them. They looked very closely at who was buying the bond and who was selling the bond and the relationship that they had with that business. If they have a valuable relationship with Citigroup, they are not going to sell the buyer something on a single issue that is going to leave them with an asset that causes them a problem.

In Peru, a very similar issue, Citigroup was able to sell on domestic markets and not require a credit enhancement. The credit enhancement is something that certainly adds costs to the issue. In the case of Compartamos there was a lot of negotiation to try to get the cost as low as possible in terms of what the rating agency required in order to get the AA. In going to certain large institutions it can be helpful in terms of the additional recognition that the guarantor brings to the issue. But in a number of markets, there are local capital markets deals done with corporate entities that are not government or that are not enormous. Local financial institutions have issued paper in Kenya and in markets like Uganda and others. Across Latin America, in Chile and Bolivia or Ecuador there have been local issues. So, all of these markets have some history. The important thing is to set the expectation around the investors also in that market. What are they looking for? Are they looking for short-term bonds or assets? Do they want one year or are they looking for three years? One of the things that Citigroup had to do with Compartamos was to really talk to investors about what is the period and tenor that they need for their portfolio, because it is very investor driven as well. This is an important thing to talk about in advance, looking at issues in the market, who bought them, what was the maturity of them, what was the structure of them because you need to fit within that, especially as a new issuer.

The last point regarding asset liability management, having been the head of treasury risk for Citigroup, Bob mentioned that all he did was look at balance sheets around the world and Citigroup's funding and capital strategies and hedging. It is so important when an MFI goes to investors and to banks to be able to articulate a funding plan in the next three years, a capital plan, the interest rate and foreign exchange risk policy and the mismatches. The whole asset liability question is an increasingly important one if you are going to go to the markets.

Barriers to Entry

Jason Meikle noted that in the market in Kyrgyzstan, there does not seem to be enough of a market to make a bond issuance worthwhile. There are certain barriers to entry in terms of cost and it should be of a certain size in order to make it profitable. On the other hand, the main reason why Compartamos entered issued bonds was because of their inability to take deposits. In the case of FINCA Microcredit Company, as of 2005 they will be able to take deposits and one of the strategies has been to look at corporate deposits. It touches on some of the same issues because they are looking at institutions in the country, businesses, foreign institutions, USAID projects, and others.

In response, Carlos Danel commented that there are people within many countries' local markets that can invest, even if the MFI is not going to go into savings. They are probably not even what one would call social investors. They are regular investors that could, even if they are not going through a market directly, could invest in an MFI. The process is essentially the same. It might not be necessary to have the formality of the raters, but it is still necessary to talk the same language, to show the same strategic thinking, and same to build confidence. This may not be within the structure of the market, but it is the same concept, reaching those investors which is a totally different client than most MFIs are used to and having them be the clients as well because an MFI is actually providing them a service, an investment service and one needs to develop a product that makes sense for them. In a lot of cases, that could very well be the route.

The First Microfinance IPO?

One participant was surprised to learn that BRI is the only institution doing an IPO to support microfinance. BRI met with several investors regarding the IPO and issuing instruments. They said was that microfinance is very attractive because they see in the microfinance business that the margin is very high and business is very secure. This is why they were so interested in the BRI IPO. This was one of the key reasons why the IPO could get a 15 times oversubscribed.

Rating Agencies – What Do They Look For?

Alvaro Retamales from Chile wanted to know from both Carlos and Rico about how the rating companies look at governance and audit issues? What do the rating agencies expect from the internal auditors and from the board? Rico Budidarno replied in the experience of BRI, prior to the IPO, BRI did not see the external auditors becoming a big problem. At the time, as one of the largest commercial banks there was a great deal of transparency. When the rating agency came and asked so many things, they already knew how BRI already did business. It made it easier for BRI to get a sufficient rating at the time.

From Compartamos' perspective, these are surely two topics that they look into. First on the governance issues, most rating agencies are looking for best practices governance in terms of having an actual board, one that works, one that meets, one that has a clearly boundary with management. They are looking for MFIs that have implemented things like independent board members - people that are not shareholders, are not employees, and are fully independent from the company. They are also looking for a board that has committees that work through different topics, committees such as an audit committee headed by an independent board member. Other committees might include evaluation and compensation and finance committees so that the board really has the mechanism, the tools and the processes of really making sure that the decision-making process in the institution is sound. Again, the rating agencies are not just looking at management. This is something that microfinance institutions have not been very good at in the past, probably because of an origin as NGOs. The governance that is typically exercised in an NGO is quite different from what the rating agencies are now expecting from a company in terms of governance. There has to be a shift. There has to be a lot more of the sharing of power in the decision making within an institution and that is a process for any microfinance institution that wants to go through. It is sometimes painful.

It is the same situation with auditors. One of the things mentioned about the underwriter in the bonds issues when Compartamos worked with Citigroup. It is very important whom an MFI partners with. That is also something that has always been an area of opportunity in the microfinance industry. There is a lot of talk about the partnering being done, but very little is done in terms of meaningful partnerships. So it is important to know how to build partnerships such as with underwriters. Also, when one works with an external audit firm, it is so important to have people who understand the business that can enhance and really look at the real risks, where they lie in a microfinance portfolio. Compartamos worked with Price Waterhouse Coopers, a big audit firm that is not local, but global. It has a name and it was probably a bit more expensive and complicated to work with but again these are things that are highly rated by the market and by the raters. It shows that one is willing to play that field in those leagues. Once again, these are not things that are going to be implemented from one day to the other, but rather that have to be built.

Regarding the governance issue, clearly NGOs are almost always management driven. This really needs to be changed so that new people are brought in that will participate in a way that is meaningful and that adds value. This can demonstrate to raters and the markets that an institution's decision making is sound and prudent.

Long-term Fundraising Strategies

Regarding a long-term strategy and fundraising for MFIs, Yusuf Nawawi from BRI wanted to know if, aside from issuing bonds on capital markets, is Compartamos looking to transform into a bank? Did Compartamos explore transformation and why did they not do this? The banking law in countries like Indonesia make it is easier for NGOs to transform into a bank because of the banking laws. There are two levels of banks, commercial and secondary banks. Secondary banks report to the banks which have a license to mobilize savings from the public. They are just not allowed to deal in foreign exchange. In Indonesia, it is easier and cheaper for most MFIs to transform into a bank instead of going to capital markets.

Carlos Danel answered that in most countries banking laws tend to change and the attitudes towards banks tend to change significantly. He was amazed visiting BRI in Indonesia to see that the banking sector in Indonesia is so prolific and the way that there are such a huge number of players and at different levels. Regulation is really thought out and flexible. In the case of Compartamos, it has been quite different. For many, many years in Mexico being a bank has had major barriers of entry. For a number of years, the central bank has been pursuing a strategy that concentrates the banking sector on a few players rather than diversifying with many players. This is now changing some. In the case of Compartamos, for reasons of service and competitiveness, they are very seriously interested and starting to develop a way to mobilize savings. That will require most surely a conversion to a bank. When Compartamos became a finance company there was not that option because there weren't any licenses available and also because capital requirements were larger than they could manage back then. Right now the capital requirements are not a problem and the central bank is willing to talk about new licenses. So Compartamos is likely going in that direction. With that, deposits can and will become a major source, if not the largest, source of funding because mobilizing savings adds to the right side of the balance. Nonetheless, it is not likely that Compartamos will ever actually exit the capital markets. BRI probably also has some kind of strategy within the capital markets. 100% of an MFI's liabilities cannot come from just small depositors. Even then an MFI needs to diversify. When Compartamos considers its funding strategy and asset liability strategy for the long term, this eventual change is built into the equation. This includes questions such as if the institution goes into savings and is successful, how will that play in, how will that affect the other sources, which will become the most important. This is something that has to be built into the process of daily looking at the balance sheet and figuring out how an institution wants the balance sheet to look today and into the future.

Kurt Koenigsfest concluded the session reiterating the importance of having a strategy – both long-term and short-term. There is evidence within institutions of a change in assets. MFIs are not only offering working capital loans anymore. They are offering housing loans, investment capital and longer-term loans that require longer term liability management. In Bolivia, in BancoSol, today a third of the portfolio is housing loans. To be able to fund that, BancoSol had to change its liability structure. So the bank went to look for international lines of credit because in Bolivia, most deposits are short-term and they needed to get longer term money to fund the housing loans. This is just an example of the things that are emerging in the microfinance industry. MFIs really need to think about not only what is going to happen in the next six months with asset liability management, but as microfinance institutions advance in this change in their portfolio, it is absolutely necessary to think about funding issues as well. The two very interesting experiences of Compartamos and BRI draw these issues out.

SESSION THREE: WORKING WITH INTERNATIONAL INVESTORS

Moderator: Maria Otero, ACCION International

Presenters:
- Elizabeth Littlefield (CGAP)
- Bob Annibale (Citigroup)

Background:

To address this growing need for capital, a number of strategies have been developed to attract more private investors to microfinance, including the creation of the ACCION-led Council on Microfinance Equity Funds, an organization of 15 private entities that make equity investments in MFIs around the world and share a goal of receiving both social and financial returns on their investments. The MIX Market has also pushed for increased transparency of both MFIs and investment funds, opening a more concrete dialogue between the supply and demand for capital in microfinance.

CGAP and Citigroup, representing a growing group of informed supporters/investors active in microfinance, will discuss ways that MFIs can work to attract and develop long-term relationships with international investors, particularly those with private equity interests.

Questions to Consider:

1. What are international investors looking for when considering an investment in an MFI?
2. How do ownership structures of MFIs affect the level of interest by equity investors?
3. What are the current options for transformation of ownership structures?

MFIS AND THE FORMAL FINANCIAL SECTOR: WHAT'S GOING ON TODAY?

Presented by Elizabeth Littlefield, CEO, CGAP

The tidy, cozy world of microfinance has exploded over the past years. What used to be a small fish bowl of known institutions, understood methodologies, and a handful of gurus has now poured itself into the vast ocean of global financial systems. There is no longer one way of doing it, there are no experts and nobody rules it. It is an incredibly intoxicating and exciting time, because it means we are on our way at last to having the poor, for whom we all work, gain their rightful place in the world economy.

The vision, within the CGAP family, is a world in which all poor people have the same access to tailored, convenient, high quality financial services as rich people. Those too poor to make use of such services – the destitute – are provided with other support that will steady and ready them to be able to climb onto the bottom rung of the ladder, using financial services to climb their way out of poverty in a self determined, self reliant and self respecting way. It is a world in which entire financial systems in poor countries are structured to serve their retail populations and all kinds of financial services providers jostle and compete to earn the business and the loyalty of the poor by providing ever more useful and convenient services.

CGAP's role is to help build these domestic markets that will function efficiently, harnessing the enormous savings assets - often held in coffee tins buried in earthen floors – to recycle into credit for the private sector. To do this industry supporters must focus on strengthening a wide range of *domestic* financial intermediaries and all the parts of the financial market architecture that will be required – policies, technologies and information systems. There will always be a role for donors, but it is important to keep an eye on the ball of catalyzing and complementing the domestic financial sector and taking the risks that commercial capital won't.

One of the areas that CGAP has been particularly interested in learning more about is the extent of external foreign funding to microfinance. Recent CGAP research indicates that currently donors (multilateral and bilateral) contribute between $500 million – $1.5 billion per year to microfinance, often "disguised" as part of a larger, multi-sectoral project. The World Bank alone contributes between $200 and $300 million. Development investors (public funding such as KfW, IFC, etc) have invested roughly US$ 1.1 billion. Finally, Social Investment Funds (private investors) have committed US$ 540 million, most of which is not yet disbursed. It is worth noting that most of the donor funding is no longer on the balance sheets. It has been used for technical assistance and operations.

Of the approximate $1.6 billion of total foreign investment in microfinance, about 80% comes from public sources. CGAP expects to see significant growth in this figure with an increase of $270 million in investments over the next 3-6 months. Of the 55 funds currently investing in microfinance, only 20 are making equity investments. Two-thirds of the $1.6 billion in investment right now is debt and of that debt, 85% is hard currency.

Of the total investment, it is interesting to consider the concentration of this foreign Investment (FI). Of the 725 MFIs surveyed, half had foreign investment, of which 335 had debt and 82 had equity. The top 10 have 40% of all foreign investment and 45% of all equity was in seven IPC ProCredit banks. Forty-percent of foreign investment goes to Central and Eastern Europe, with another 40% going to Latin America. Only 20% goes to the rest of the world. Of 40 funds analyzed, six finance two-thirds of the MFIs supported, the largest being Oiko Credit and Triodos Bank.

Foreign investment capital is always thought of as having a purpose of being catalytic. Foreign investors often see their role as one to encourage local bank lending. When considering the demand for external debt, almost all MFIs with external debt already had local debt. So the role of foreign investors as catalysts is not entirely clear from the responses. According to the survey, the primary reason MFIs that have external debt (66%) seek external debt is for perceived lower interest rates (easier collateral is the second top reason). The primary reason why MFIs that don't have external debt seek it is also because of the lower interest rates offered and secondly because of the technical assistance funds which often accompany these types of investments.

Interestingly, these MFIs think that external debt is cheaper. However, when you look more closely at the prices they are paying for external debt and the prices they are paying for domestic debt and you compare that to the prevailing treasury bill rate, you realize that it isn't always cheaper. They are often paying higher spreads on the foreign debt compared to the domestic debt. So you come to the conclusion that these MFIs don't understand what cheap money really means when it is fully hedged. The currency risk is clearly not being factored into their perception.

Another area covered by the survey was foreign exchange risk. The findings are useful for better understanding some of the challenges that MFIs face today. Only one quarter of MFIs with external debt have fully covered their risk (or think they have). Of those not hedging their risk, 20% of the respondents believed that it was too expensive to hedge, 20% indicated that their currency appeared to be stable, 20% felt that the risk could be absorbed in other ways, and 40% gave other reasons including the dollarization of their economy, the existence of a currency board, and that the monetary fund takes the risk. A final group of respondents had never considered hedging.

Is foreign exchange a problem? The key is to create DOMESTIC intermediaries. As balance sheets continue growing, foreign investment will also grow ($27 million in next 3-6 months). Investors are at risk in equity transactions and debt; borrowers at risk in debt. MFIs appear to not understand the risk.

Figure 11: Why MFIs Seek Foreign Investment (94 MFIs with no foreign loans)

Motivating Factor for Foreign Investment	% of Respondents Rating this Factor as “Extremely Important” or “Very Important”
Lower interest rate	73%
Technical assistance provided with foreign capital	72%
Easier or lower amount of collateral	68%
Investor’s willingness to negotiate	63%
Speed of disbursement	62%
Tenor (length of loan)	60%
Better choice of products	60%
Ability to attract other lenders and investors	57%
Prestige	34%

Figure 12: Why MFIs Seek Foreign Investment (66 MFIs with domestic and foreign loans)

Motivating Factor for Foreign Investment	% of Respondents Rating this Factor as “Extremely Important” or “Very Important”
Lower interest rate	85%
Easier or lower amount of collateral	80%

Tenor (length of loan)	70%
[Investor's] Willingness to negotiate	65%
Speed of disbursement	59%
Ability to attract other lenders and investors	50%
Prestige	36%
Better choice of products	41%
Technical assistance provided with foreign capital	33%

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Investment funds know that they cannot hedge all currencies into dollars because they cannot handle the risk. So they are passing it on to MFIs who are even less equipped to take that risk. It is a question for both debt and equity investors of appropriateness. When an investor is lending, it is the problem of the MFI unless the problem gets so great that they default. On the equity side it is the problem of the equity investor because they are the ones getting their dividends and capital back and they have to worry about how they are going to translate those gains or losses when the MFIs transmit the money to them.

We really need to think about this very separately between debt, where the problem rests with the microfinance institution but the investor has a responsibility to ensure that its client fully understands the risk of the product that it is selling, and on the equity side, where it is the equity investor's problem if whatever money they get in local currency is a lot smaller by the time it gets remitted back home.

When considering foreign exchange issues and risk mitigation, it is important to look at the appropriateness of product. Investors must not sell products to clients who don't understand the risks. There are alternative structures, including back to back loans, an arrangement in which two companies in different countries borrow each other's currency for a given period of time, in order reduce foreign exchange risk for both of them. Each institution needs to be aware of its own internal and external limits on exposure. The financial community can help with awareness raising through exposure, education and establishing higher standards. Rating agencies, bank supervision and due diligence can also help to inform MFIs of the options available and how to use the various instruments. Reporting by the MIX Market can also serve to inform both the supply and demand side of the financing options. Finally, donor funding of treasury management training can help move MFIs through some of the more complex choices available for funding.

This explosion of the microfinance world is happening in all aspects of our business – in delivery technologies, in institutional forms and bank partnerships, in methodologies and in private funding sources. We suddenly find ourselves urgently needing to learn and embrace and recruit expertise far broader, more complex and more sophisticated than before if we are to do justice to the opportunities and to the clients who await us.

INTERNATIONAL PERSPECTIVES ON MICROFINANCE

Bob Annibale, Director, Global Microfinance Division

Citigroup, the world's largest bank, has found important opportunities through microfinance, reaching a new group of customers that can have an enviable credit record and can prove profitable. Being able to reach an acceptable level of scale is a challenge, and finding the right structures to enable such a giant to give a wider range of people financial access and choice is essential. A key aspect of this challenge is where the microfinance unit is situated in the structure of the bank. At Citigroup, global director of microfinance Robert Annibale, an international banker with more than 20 years of experience, reports directly to the head of global consumer banking, not to a charity subsidiary. The business linkage is critical. Citigroup is interested in developing scale and building partnerships with MFIs and the investment community.

The Citigroup/Banamex led bond issue with Compartamos illustrates the role of guarantees in terms of credit enhancement but also demonstrates how large institutions can help MFIs to access local markets to leverage their funds. This is one example of MFIs successfully reaching out to more commercial sources of funding and away from donor funds.

In various previous roles and most recently as Senior Treasury Risk Officer, Bob Annibale has looked at Citibank's interest rates, exchange rates and asset liability risks of all of the bank's balance sheets around the world. He is familiar with these issues and the temptations of different ways of funding and the arguments always being given by businesses why banks should not put limits on how they fund MFIs. However, there do need to be limits to these activities.

Demand for Local Currency

It is important for the MFIs to leverage and speak to investors about what they are looking for - local currency support, not foreign currency support. An external investor has the strength of their credit and all that you want really is their credit. An MFI is not looking for the cash necessarily, because the cash exists in the MFI's domestic market. The banking systems are full of local money and these banks, like the case in Mexico, hold many treasury bills, more than MFIs need. But what MFIs are really looking for is strong credit. So if an institution like the IFC or OPIC or ACCION is willing to extend a guarantee for credit to an MFI, they can then get the funding from the local market.

Building Relationships with Banks

This kind of scenario can also stimulate relationships with domestic banks. Even with a guarantee, a bank must conduct due diligence on an MFI. The MFI has to have a relationship with a bank, open accounts with the bank. This kind of relationship has come about in the case of Citibank out of these types of guarantee arrangements. The donor was in many ways introducing a relationship between Citibank and the MFI, even in the case of only giving a partial guarantee. This is an important aspect of funding that needs to be emphasized. If an MFI requests funding from Citibank, it should ask for it in local currency, or ask for the guarantee instead.

What are the Risks?

It is understood that the equity investor takes on their own risks. They invest in MFIs and they have exposure on the MFI's balance sheet.

In terms of currency risk, half of Citibank's equity is outside the United States in 70 local currencies. Funds need to consider the FX risks and ask themselves if hedging is appropriate.

They also need to consider earnings risks as well as capital risks. On the debt side, building local currency balance sheets is easier than lending in US$ or in Euros. There are cross-border and country risks, but generally the commercial risk is primary, as there is no FX risk.

Donors have bilateral agreements with governments which translate to a low country risk. Cross-country funding risks include foreign exchange risks and interest rate risks. Prudential funding issue is the structural mis-match on the balance sheet as local assets increase along with the debt in foreign currency. Rating agencies will begin to highlight this issue. It is important to put a limit on the amount funded by foreign currency. Keeping this around 15-20% as in the case of Compartamos, is a good recommendation. However, the foreign exchange risk itself can be lowered to zero through hedging. Local currency assets are often mispriced based on the perceived lower cost of funds. This perception is understated, even in a dollarized economy, since local dollars have a different value than US dollars.

The Stress Test

It is important to build an asset-liability plan and stress both sides of the balance sheet. For example, ask "What if the currency devalues by x%? What if a major donor disappears? Other mechanisms should be considered, including guarantees from OPIC, the IFC, the Bridge Fund, etc. Remember that you want their credit, not their cash, which can be accessed locally.

Hedging

Many Latin American markets have foreign currency trading markets, including forward contracts and predetermined rates. Some options include buying currency bonds and back to back transactions. Deposits in local banks are okay as collateral guarantees against a local line of credit. If there is no market locally for protection, the MFI will need to discuss this with the central bank. One needs to be careful when doing an evaluation. <u>Clients should not be put at risk.</u> (An example of hedging or currency swaps[2] would be having pesos at 15%, US$ at 5% and local US$ at 12%. One effectively loses that spread with hedging. The interest rate differential translates into foreign exchange differentials.)

Finally, there are ways to increase knowledge of risk exposure such as through the use of rating agencies, bank supervision, due diligence, MIX reporting and donor funding of treasury management training

Discussion:

Back to back transactions, use of local currency, guarantees, and deposits are some of the different ways institutions are addressing this challenge of funding. It is clear that the leading MFIs have found solutions. Many of the most benign donor funds will dry up and close down. The funds tied to networks are more likely to know microfinance and be able to provide technical assistance as well. The worst situation is if lower quality institutions are investing and supporting MFIs too early in their development. This particular issue is relevant because of an increased level of involvement by socially responsible investors who know very little about microfinance but are very much persuaded about being involved in microfinance. So this creates another layer of threat to sustainable microfinance. As these funds evolve, there may not necessarily be a similar evolution of the depth of knowledge about microfinance.

[2] A swap is an exchange of streams of payments over time according to specified terms. The most common type is an interest rate swap, in which one party agrees to pay a fixed interest rate in return for receiving a adjustable rate from another party. The difference equals inflation and the market value.

It is not possible to force these funds to lend in local currency. The challenge is to work more on the demand side. It is imperative that MFIs (the demand side) understand the risks and force investors to provide local currency instruments or nothing. If this is the case, then investors are pushed to respond.

Building Domestic Balance Sheets

The key is to build domestic balance sheet on both sides (debt and equity). One must always consider the following points:

1. Evaluate the appropriateness of the products – investors can't sell to clients who don't understand the risks
2. Consider alternative structures
3. Set internal limits for external exposure
4. Be aware of the types of exposure being taken by the institution. Be educated on the meaning of this exposure

Discussion of MicroFinance Network Members' Experience with Accessing Capital:

FFP PRODEM: In the experience of PRODEM, portions that are taken from deposits in Bolivianos - in local currency - those are all placed in local currency in terms of loans. PRODEM tries not to have a mismatch in terms of currencies local versus foreign currencies. The deposits are in dollars and these fund the dollar denominated loan portfolio. Here the risk is devaluation. If that were to happen, the country would collapse and everyone else as well. For PRODEM and other regulated financial institutions in Bolivia, the ability to take deposits is key. PRODEM does have some debt and equity from foreign exchange, but Bolivia is a highly dollarized economy and has a $ denominated portfolio.

Padme: Padme has not yet borrowed a significant amount from the international market. They are looking for donors who are willing to repay the hard currency. Conversations have begun with local banks to see if they have corresponding banks in other countries in order to assist in paying for those correspondent banks. However, the interest rate being offered is quite high and Padme is not in an area where there is a lot of flexibility in terms of financial monetary terms. There is high rigidity in the CFA zone. So, to date, Padme has only been able to acquire funds in Euro that are disbursed in local currency. Padme is looking for a foreign exchange guarantee, but this is very expensive.

XacBank: XacBank borrows in US$ and then cashes the deposit in other commercial banks with little or no profit. Sometimes they make a loss. Then against that deposit in commercial banks, they borrow in local currency, leveraging that 1 – 1.5 times. At this phase of the bank's development, they are now looking for new US loan products like car leasing and the foreign settlement business.

PRIDE Tanzania: In the case of PRIDE, they do not have really experience in this area. The closest that PRDIE Tanzania has come to borrowing from the outside was to explore the opportunity with a bank. The offer given was characterized by a very high interest rate. When it came to the possibility of hedging, using back to back transactions, it was not very promising because it looked like the demand for foreign currency by local banks was not that high. Most banks said that they would prefer to hedge local currency to local currency rather than foreign currency to local currency. Otherwise, PRIDE is also looking at the possibility of leveraging the deposits that are pledged as collateral. It was really hard for the banks to understand the concept. But in terms of the financial market in Tanzania, which is young, limited in scope, and has very few instruments that can be traded, this kind of experience experienced in other developed markets is very new to Tanzania. There is a possibility of attracting investors once PRIDE Tanzania transforms. However, there is currently, only one bank that indicated interest in later investing. Maybe starting by giving a convertible loan that could later be turned into equity. These are just possibilities because right now the Tanzanian market is very limited.

K-Rep – In K-Rep, foreign investment is in the form of equity and not debt. K-Rep is a commercial bank, fully regulated by the central bank of Kenya and, because of this, is able to take deposits from the public. This is how K-Rep primarily finances their activities. Where they come short, they borrow from the central bank or from other local banks, but the interest rates are normally quite high.

Equity Building Society: The experience from other institutions in Kenya that have tried to borrow funds is that they have had charges on foreign exchange. There is also the notion that borrowed money is free money so there is an experience of not paying back. Equity Building Society (EBS) has received interest from AfriCap in making an investment. Otherwise, EBS does not have any foreign exposure right now, they are very liquid.

Centenary Rural Development Bank (CERUDEB): CERUDEB is not really borrowing money from anyone. They have excess funds and want to establish a partnership with other MFIs to provide capital for them to lend to their own customers. The bank has been looking for some kind of equity ownership with some potential investors. Here CERUDEB is concerned about the compatibility of growth between different types of institutions. On one hand there are MFIs which are more driven by their social mission. Centenary thinks more about our social role in terms of poverty alleviation. Profit is mainly to sustain the operations. There needs to be a second group of potential investors (individual or institutional investors) who are also a little bit motivated by a social role, but their main priority is a return on the investment. CERUDEB is working to try to bring the two groups together to the same table.

BRI: BRI right now has a small exposure and is using an interest rate swap to minimize the risk further.

TSP: One possibility is to convert grants into equity shares. TSPI has a policy to avoid foreign exchange risk. They do have interest, however, in a guarantee type arrangement.

BRAC: For the last two years, BRAC has tried to take on foreign investment, but the problem in Bangladesh is that it can fluctuate 5-10%. So it is impossible to get the foreign investment. Now, BRAC is looking toward Citigroup and IFC for funds. In 2005, BRAC will need $14 million. In the case of BRAC and ASA, NGOs in Bangladesh do not have any foreign currency debt.

Al Amana: Al Amana has back to back experience with Euros. They paid transaction costs of 1.5%, 2% on the risk and 2% of profit.

Banco del Desarrollo: Banco del Desarrollo has a two to four times leverage on a guarantee. They can also hedge the interest rate risk but must be careful of the structural mismatch.

FINCA Microcredit Company: FINCA in Kyrgyzstan does not have too many options in terms of a $ guarantee for local lines of credit. The main concern is that those who pass the risk on to their clients via US$ loans or loans pegged to the US$. In their case, the IFC could only invest in registered institutions. The way that this was worked out was to have the IFC invest 40%, FINCA International 60%. The debt is in US$ and is set up as a “profit share” where IFC has preferred shares.

Constanta does not carry any debt at this time.

Compartamos has forward contracts. It is important to consider that investments from socially responsible investors may drive out local investors.

Prizma has fixed currency foreign exchange with Euros, so there is no risk.

ABA has a guarantee against the collapse of the currency.

Uganda Microfinance Union does not have any foreign debt. Some MFIs borrow in US$ and then deposit them in a local bank and make loans “check to check”

SESSION FOUR: OPEN DISCUSSION ON PRO-CONSUMER POLICIES OPEN

PART ONE: DISCUSSION BY MFN WORKING GROUP ON PRO-CONSUMER POLICIES AND PRESENTATION OF DRAFT MFN PRO-CONSUMER PLEDGE

Facilitators: Beth Rhyne, ACCION and Kelly Hattel, MFN

Created at the end of 2003, the goal of the MicroFinance Network Working Group on Pro-Consumer Policies has been to raise the level of awareness of consumer protection and to increase the transparency among Network members on consumer protection issues. The Working Group seeks to establish a dialogue among members so that as a Network, we can identify ways to deal with the issue before a potential regulatory response is required. As competition in microfinance increases, the need to create a structure for proactively and constructively addressing ways to protect consumers becomes more important.

In this session, Working Group members discussed the MFN pledge, its significance to the MicroFinance Network and our efforts to develop a pro-active, pro-consumer policy that we can stand behind. Members also discussed ways in which to ensure the application of the pledge among MFN members.

The second part of this session looked at how the pledge fits into the International Year of Microcredit and its work to raise the level of knowledge and interest in microfinance through activities around the world throughout the year.

MicroFinance Network Pro-Consumer Policy

Background:

- Goal to raise the level of awareness of consumer protection and to increase the transparency among Network members on consumer protection issues.
- Working Group (established after MFN conference in 2003) seeks to establish a dialogue among members so that as a Network, we can identify ways to deal with the relevant issues before a regulatory response comes about.
- With the support of the SEEP Network Consumer Protection Working Group and ACCION International, the MicroFinance Network will adopt a pro-consumer pledge and will commit to taking action in response to the pledge.

By adopting this pledge, the members of the Microfinance Network agree to do the following:

- To apply these principles in their own organizations.

- To promote the widespread application of these principles among microfinance institutions in their countries.

- To engage with regulatory authorities in their countries where needed to promote effective yet non-burdensome policies or rules.
- To raise awareness in the global microfinance industry about the importance of pro-consumer principles

Principles

- *Quality of Service*.
- *Transparent Pricing*.
- *Fair Pricing*.
- *Avoiding Overindebtedness*.
- *Appropriate Debt Collection Practices*.
- *Privacy of Customer Information*.
- *Ethical Behavior of Staff.*
- *Feedback Mechanisms.*
- *Integrating Pro-Consumer Policies into Operations.*

Microfinance Network: Pro-Consumer Pledge
November 10, 2004

Preamble

Microfinance is a fundamentally pro-consumer activity. Microfinance institutions seek to create social benefits by providing financial services to low income and previously excluded segments of the population in the countries in which they operate. As the microfinance industry becomes more complex and more closely integrated into mainstream financial systems, it is increasingly important to define pro-consumer practices, in order to ensure that services are provided in a manner that benefits customers. Financial services, like many powerful tools, can provide tremendous benefit when applied wisely, but if applied in an unscrupulous manner, they can cause serious damage to customers and their families.

The Microfinance Network, a global network of leading microfinance institutions, has come together to adopt this pro-consumer pledge. The pledge concisely sets out the principles of pro-consumer microfinance. It defines principles to ensure that financial services benefit customers while also ensuring that the legitimate needs of microfinance institutions are met, in order that microfinance institutions can continue providing services over time.

By adopting this pledge, the members of the Microfinance Network agree to do the following:

- To apply these principles in their own organizations.
- To promote the widespread application of these principles among microfinance institutions in their countries.
- To engage with regulatory authorities in their countries where needed to promote effective yet non-burdensome policies or rules.
- To raise awareness in the global microfinance industry about the importance of pro-consumer principles.

Principles

1. *Quality of Service*. MFN members will treat every customer with dignity and respect. Members will provide services in as convenient and timely matter as possible.
2. *Transparent Pricing*. MFN members will give clients complete and understandable information about the true costs they are paying for loans and transaction services and how much they are receiving for savings.
3. *Fair Pricing*. MFN members will price their services at fair rates. Their rates will not provide excessive profits, but will be sufficient to ensure that the business can survive and grow to reach more people.
4. *Avoiding Overindebtedness*. In order to avoid customer overindebtedness, MFN members will not lend any customer more than the customer can afford to repay.

5. *Appropriate Debt Collection Practices*. While debt collection practices must include energetic pursuit of defaulters, MFN members will treat customers with dignity and will not deprive customers of their basic survival capacity as a result of loan repayment.
6. *Privacy of Customer Information*. MFN members will protect the private information of customers from reaching others who are not legally authorized to see it.
7. *Ethical Behavior of Staff*. MFN members will hold their employees to a high standard with respect to conflicts of interest and unethical behavior, especially behavior that harms customers (such as taking kickbacks). Employees who breach these standards will be sanctioned.
8. *Feedback Mechanisms*. MFN members will provide formal channels of communication with customers through which customers can give feedback on service quality. These channels will include mechanisms for responding to specific customers regarding their personal complaints.
9. *Integrating Pro-Consumer Policies into Operations*. MFN members will make pro-consumer orientation a hallmark of the way they conduct business, though efforts such as staff training and incentives, financial education for customers, customer satisfaction programs and the like.

Regulation and Enforcement

The Network acknowledges that although in an ideal world, all microfinance institutions would adhere to these principles voluntarily, reality often differs. Microfinance institutions should not be put at a competitive disadvantage by adhering to these principles when less conscientious organizations ignore them. In such cases, collective action, either by the industry or by regulatory authorities, may be required to enforce application of these principles.

Discussion:

What is fair pricing? What is overindebtedness?

Jason Meikle commented that it would be necessary to change the wording of the pledge at each institution in order to make it more understandable to the clients. According to Foaud Abdelmoumni, there will also be a need to have some way for members to agree on the basic ethics of the pledge as the local adaptations of the pledge may vary. Beth Rhyne reiterated that the goal of developing this specific pledge was to use language as clear as possible that would have teeth and something solid underneath the basic premise. Each organization will need to adapt the pledge locally. BancoSol has developed a customer version already and the board of Prizma has accepted a pro-consumer pledge for the MFI.

What about sanctions?

This is a key question that will have to be dealt with on an honor system for now. The MicroFinance Network will have to be proactive and exercise compliance voluntarily. We could eventually apply a “stamp of approval” within the MFN or as part of a larger industry initiative (SEEP Network, ACCION, FINCA, Freedom from Hunger, Opportunity International). The SEEP Network is working on a guide for developing these types of policies and the MFN will be able to contribute to and benefit from such a guide.

PART TWO: DISCUSSION OF INTERNATIONAL YEAR OF MICROCREDIT AND MFN'S ROLE IN THE YEAR'S ACTIVITIES BEING COORDINATED BY THE UNITED NATIONS

Commentators: Aminul Alam, BRAC and Fouad Abdelmoumni - Year of Microcredit Advisory Group Members and MFN Members

Both Fouad Abdelmoumni of Association Al Amana and Fazle Abed of BRAC currently serve on the Year of Microcredit Advisory Group. Both commented on ways that the action plan developed by the Pro-consumer Working Group could be tied into events during the International Year of Microcredit in order to highlight the pledge.

MFN members were encouraged to work with their local UN Representative and find ways to participate and contribute to increasing consumer awareness about microfinance and pro-consumer issues.

SESSION FIVE: INNOVATIONS IN RURAL FINANCE

Moderator: Juan Buchenau
Presentations:
- PRODEM FFP (Bolivia) - Increasing rural savings for the poor
- XAC Bank (Mongolia) - Innovative ways to reach rural areas – Franchising

Background:

At a major international conference held last year in Washington, DC titled "Paving the Way Forward for Rural Finance", key ideas were laid out for addressing liquidity, risk and savings constraints to economic growth in the agricultural sector and rural areas. The idea was that reducing the constraints placed on rural finance could help reform the rural economy and make room for creating sustainable rural financial markets that can effectively service agricultural enterprises and rural households.

The five strategic areas identified were:

1. Mitigating Risk
2. Improving Information Access and Management
3. Diversifying Products and Services
4. Strengthening the Legal Environment
5. Enhancing Value-chain Financing

This session looked at two examples of MFIs who have found ways to address some of these strategic areas. Discussion focused on how these examples can be replicated.

What is the role of MFIs in meeting the challenge to serve rural markets?
How can MFIs work with existing providers in a way that emphasizes comparative advantages?

Introduction:
When talking about rural finance, there are several issues to consider. It is often thought that it is more difficult to provide financial services in rural areas than in urban areas. The main issues that affect rural finance are the geographic diversity low populations density, high concentration of income in a few economic sources and the seasonality of the economic cycles, particularly for agriculture. In addition there is frequently deficient information about clients who often have a lower level of education than in urban areas. All these factors translate into higher costs for the institution when they provide financial services in rural areas.

There are also very specific risks related to agriculture including price risks and production risks. One factor that makes the provision of financial services in rural areas even more complicated is the covariance of the risks. That means that, if for instance you have a climatic catastrophe such as a drought, this will affect a large number of clients and will have a much larger effect on the institution itself than would individual situations like illness, etc…

On the other side, there is often deficient collateral as people in rural areas have less ability to offer collateral than people in urban areas. This translates into higher risk costs to providing financial services to rural areas. These complications increase in areas that are more sparsely populated. It is possible to distinguish in rural areas very different situations. These might be areas of high production, high potential with a high population density. However, they might also be sparsely populated areas, where the costs of dispersion are higher, the populations are poorer and they have fewer options to generate income through different sources. This is something to keep in mind. Rural areas are not the same in every country.

Figure 13: Characteristics of Supplying Financial Services and Recovering Loans in Rural Areas

- Geographic dispersion
- Seasonality
- Deficient information about clients / low educational level

Tendency to higher administrative costs

- Risks:
  - Specific credit risk (Covariance)
  - Political risks
- Deficient collateral

Tendency to higher risk costs

Successful institutions in rural areas see an attractive potential in serving rural clients and make a long-term commitment to this market. They have the vision that they will be doing business in these markets for a long time. They tailor their services to the specific situation of the often heterogeneous rural areas. They provide appropriate financial products such as tailoring credit to the seasonality of the production and income of clients. They also provide services through sustainable and mostly small outlets that can then have a wider outreach . These small units may be branches, mini-branches, mobile units, use of ATMs, partnerships with local enterprises / organizations, etc… They also organize work processes to cope with geographic dispersion and seasonality. This is very important, as these are the main factors that drive up the cost. Successful institutions also use technological innovations (Smart cards, communication technologies, etc.) Importantly, they monitor closely costs and results. This is a fundamental aspect of successfully working in rural areas because costs can explode very easily if they are not being monitored.

In the case of both Bolivia and Mongolia, the rural areas are sparsely populated.

RURAL FINANCE IN BOLIVIA: THE FFP PRODEM S.A. EXPERIENCE

Presented by Eduardo Bazoberry

When FFP PRODEM decided to go into rural areas they had a strategy of building on every business around small towns and this was reflected in where they built their offices as well. PRODEM has been working in rural areas offering financial services for the past 16 years. Once PRODEM became regulated they had to make a decision. It was always in the board's mind to close the rural areas because they were not very profitable and it is not easy to reach scale in these areas. If an institution only works in lending, there aren't as many options in rural areas. It is better to go with a variety of products.

As of November 2004, PRODEM had the largest branch network in Bolivia with 76 branches, 43 ATMs, and overall 66% of activity in rural areas. These branches are really a bridge between the urban and rural economies. Since 1992, PRODEM has been developing technology to determine how big the branch should be, what will be the geographic coverage of each branch, the populations served (vehicles, motorcycles) and what kinds of employees. Over this period, the bank built up to a portfolio of $76 million and 49,000 clients. PRODEM has US$ 12 million in deposits with more than 106,000 clients, over 6,000 clients using US$ 43 million in time deposits and finally US$ 7.7 million in shareholder's equity.

Rural microfinance now represents about US$ 29 million or 39% of the total loan portfolio with 19,000 clients, as shown in figures 12 and 13. It is worth noting that PRODEM has been more specialized in rural areas and has only begun to focus seriously on urban areas in the last two and a half years. PRODEM was able to develop these rural operations in areas of sparse population, limited roads, electricity and communication.

Figure 14: PRODEM Loan Portfolio in USD

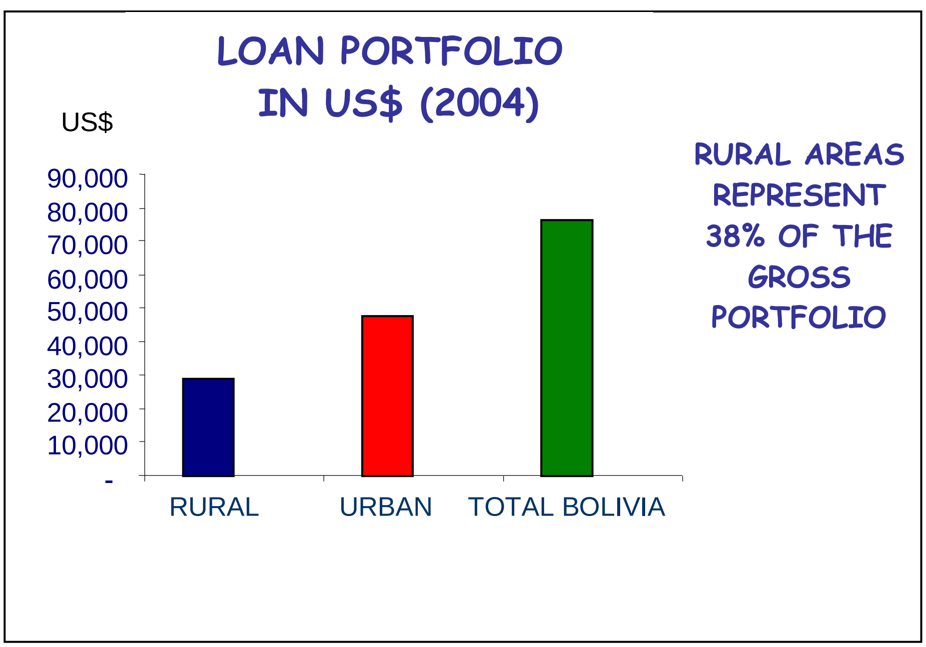
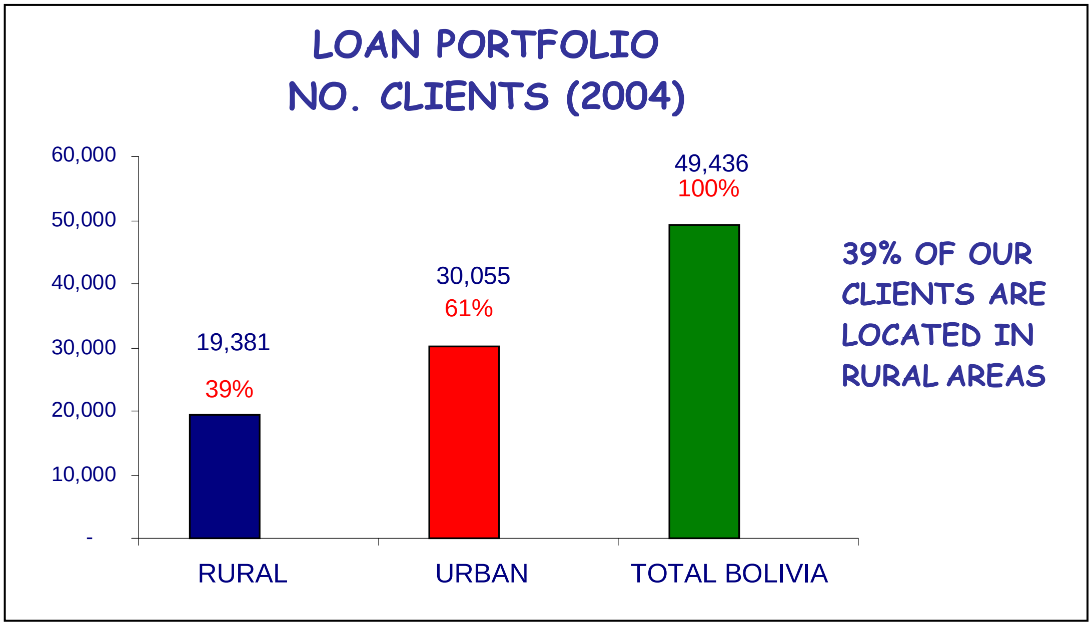
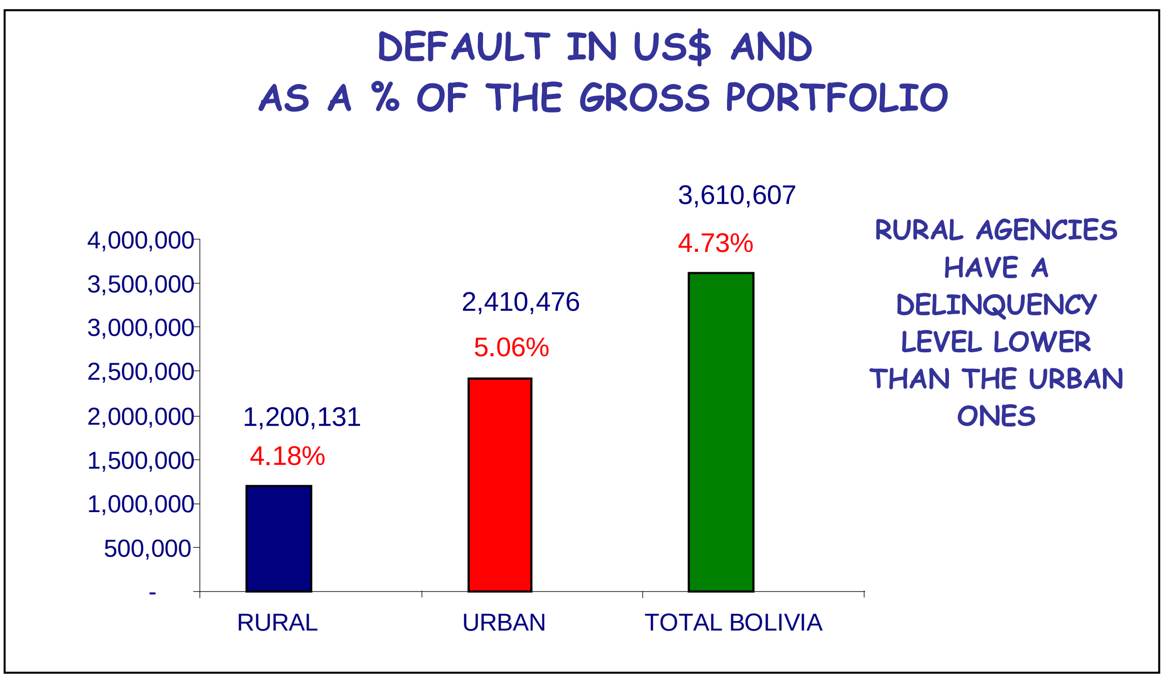


Figure 15: PRODEM Loan Portfolio - Number of Clients



It is important to point out that the default rate is lower in rural areas than in urban areas. It might be because of less competition in rural areas or it might be the simple fact that these people need access to credit and are serious about repaying on time. As to the stratification of loan size, most loans are between $1 – 7,000 (about 50% of total loans). The average amount in rural areas is $1,500. Some are seasonal loans or other activities.

Figure 16: PRODEM Default Rate - Rural Vs. Urban



Savings Products

PRODEM has $5 million in accounts in rural areas. This has been achieved in three years with a low average savings amount, keeping in mind that PRODEM does not work on-line so the growth has been somewhat slow. Despite this, rural areas generate an important flow of savings for PRODEM. In order to grow the savings side more significantly, PRODEM will need to be on-line, With 32,000 clients in rural areas with savings accounts and 74,000 in the cities.

Time deposits represent about $9 million. 95% of the offices are profitable, covering their own costs, the regional costs, the national costs, and financial costs. The ones that are not covering these costs opened less than a year ago. The number of time deposits equals 2,600, with 42% of these being in rural areas. The business of national transfers is one that brings good income to the company. In the case of PRODEM they have transferred about $11 million from January to Sept. 2004, representing about 19,000 transfers per month.

Figure 17: PRODEM Savings Accounts – US$

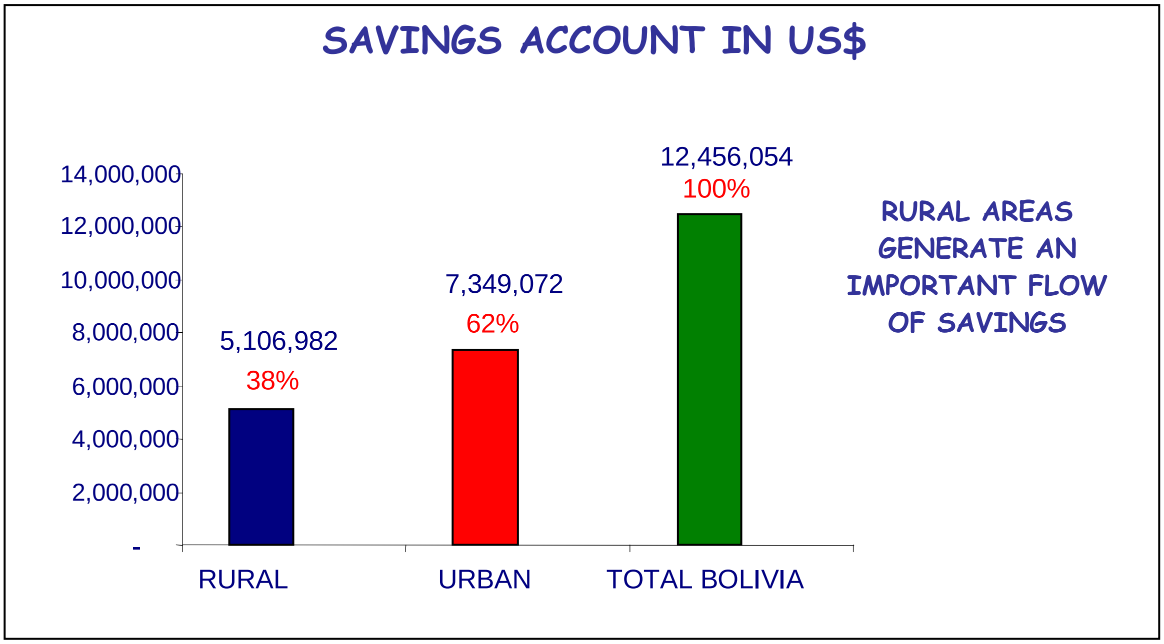
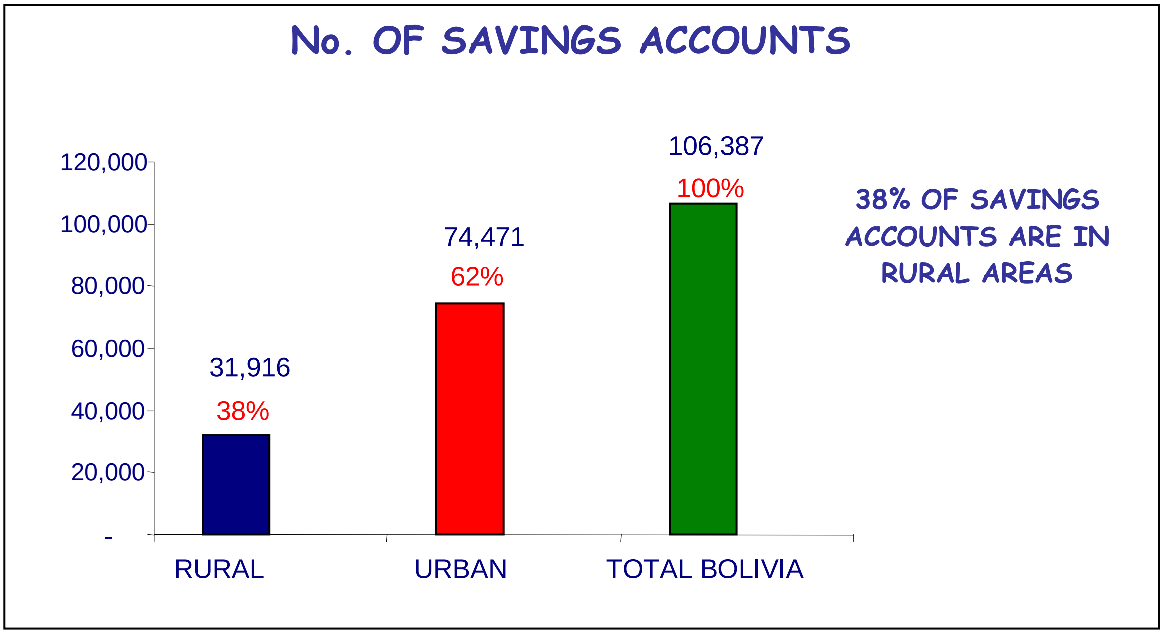


Figure 18: PRODEM Savings Accounts – Number of Clients



PRODEM offers savings accounts with Smart cards using fingerprints. This was the only option at the time as it was too expensive to pay the connectivity costs in 2000/2001. Smart cards are a good instrument that allow people to move around with their cards and always have the outstanding balance on the chip. PRODEM offers time deposits. PRODEM also has Smart Automatic Teller Machines (ATMs). Initially they approached the major vendors like IBM etc.., but all were too expensive so PRODEM decided to build their own machines. They had to be easy to use, interactive, that did not require people to remember 4-digit numbers. Because most of the clients do not know how to read and write , the machines can use their finger print. So these products were really ideal for the type of clientele PRODEM serves. Introduction of Smart cards with finger prints in rural areas allowed FFP PRODEM to revolutionize savings in rural areas giving security, versatility and an ease of operation.

Why develop a savings technology? There are large sectors of the population not served by traditional banking that have limited access to any financial services. The lack of communication infrastructure and the high costs of connectivity and the lack of identification instruments are a deterrent to most banks. However, PRODEM has a strong vision of integrating the Bolivian majorities into the economic system by providing access to financial services. With this in mind, PRODEM has developed a network to provide these services.

Yet, there remain many challenges to mobilizing savings. The high level of illiteracy in rural areas makes it difficult for MFIs to reach these clients. The high cost of communications prevents the installation of an on-line network. There is always a concern about systems security transferring money from urban areas to rural areas (whether on-line or off-line). It is difficult to get identification cards for rural clients. There is a prevalent idea that no internal savings are generated in rural areas.

To respond to these challenges, PRODEM developed the Smart Automatic Teller Machine (ATM) and the Autonomous Point of Sale (APS) machine. These user-friendly machines have helped massify the savings network in rural Bolivia. There are currently 75,000 ATM card holders and about 18,000 in rural areas using 43 machines.

The APS will be set up for the transportation system. Eighty percent of Bolivians take buses as their main form of transportation. These units will be placed at strategic locations such as gas stations along main roads.

Specialized Loan Products

Another way that PRODEM has responded to the rural challenge has been to develop loan products that meet the demands of both urban and rural clients. In the loan product portfolio, PRODEM offers micro credit in amounts from $50 TO 7,000, flash credit loans with amounts from US$ 50 TO US$ 300. These loans are normally disbursed in about four hours with few requirements and are targeted to women entrepreneurs in the market. Next is the micro credit line. The agro credit has a lot to do with how the clients save and what kind of material they have, such as if they use irrigation or not. It allows the clients to have the amount of money they need immediately at the right time. When the Rural Bank of Bolivia dispersed agro loans, clients could never get their money at the right time. By the time they received the cash, it would already be in the middle of the rainy season. Seasonal credit works just for certain periods of time, such as festivities or national holidays when people need more money. These are all short-term loans of 2-4 month loans. Clients can get these loans with personal guarantees, pre-mortgage, custody of documents, time deposits savings accounts as collateral for their loans. Small credit loans go from $7,000 TO $40.000. These are traditional lines of credit and mid-term credit. The clients that use these lines of credit normally have vehicles and are at a different level in terms of their agricultural production. A mortgage is a normal guarantee for these loans.

Of the medium credit loans, with amounts from $41.000 TO $200,000, there are only about 125 clients with this range of loan throughout the entire PRODEM network. But this type of loan is necessary because in some of the towns, there are a range of client needs. In these rural areas it does not make sense to turn away the more wealthy clients as well. In each mid-size town, one will find one or two clients who will want this size of loan, depending if they already have a credit history with other banks. Traditional credit and mid-term credit lines are used for operational expenses and investment. These loans are only guaranteed through a mortgage.

All of these loan products are well diversified in order to meet the different needs of the clients in both urban and rural areas. Other services offered include money transfers, international transfers, life insurance, money exchange, service to wage payment for municipalities, and cash advances. PRODEM also has good income from collecting local taxes and working with the police system throughout the country for issuing identification cards and driver licenses.

Conclusion

There are many difficulties in reaching rural areas, with the great distances and high communication costs. It is not easy to get identification instruments in these areas, so PRODEM has a special arrangement to be able to open savings accounts in rural areas without a valid identification card (ID). An expired ID will be acceptable to open an account by the authorities. If PRODEM has a finger print, they are registered even with an expired card. In addition, once clients are registered, they do not need to bring in an ID again to the branches because finger prints are used to identify the client.

It is important to remember that credit services have relative importance. They do not add technology to production; they do not transform a farmer into an entrepreneur. Some MFIs are just in the business of giving out loans and this is not going to transform the situation of farmers.

There needs to be more cooperation between non-financial NGOs and regulated financial institutions. In Bolivia, there is a move to develop a new law of self-regulation. PRODEM would prefer to see many of the NGOs focus on areas that do not have anything to do with financial intermediation or lending. There are a lot of areas like commercialization, technology transfer and training small farmers in new areas. This is where NGOs should concentrate. There are already a number of financial service providers operating in these areas.

Introduction of technology in rural areas is possible. Rural areas can generate internal savings. This will increase greatly with an on-line system. But PRODEM has been able to do this even with an off-line system, covering about 70% of the portfolio with local savings. Important investments are needed to increase outreach. PRODEM has invested about $400,000 in VSAT antennas. Finally, loan and savings products need to be adapted to the productive cycle of the area.

INNOVATIVE WAYS TO REACH RURAL AREAS – FRANCHISING: THE EXPERIENCE OF XACBANK IN MONGOLIA

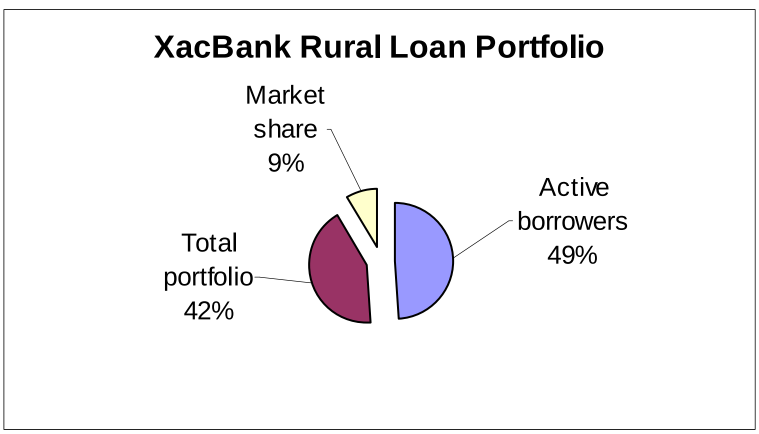
Presented by Soronzonbold Lhagvasuren, Director of the Branch Banking Division, XacBank

Background

The mission of XacBank is to first, contribute to the socio-economic development of the country by providing access to comprehensive financial services to all citizens and legal entities, including those who are normally excluded, e.g. low-income and remote rural households. Secondly, and equally important, XacBank seeks to maximize the value of shareholders' investment, while creating a profitable and sustainable financial institution

So, in order to fulfill an important part of its mission, XacBank provides financial services to rural areas.

Figure 19: XacBank Rural Loan Portfolio



XacBank's vision is to be a dynamic leader in serving the marginalized citizens of Mongolia, using the most innovative and transparent banking services possible. These services are to be supplied in a professional and sustainable manner. The Bank will use technology together with personalized customer service to grow its market share and support the development of micro and small business in Mongolia.

Figure 20: XacBank Loan Products, Services and Clientele

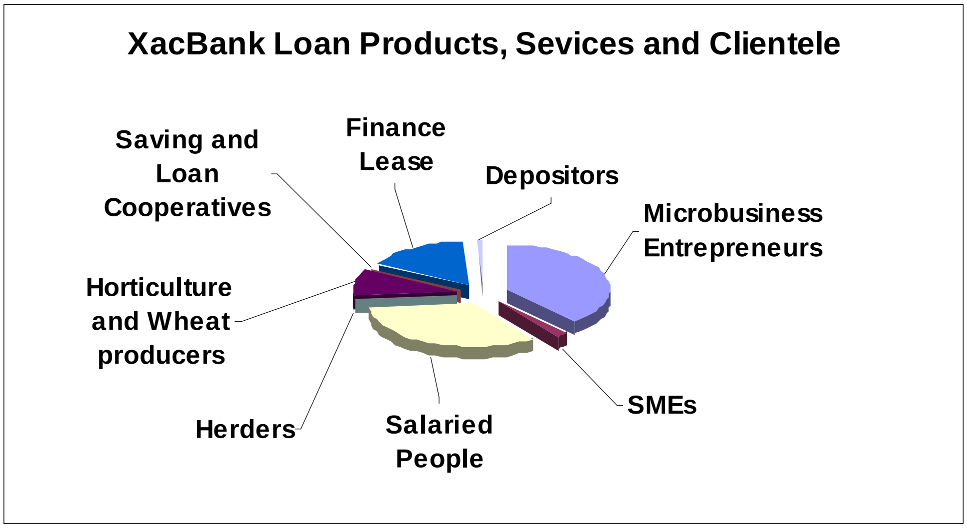
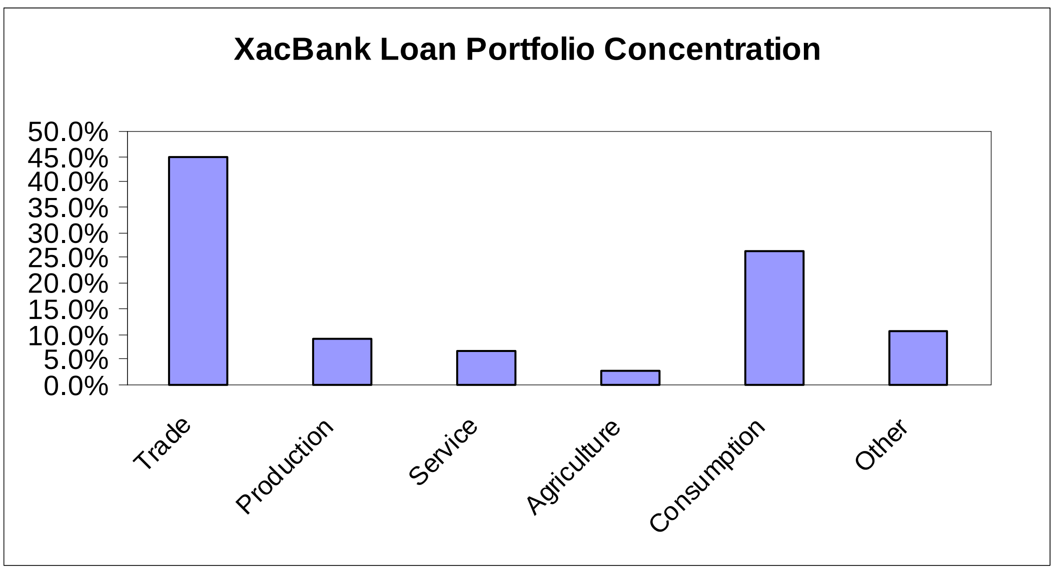


Figure 21: XacBank Loan Portfolio Concentration



XacBank began as the X.A.C. - Golden Fund for Development under the UNDP MicroStart-Mongolia project in September 1998. One year later, X.A.C. LLC was licensed as the first NBFI in Mongolia. Later in April 2000, the first NBFI engaged in SME lending, Goviin Ekhlel LLC, was established by Mercy Corps. In the fall of the same year merger discussions began between the two organizations, culminating in a merger agreement signed in October 2001. On December 27, 2001, XacBank received its banking license and began taking public deposits on February 2002. Finally, in April 2004, the bank was able to meet the MNT 4.0 billion minimum Paid-In Capital requirement.

XacBank currently has 34 branches and 450 employees, has received a 5-Diamond Profile of the Month Award for Transparency from the MIX Market and an "**A-**" from Planet Rating. XacBank has 3% of the total market share of banks in Mongolia. XacBank has worked in cooperation with Mercy Corps, IFAD, ADB, WB, USAID – CHF, LDS, Employment Generation Fund, ADRA.

Figure 22: XacBank at a Glance (as of August 2004)

Total assets	US$ 20.1 million
Loan in total assets	67 %
Deposit in total assets	54 %
Commercial debt	23 %
Equity	19 %
Profit	US$ 450,000
Number of Active	28,766
Portfolio Outstanding	US$ 15.1 million
Average Loan Balance	US$ 525
Disbursement per month:	4,335 loans per month; US$ 2.8 million per
Portfolio at Risk	2 % PAR > 1 day
Depositors	70,000 active savers
Productivity	239 loans per Credit
Deposits	$US 11 million
Average savings amount	$US 274

On the savings side, 22% of the total deposit portfolio is from Children's savings account and 74% of active depositors are children. 58% of active deposits are from rural areas. XacBank has about 8% of the savings market share.

New Products – Mobile Service and Franchise (TA) Service

XacBank has developed a new product called the "Development Guide" franchise product for credit and savings cooperatives. XacBank operates these franchises in soums (the smallest government unit in Mongolia with 21 provinces and 350 soums countrywide). Each soum is located 180 kilometers from the provincial center and serves around 600 households. According to XacBank's existing requirements, only one loan per household is allowed. That means the maximum number of borrowers is 600 per soum. There is only one other commercial bank serving the country, XacBank's main competitor. Infrastructure is bad, characterized by difficult communication, a lack of electricity and poor roads.

XacBank is now serving one-third of these soums (121) with the mobile service. XacBank goes to these soums once a month, dispersing loans and collecting payment and taking deposits. XacBank serves these soums by organizing client meetings with local people. From these people, XacBank will select a loan approval committee who will work for the bank. These three people will be the leaders of the community. Depending on the loan portfolio and the portfolio at risk, they will receive certain incentives. This mobile service has been operating now for about one and a half years and, based on the positive experience with this product, XacBank decided to introduce a franchise product for the savings and credit cooperatives. Eligible savings and credit cooperatives (up to one from each soum) are those located in soums where XacBank works. Members of the local approval committee members who are interested can also join the savings and credit cooperative. According to the Mongolian law, the savings and credit cooperative has to be at least 22 members. The loan size is related to each members' capital in the savings and credit cooperative. It is important that the cooperative not expand too fast.

As part of the service offered to these cooperatives, XacBank will transfer all existing products and services, policies and procedures and technologies to these cooperatives. The term of the contract is five years and XacBank receives quarterly fees in addition to a base fee from the cooperatives. Members of the cooperatives and the executive officers also receive a week-long training. XacBank has five volumes of manuals to back up the training covering the areas of savings, loans and money transfers. The cooperatives will use all the product names and technologies for their operations. XacBank is also planning to gradually introduce a management and information system. After the establishment of the cooperative, the bank will give wholesale loans to them. Now XacBank has about $1 million in the soum area with 4,000 clients and is working with three savings and credit cooperatives. In 2005 XacBank plans to have 100 franchise savings and credit cooperatives.

DISCUSSION ON INNOVATIONS IN RURAL FINANCE

ID Cards and Regulations

Carlos Labarthe from Compartamos wanted to know how PRODEM is dealing with regulation regarding the ID system. In Mexico, the banking regulations are tough and the idea of "know your client" in relation to money laundering and terrorism is a challenge. Will the ID system pose a problem in the future? How do you see this developing in the future – will the regulation become tougher? Eduardo Bazoberry responded that the average savings in each account is about $110. If someone comes and puts $1,000 or larger amounts each week, there is a tracking system to identify strange behavior in a savings account. It won't be a problem as PRODEM complies with all existing international anti-money laundering laws.

ATM and SATMs

Mr. Labarthe followed up with a question regarding the ATMs and SATMs, wanting to know where they are located. Are they in your own branches or in other strategic points in rural areas? How do you move money in rural areas? Do you collect the savings? How do you move from branch to branch - when you need liquidity or when you need to move them to your main offices?

Mr. Bazoberry explained that the ATM machines are placed close to the branches. There is always an ATM outside the branch so that when the branch is closed, people can still do their banking. These are convenient because PRODEM lacks on-line connectivity. Once the on-line connectivity is running by the end of the year, they can set up ATMs anywhere they want. Today they have to be next to the office. Transport of money is very expensive. This is the reason PRODEM developed a direct relation with the gas stations in town. They have a lot of cash and PRODEM needs to do a lot of treasury. PRODEM keeps about $1.7 million in vaults, and because of government regulations, they have to keep another US$7 million in banks. So PRODEM has been trying to lobby in order to keep reserves for savings in the branches. This will allow them to have a better treasury and lower the costs of transferring funds from one point to another. It is an issue that you learn to deal with over time, moving money around the country.

Mr. Nalyaali of UMU additionally wanted to understand if, when PRODEM establishes the APS, if they had to register with the central bank. How does PRODEM ensure the security of sensitive interferences with the devices? In addition, he wanted to know why the ATMs and SAPs are near the branch. In his experience, when he visited the PRODEM branches in Bolivia, the branches were not very busy and he wondered about the purpose for their location?

Mr. Bazoberry pointed out that once an MFI gets a license within Bolivia, they are allowed to do a number of things, including setting up ATM machines, credit card schemes. They just need to inform the superintendency of banks where the machines are located, how many there are and what are the controls and procedures in place to secure the savers money. The location of the machines is outside of the offices because these are located in the major town in the area. People move around easily to there. The smaller machines for the gas stations represent another access point. There are only ten right now, but there are plans for up to 50 in the next year.

Simon Kagugube of Centenary Rural Development Bank asked if the APS devices are used for payments and also for receipts. Can one can go to a gas station and also deposit money in an account? If that is correct, how does PRODEM manage the remittance by these station agents from the several locations where the APS machines are installed?

Mr. Bazoberry replied that these points of sales are located at gas stations along the roads, normally two-five kilometers away from the branch. They can give PRODEM clients cash up to a certain amount. They can pump gasoline and pay with the card. However, these also have to be close to a branch. When the whole system is on-line, these points of sale will not be on-line. But since PRODEM has placed a mechanism in the card chip, clients won't be able to withdraw in every gas station more than they have in their account. That is part of the technology. Eventually if PRODEM wanted to have the points of sales in an on-line system, they would have to invest $2,300 per gas station. Right now, the clients will be able to do three things, get cash, pump their gas and get their balance. Clients cannot deposit money in the point of sale. As for the remittances, they go through the general ledger process. They come to one point in the country and then they are disbursed to the branches. This is the way that it is set up in the back office system. There are controls on the payment process on remittances throughout all the branches, either internal remittances or remittances coming from abroad.

Savings Terms and Efficiency Levels

Aminul Alam from BRAC inquired about savings being weekly savings or monthly. How much does one loan cost? To disperse and realize a loan, what is the total cost per loan? Mr. Bazoberry replied that PRODEM has time deposits for 30 – 60 – 90 days. The longer a client has them, the longer they earn. For savings, everyone receives the same interest on savings. They can withdraw anytime they want, any amount. Except in rural areas, clients need to tell the bank 24 hours in advance so that they can have the cash on hand. It is not weekly or monthly, as clients are not forced to provide savings and they do not have to have savings to take out a loan. It is completely voluntary and there are no restrictions. Operational efficiency is about 17.5%;this is defined as administrative costs over average portfolio. However, in Bazoberry's opinion, this is not a good approach because it is assuming that all the institution does is portfolio. If one subtracts all the income from the fee based business, (because the teller is not only getting loan payments but also savings, paying bills, wire transfers), eventually, PRODEM is about 14.5% in terms of efficiency taking these things into account. Eventually PRODEM will reach 10%, but in rural areas, it is very hard to reach 10%. In urban areas it is easy to reach below 9%.

James Obama was interested in knowing, in terms of efficiency, how PRODEM manages efficiency levels with respect to these innovative initiatives in rural finance.

In response, Mr. Bazoberry said that with a national system that is both urban and rural, one cannot compare an MFI's efficiency with an MFI that just works in urban areas. It is a different scale. In the formula for efficiency there should be some adjustments. If an MFI is offering all these other services, these should be included in the formula to get a better comparison. PRODEM expects the rural branches to mature in about 18 months. Juan Buchenau mentioned that costs are 30–40% more expensive to run a rural branch compared to an urban branch. To set up these operations, an MFI needs to reach scale or has to come up with a franchise model such as the example of XacBank. However, then one has to worry about quality and how to maintain standards across the network. Efficiency is very difficult.

Smart card and Finger Print Technology

Mr. Alam followed up with a question regarding the smart card and the finger print technology and how it works in more detail. Bazoberry explained that regarding smart cards, when a client comes into an office, it takes about three minutes to register the client. Once the teller has encrypted the finger print, the information of the client that goes to five places in the country where they print the cards. It comes back to the branch 48 hours later. So it is all automatized and is done in five central areas of the country. Branch offices don't have the ability to actually print the cards.

As for pocket PCs, PRODEM has some priorities before doing this. To have a machine worth $400 processing a loan worth $50, is not really worthwhile. However, in addition to loan delivery, PRODEM could load the history of all 400 clients (repayment rates, loan products used) seen by a loan officer into the system it might be more cost effective. Right now it is not the best option. However, for village banking it is a good product.

Flash Loans

Tamar Lebanize of Constanta wanted to know what kind of analysis is done in four hours for the flash loans? Are they given only to existing clients? What are the requirements?

Mr. Bazoberry stated that PRODEM looks at how much equity the clients have in their business, how much inventory they turn over and their ID number. It is like a credit scoring. The requirement in Bolivia is to check with the credit bureau. However, without a credit bureau in a country, an MFI is not likely to be able to do flash loans. While loans above $300 need more extensive due diligence , loans under $100 do not need the same kind of rigorous check.

Soums and Franchise Structure

Alvaro Retamales questioned Sorozenbold Lhagvasuren about the process to establish a soum and how the franchise is structured?

In order to establish a savings and credit cooperative, XacBank promotes in soums where they have been operating for more than one year as a mobile service. If the local people and the volunteer loan approval committee members, they will decide to establish a savings and credit cooperative and to join this franchise service. The bank will give them the training and will help them set up the franchise and organize the first shareholders' meetings, write up the charters, etc… After the local people and loan approval committee have been operating the cooperative for more than one year, they should have a basic understanding of how to operate in rural areas, how to collect repayment, how to make payment schedules and loan contracts. They will also have the opportunity to learn this from the bank. After the establishment of a savings and credit cooperative, they will not have enough funds to make loans to their members, so XacBank will also give parallel loans to the members of the cooperatives.

Quality Control of Franchises

James Mwangi of Equity Building Society questioned how XacBank controls the quality of services of these franchises?

Mr. Lhagvasuren replied that XacBank has internal auditors who visit each branch twice a year. They make direct client visits to verify loan disbursal . There are sometimes problems with transferring money to provincial centers to disburse loans. If XacBank is not satisfied with the quality of the operations of the cooperatives, they will review the audit report and will discuss it with the shareholders. The credit cooperative shareholders will take action along with the assistance of XacBank.

Martin Holtmann followed up with an additional question on quality control, asking about building up a franchise system in such a huge, sparsely populated country like Mongolia. While there doesn't seem to be any other way to reach rural areas, the essential question remains one of quality control. XacBank will have to realize income from the franchises in order to maintain a bigger internal audit function. The next problem is – what will prevent some of the larger and more successful cooperatives from deciding to split off from the bank and run their own financial company? In the case of McDonalds, one cannot break off from the franchise because they lose the right to the sign. How would XacBank prevent the separation of a successful local cooperative?

In terms of income, Lhagvasuren responded, current projections indicate no profits on the franchises within three years. However, when XacBank first set up as a mobile service, 90% of the operations were loans. Within one year, there was good profit. Usually after three months of serving in a soum the bank has broken even. XacBank is also serving the areas with both the mobile service and the franchise, which will get income from wholesale loans and also from direct loans from XacBank. Projections show that the franchises will not generate profit for the first three years. However, during this time, in parallel XacBank is still dispersing loans and will be making profit there. The advantage to this is that the bank will have the networks and these cooperatives will open current accounts and receive wholesale loans from XacBank.

In terms of the franchises, the contract is for five years and requires that they use XacBank product names pay for this right. XacBank will ask them to follow the contract. If they do not follow the contract, there will be sanctions.

Charles Nalyaali of the Uganda Microfinance Union continued with a question on who makes legal arrangements with the franchise agents, what would be a sample franchise agreement? What are the requirements of each party in order to fulfill the agreement? Lhagvasuren explained that with the franchise, the savings and credit cooperatives are the ones who decide to join the franchise. XacBank develops the contract. The key elements of the contract are that XacBank provides proper training for the cooperative in all areas of operations. They also give the cooperatives wholesale loans.

Finally, Tamar Lebanidze of Constanta wanted to know if XacBank is not satisfied with the contract with the franchise – who will collect the loans from the clients?

If the savings and credit cooperative fails under the franchise agreement, the contract stipulates that XacBank will take over the loans, will collect from their clients, and all the loan contracts will transfer to XacBank. The savings and credit cooperatives have given a similar contract to their clients with these conditions.

Session Conclusion:

These two examples highlight innovative ways of reaching dispersed rural clients in a cost effective manner. An MFI in Bolivia has established its own network using technology in the form of ATMs, fingerprint reading and Smart cards. An MFI in Mongolia has developed an interesting new approach involving franchising and outsourcing some of the functions of the MFI to better reach clients in the widely dispersed rural areas.

SESSION SIX: INFORMATION TECHNOLOGY

Joint Session with MicroSave

Facilitator: David Cracknell

Presentations:
- Equity Building Society (Kenya) - Mobile branch-based banking to deepen outreach
- Credit Indemnity (South Africa) - Score card-based lending

MFIs are increasingly using technology to reach out to more clients, offering products and services never imagined possible in the context of microfinance. Successful use of technology can lead to innovations that enable more efficient loan portfolio management, increased savings and the development of systems that contribute to greater productivity. This session will look at leading MFIs actively using technology to improve and expand their products and services.

MOBILE BRANCH-BASED BANKING TO DEEPEN OUTREACH AT EQUITY BUILDING SOCIETY

Presented by James Mwangi, CEO, Equity Building Society

The Equity Building Society was established in 1984 to serve un-banked Kenyans. While the society was deemed insolvent in 1993, it managed to overcome its crisis and is now a large, profitable and visionary institution. As at September 2004, the savings balance stood at US$ 64 million and the loan portfolio volume at around US$ 35 million. The organisation's growth rate is more than just remarkable: Between the years 2000 and September 2004, Equity increased its number of savers by around 6.5 times to almost 400,000. In the same period, the number of loan clients increased from 2750 to nearly 76,000. Equity serves its customers through 21 branches and 34 mobile units.

Mobile Banking – Increased Outreach

Mobile banking helps to extent outreach to rural population in remote locations with no access to formal financial intermediation, encourages a savings culture to rural people, and helps to increase the market share and the institution's profitability.

In mobile banking, banking services are provided in a mobile center just like in any formal branch. Village banking satellites are established in a simple rented structure. These outlets are served once or twice a week by a mobile banking unit. Equity has 25 mobile banking officers who serve the 34 outlets. The banking officers visit the units in a fully equipped 4 wheel drive mobile banking vehicle. These vehicles are accompanied by security guards, have bullet proofed windows, and use solar energy to power the computerized management information system as well as the communication equipment. Steady communication to branches is assured via a "Very High Frequency" (VHF) radio communication system to enhance security and allow constant monitoring. The Global Services for Mobile communications (GSM) technology is employed to transmit data from the laptop in the mobile center to the branch server and vice versa. Communicated data includes customer current balances, signature, photo verification and transaction details.

Services Offered Through Mobile Banking

Services offered through the mobile units include bankers' cheques, cash withdrawals and deposits, loan processing and disbursements. For customers, mobile units bring several advantages including:

1. Availability of banking services to many people previously with no such access as commercial banks shy away from rural areas.
2. Over 30% of Equity's target groups live in absolute poverty. Mobile units are a sustainable way to provide savings and credit intermediation to alleviate the widespread poverty in remote areas.
3. Regular and secure savings outlets and credit accessibility enable rural households (e.g. tea farmers) to smoothen their incomes throughout the year.
4. Savings in transaction costs including time and transport to far off branches.
5. Innovative paperless banking has reduced transaction time.

Benefits of Mobile Banking

To Equity, mobile banking is beneficial in various ways:

1. Income from a modest mobile fee which is charged monthly and is much lower than a one way bus fare to nearest branch;
2. Normal transaction charges per withdrawal are levied;
3. Income from affordable remittance processing for tea, coffee and dairy farmers as well as the salaried;
4. Reduced congestion in banking halls;
5. Increase in deposits;
6. Increased market penetration;
7. Sustained customer loyalty;
8. Enhanced overall profitability.

While Equity serves 6% of its customers through its mobile units, and the savings balance of the mobile banking service is at around 1.8% of Equity's total deposit volume, the institution can allocate 4.8% of its profits to these units.

Emergencies and /or opportunities necessitate instant access to cash. Hence, the poor highly appreciate the accessibility of a regular opportunity to save or withdraw. Since villagers in remote locations have no access to formal sector banking services, Equity has established 34 mobile banking units to reach these customers. The organization has experienced that poor people need and will pay for financial services. New technology lowers the cost of service delivery, increases access and convenience for the customer, and allows for greater customization of products to fit the user's needs.

CREDIT SCORING IN PRACTICE

Graham Adie, Credit Indemnity, South Africa

Overview of Scoring

Of the many risks financial institutions face, the most important risk arises from the nature of credit transactions, the promise of future repayment for access to loans funds now. It is important to develop a system that can effectively process information on loan applicants and to assess whether loans will be repaid. The objective of credit scoring is to maximize sales, minimize bad debts and building sustainable customer relationships.

The challenge for microfinance institutions is to correctly predict the probability of loan repayment risk (credit risk scoring) and to ensure that the loan contract creates incentive for borrower to repay the loan.

Scoring is the process of predicting the probability of a future outcome (e.g. whether the loan applicant will repay the loan or not) based on historic events. The key issue is how to quantify this probability.

The scoring process involves a probability analysis. The statistical analysis uses score cards and measures the frequency of past events in a client's record. A more judgmental analysis involves a subjective evaluation conducted by the loan officers based on past events, present conditions and anticipated future conditions.

When applying statistical or judgmental scoring, there are some similarities in the process. They both have same objective, they both evaluate creditworthiness and use the same information. They both base their analysis on past experience and can help to accept an application or reject it. The processes differ in consistency and objectivity, how they use past experience. With credit scoring, management has better control to track granting decisions with scorecard. Statistically derived scorecards can numerically quantify the risk.

Out of every 10 accounts 1 goes bad with a total bad rate of 10%.

Practical Scorecard Development Hints

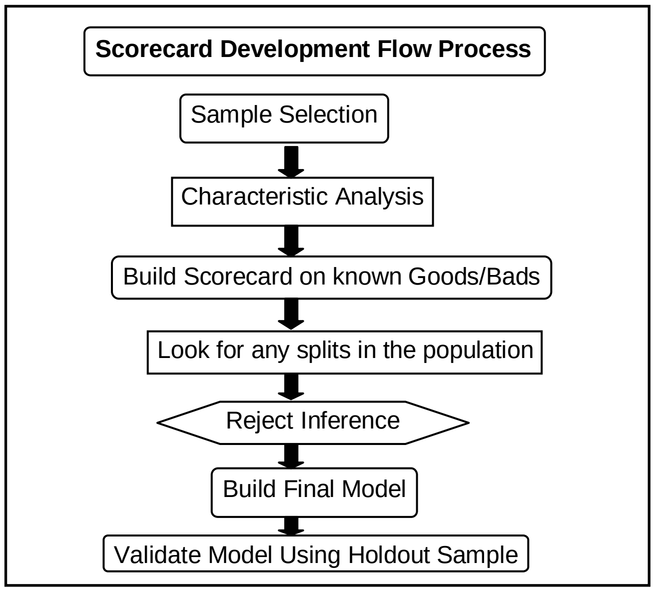
For the data analysis, developing a good scorecard requires historical data both on borrower characteristics and loan repayment performance. It is important to have a good data management system and a well defined repayment performance indicator.

One must have a clearly defined observation and performance window. The observation window is the time period in which observation points for scorecard development occur (e.g. all first-time applications from June 2002 to May 2003). The performance window is the time period over which you observe the performance of observation points. Length of observation window should be based on seasonality of loan applications (as this affects quantity and type of application), typically 12 months. Whereas the length of the performance window depends on the time it takes for accounts to mature, i.e. how long does it take for the majority of the bad accounts to go bad? The performance window can be between 6 – 12 months.

What determines a good or bad account? A bad account is one where the loan officer might say, "Had we known at the time of the loan application that the customer would behave in this way, we would not have approved the loan." It is really what you in your organization would consider unacceptable loan repayment behavior.

A practical way of determining bad behavior is to look at a roll-rate analysis, which involves a sample size of loans, the larger the sample, the better (cost vs. benefit). The analysis typically needs to include 1500 goods, 1500 bads and 1500 rejects. The holdout sample should be about 10% of development dataset.

Figure 23: Scorecard Development Flow Process



Implementing New Scorecard

When implementing a new scorecard, the following steps are important.

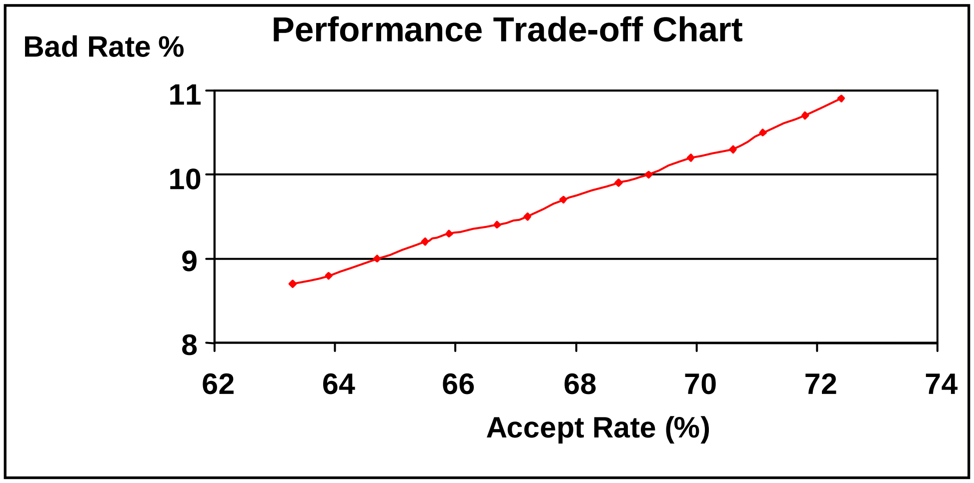
- Compare score distributions of recent loan applicants to development data to ensure that population distributions are similar.
- Determine cut-off strategy.
- Develop lending strategies based on new scorecard.
- Monitor the performance of the new scorecard.

When implementing a new scorecard, it is important to compare score distributions of recent loan applicants to development data to ensure that population distributions are similar. This includes looking at the stability or change in a set of loans and determining the risk factor for the data set. Next, it is important to determine cut-off strategy, or a score below which you are going to decline loan applications. There are some useful measures that can be used to determine cut-off:

- Break-even Bad Rate = Profit (Good)/ (Profit (Good) + Loss (Bad))
- Use historical Bad Rate
- Cost/Income Ratio

It is important to look at the performance trade-off chart and establish where you are now and where you want to be.

Figure 24: Performance Trade-Off Chart



Next, an MFI needs to develop lending strategies based on new scorecard. Finally, it is necessary to monitor the performance of the new scorecard. Next to setting the cut-off this is probably the most critical element of implementing a scorecard.

Figure 25: Credit Indemnity Sample Loan Strategy Based on Credit Scorecard

Score	Risk Group	Product	Max Debt-Income Ratio	Max Loan Size	Interest Rate
606	High Risk	4 month loan	12%	R2000	15%
607					
608					
609	Medium Risk	6 month loan	15%	R4000	12%
610					
611					
612	Low Risk	12 month loan	18%	R6000	8%
613					
614					

In order to make the necessary system changes, an MFI must make sure that the existing credit flow process and transactional system can accommodate a scorecard or scoring system. One the system changes are made, the MFI must train users of the scoring system in order to familiarize them with new policy, show them that scorecard will help improve their credit decisions, show them that the scorecard works, and ensure timely dissemination of information.

Monitoring Scorecard Decisions

Finally, it is imperative to constantly monitor the performance of a scorecard. Feedback about performance of the scorecard is critical to get user buy-in as well. Monitoring reports, generated every quarter, should include a population stability report, which measures changes in the score distribution between current applicants and development sample.

In addition, the institution should keep a chronological log of credit policy changes as it is vital to identify problems with your credit policy. This log should monitor events like:

- Cut-off score changes
- New collections strategies
- New override policies
- Marketing campaigns
- Application form changes
- Data processing changes
- Major economic changes

The final decision report measures current operational adherence to scoring or credit granting policies and measure the number of accepts and rejects by score band. This report must be produced every month. The Override Tracking Report, which should be produced monthly, is used to track the loans that have been approved or declined contrary to credit policy. It also tracks the performance of overrides.

A Vintage Analysis compares the current delinquency distribution performance of accounts that have been on the books for a similar period of time. This is an effective way to monitor credit granting policies

Scoring – Where To From Here?

In the micro finance sector it will take some time before scoring will replace the decision of the loan officer. However, scorecards are a useful tool in the credit granting process. An MFI should start by storing data. In the interim, an MFI can develop a judgmental scorecard if they are entering into a market segment where there is not much information. Finally once a scorecard is in place and is being actively used, it is useful to compare outcome of the scorecard to the decision of loan officer to validate the score.

SESSION SEVEN: STAFF INCENTIVE SCHEMES

Joint Session with MicroSave

Moderator: Martin Holtmann, CGAP

Introduction:
- Martin Holtmann, CGAP
- Mattias Grammling, Independent Consultant

Presentations:
- Kenya Post Bank - Incentivizing Savings
- Uganda Microfinance Union - Branch-based individual incentive schemes
- BancoSol (Bolivia) - Role of incentives in managing delinquency crisis

While used widely within MFIs of all types, staff incentive schemes have to date only received some attention in microfinance research and documentation. For the past year and a half, the MicroFinance Network has been collaborating with MicroSave-Africa in order to provide better guidance to microfinance practitioners regarding the design of staff incentive schemes. To date, the staff incentives team, made up of a subset of MFN members, the MFN Director, senior CGAP staff, and two independent microfinance specialists on incentives has conducted diagnostics of a number of MFN members and MicroSave affiliates, have developed and distributed a worldwide survey on staff incentives and have identified ways to further develop the toolkit and provide valuable recommendations for MFIs considering initiating a staff incentives scheme or making changes to an existing program. This session will look at specific examples of how MFI have effectively used staff incentive schemes to effect productivity and efficiency levels.

MFN WORKING GROUP ON STAFF INCENTIVES

Presented by Martin Holtmann and Mattias Grammling

Staff incentive schemes are widely employed by MFIs to enhance staff performance, motivation, loyalty and commitment. In general, larger MFIs use monetary performance based staff incentives more frequently than smaller institutions, and the complexity of incentive schemes increases with the size of the MFI. Hence, considering that the microfinance sector is growing rapidly, it is not very surprising that staff incentives become an increasingly interesting topic.

The MicroFinance Network and *MicroSave* were the first who conducted a large number of in-depth diagnostic reviews to explore the effects of the different types of staff incentive schemes which are used in the microfinance sector. To date, 18 MFIs worldwide participated in these reviews. Figure 26 includes an overview of the most important staff incentive scheme employed by these MFIs.

Results suggest that **well-designed monetary SIS can have very powerful effects on staff performance.** The design of staff incentives largely depends both, on the organisation culture and the culture of the MFI.

In **Central and South America**, staff incentives are typically designed for individuals, measure and reward performance in the short-term, focus on lending operations, and bonuses make a significant difference to the loan employees' remunerations. Not very surprisingly, these staff incentives have a high and direct impact on staff performance. In comparison to the other cultural regions in which the diagnostic reviews took place, Central and South American MFIs have the largest technical expertise in the design of incentive schemes.

In contrast, most **Asian** MFIs are rather reluctant to employ monetary staff incentive schemes. It may be possible that money is not the best driver to improve staff performance in the Asian culture. However, the experience of two South Asian MFIs, namely Share and SafeSave suggest that monetary incentives can also have powerful effects on performance in this region. This assessment is supported by the fact that some leading Asian MFIs (e.g. BRAC) consider increasingly implementing performance based incentive schemes. However, more research is needed to explore this question further.

There is a wide heterogeneity in the design of staff incentive schemes in **East Africa**. Some MFIs, such as Centenary Bank or FINCA-Uganda, utilise similar schemes to those employed in Latin America – and do not want to miss their staff incentive schemes. Others seem to prefer group-based staff incentives with a lower variable part in the total remuneration.

Regardless of their culture or organisation culture, most MFIs employ incentive schemes which aim at enhancing staff commitment and loyalty, such as merit pay schemes, profit- or gainsharing plans, or simply an annual bonus (or a 13th salary) which, in some cases, depends on the employee's individual performance. These types of incentives schemes have usually a lower impact on performance because individual employees do not perceive that they can significantly influence their payroll by working better and harder.

When the performance of groups is measured and rewarded, free-rider behaviour is likely to reduce the incentive scheme's impact on performance. In contrast, individual staff incentive schemes can reduce team-spirit and team-work. However, the diagnostic reviews clearly suggest that individual incentive schemes have a higher overall impact on staff performance than group-based schemes.

Technically speaking, staff incentives transform best into improved performance if …

Staff perceive a strong link between their individual effort and the reward. This typically includes that the performance of individuals is measured and rewarded in the short term (monthly or quarterly). In most cases, the individual performance of loan officers can be easily measured in the short-term by a few objective criteria (e.g. loan portfolio quality, the outstanding loan portfolio and the disbursement of loans). This is reason for the fact that staff incentive schemes seem to work best when being applied to lending staff.

Rewards are monetary and make a significant change to the employees' total remuneration. If rewards are too low, staff is not likely to increase their work effort. Hence, if the mayor goal of incentives was to increase productivity, bonuses should not be capped and amount to at least 30% of the employee's remuneration if staff performance can be measured accurately. If this was not the case, a lower variable portion (e.g. 15%-25%) of a more generous base salary is more adequate.

Staff accept them. Employees accept staff incentives best, if they are both, *transparent* and *fair*. There is a wide consensus among practitioners that this implies that:

- Employees understand the mechanics of the SIS;
- Objective performance measurement parameters are used and supervisors' assessments are avoided;
- Eligibility requirements are easily achievable or not existent;
- Incentives are based on individual performance.

Survey on the use of staff incentive schemes

The MicroFinance Network, CGAP and *MicroSave* have been conducting a large-scale survey on the use, design and effects of staff incentive schemes in different organisational structures. To date, more than 160 MFIs have participated in that survey.

Preliminary results from 86 MFIs have uncovered the following insights into the design and effectiveness of the staff incentive schemes that MFIs around the world are using. Of the MFIs that responded to each particular question:

- 86% indicated that they have monetary **individual schemes** in place for credit officers, making this by far the most popular scheme.
- 98% responded that their staff incentive schemes had a medium to very high effect on **improving financial performance**.
- 83% said that incentive schemes had a high or very high effect on **increasing the productivity of credit officers** (measured by number of clients and size of portfolio).
- 81% said that their staff incentive schemes had a medium to very high impact on **improving client satisfaction**.
- 76% indicated that staff incentive schemes had a high or very high impact on **increasing staff motivation.**
- 62% said that their staff incentives schemes had a medium to high effect on **reducing staff turnover**.
- 47% responded that the effect of staff incentives schemes on **increasing staff loyalty** was high or very high.

The staff incentives working group emphasized that it is important to continue with categorising and evaluating the different types of the staff incentive schemes used by MFIs to enrich the existing *MicroSave*/MicroFinance Network / CGAP "Toolkit on Designing Staff Incentive Schemes" with case studies and a document of "best practices". MFN members suggested to conduct conference calls, exchange the diagnostic reviews' reports internally as well as to participate in further diagnostic reviews to develop the microfinance sector's experience and knowledge on staff incentives.

Figure 26: Overview of Selected Incentive Schemes

MFI	Targeted employees	Major features of scheme	Major Strength	Major weakness or challenge
Acleda Bank, Cambodia	All staff	• Merit pay scheme • Annual • Objective performance measurement and supervisors' appraisals • Individual	• Fits well into organisation culture.	• Low perceived link between effort and reward limits impact on performance.
Alexandria Business Association, Egypt	All staff	• Bonus scheme • Monthly Monetary • Objective performance measurement • Individual	• High impact on performance due to extremely high variable portion of total remuneration. • Scheme is linked to promotions within functions.	• Extremely high variable portion of remuneration may have negative impacts on staff turnover.
BancoSol, Bolivia	Lending staff	• Bonus scheme • Monthly • Monetary • Objective performance measurement • Individual	• High impact on performance.	• Transition of portfolios between loan officers and loan recovery officers.
BRAC, Bangladesh	All staff	• Annual merit pay scheme • Performance assessed by supervisors • Individual	• Qualitative performance assessments allow a comprehensive performance measurement.	• Supervisors' assessments are not appreciated by all staff.
BURO, Tangail, Bangladesh	Loan officers	• Bonus scheme • Monthly • Monetary • Objective performance measurement	• Objective performance measurement assures that staff accept the scheme.	• Too low variable portion of total remuneration limits impact on staff performance.
Centenary Bank, Uganda	Loan officers	• Bonus scheme • Monthly • Monetary • Objective performance measurement • Individual	• High impact on performance.	• Bonuses are capped. • Other branch staff are not considered.
Commercial Microfinance, Uganda	Loan officers	• Bonus scheme • Quarterly • Monetary	• High impact on performance.	• Incentivising savings mobilisation.
Compartamos, Mexico	Loan officers	• Bonus scheme • Monthly • Monetary • Objective performance measurement • Individual	• High impact on performance. • Scheme is linked to promotions within functions.	• Stages and bonus caps may reduce the scheme's impact at certain performance levels.
Credit Indemnity, South Africa	Branch staff	• Bonus scheme • Monthly • Monetary • Performance measured against targets • Branch based	• High impact on performance.	• Consideration of different operational circumstances in different branches.
Equity Bank, Kenya	Branch staff	Proposed: • Bonus scheme • Quarterly • Monetary • Objective performance measurement • Branch based	(not yet pilot tested)	(not yet pilot tested)
FINCA-Uganda, Uganda	Loan officers	• Bonus scheme • Monthly • Monetary • Individual based	• Potential to have high impact on performance.	• Consideration of different operational circumstances in different branches.
Kenya Post Office Savings Bank, Kenya	Branch and regional staff	Proposed: • Bonus scheme and/or tournaments • Quarterly • Monetary and/or non-	(not yet pilot tested)	• Adequate performance measurement. • Legal constraints to implement monetary incentives.

MFI	Targeted employees	Major features of scheme	Major Strength	Major weakness or challenge
		monetary • Objective performance measurement • Team and individual based		
PRODEM, Bolivia	All staff	• Profit sharing plan • Annual	• Scheme is fair for all staff countrywide.	• Extremely indirect link between individual performance and reward limits impact on performance.
SafeSave, Bangladesh	"Collectors" (loan & savings officers)	• Quarterly accruals and monthly payments • Monetary • Objective performance measurement • Individual	• High impact on performance	• Stages and bonus caps may reduce the scheme's impact at certain performance levels.
SHARE, India	Branch staff	• Monthly • Monetary • Objective performance measurement • Individual with team component	• High variable portion of total remuneration assures compliance with targets.	• Processes (as opposed to work results) are rewarded.
Tanzania Postal Bank, Tanzania	Branch staff	• Proposed: • Bonus scheme and/or tournaments • Quarterly • Monetary and/or non-monetary • Objective performance measurement	(not yet pilot tested)	(not yet pilot tested)
Teba Bank, South Africa	All staff	• Profit sharing plan • Annually • Objective performance measurement and 360 degree feedback (human assessments)	• All staff participate	• Subjective performance appraisals (360 degree feedback) not appreciated by all staff
Uganda Microfinance Union, Uganda	Branch staff	• Monthly • Monetary • Objective performance measurement • Branch based	(pilot test)	• To keep free rider behaviour under control

ROLE OF INCENTIVES IN MANAGING DELINQUENCY – THE CASE OF BANCOSOL

Presented by Kurt Koenigsfest, General Manager, BancoSol

Banco Solidario ("BancoSol"), founded in 1992, was the first private commercial bank to provide microfinance services. The bank managed to overcome the recent financial crises in Bolivia, and, as June 2004, BancoSol was serving 47,326 loan clients with an outstanding loan portfolio of more than $98 million.

At BancoSol, all staff are eligible for performance-based bonuses. However, the incentive scheme focuses on staff involved in lending. Considering the Bolivian history in (micro-) credit delinquency, it is not very surprising that BancoSol's staff incentive scheme emphasizes the maintenance of a high loan portfolio quality. In particular, the objectives of the bank's incentive scheme include to increase loan recoveries, reduce delinquency, improve the relationship to clients in arrears, identify loans with potential problems in advance, and to improve the employees' incomes.

Every staff incentive scheme is different and tailor-made to the functional level of staff it addresses. For example, there are different incentive schemes for loan officers who manage micro enterprise loans, small enterprise loans and medium size loans, or for those who recover written off loans.

Furthermore, a wide range of performance measurement parameters can be employed upon which the incentive payments are based. In delinquency management, these may include past due loans, delinquent loans or the collection of write offs.

Loan officers at BancoSol engaged in credit are rewarded monthly according to their outstanding loan portfolio volume, the number of clients they manage, the provisioning rate and the net recoveries (capital and interest).

The monetary incentive for branch managers is also designed to reach the recovery goals of their branch. The size of the bonuses is calculated as a function of the branch's achievement in five areas including the loan portfolio volume, the number of clients, provisions, past due loans, delinquent loans and write-offs. Different weights which reflect institutional preferences are allocated to each of these parameters as indicated in Figure 27 below.

Figure 27: Incentive Scheme for Branch Managers at BancoSol

Indicator	Weight
Portfolio stock	20%
Client stock	20%
Provisions	15%
Past Due Loans	20%
Delinquent Loans	10%
Write Offs	15%

At BancoSol, these incentive schemes had great impact on the bank's performance, and, especially, on delinquency management. Figures 28 and 29 include some key parameters which demonstrate the development of the bank's loan portfolio during the past two years: BancoSol not only managed to clean its loan portfolio but also maintained a strong growth path.

Figure 28: Increase in BancoSol's Lending Operations

	Disbursed Portfolio (000s U$)	Clients Disbursed
Aug/02 - Jul/03	70,050	29,215
Aug/03 - Jul/04	84,896	37,994
Difference	14,846	8,779
% growth	21%	30%

Figure 29: Development of BancoSol's Loan Portfolio

Indicator	July 2002	July 2003	July 2004
% Portfolio growth	9%	7%	20%
Portfolio at Risk	15%	9%	6%
% Provisions growth	2%	-2%	-3%
% Growth past due	8%	-34%	-15%
% Growth past due clients	4%	-49%	-27%
% Growth Write Offs	3%	-32%	-57%

Of course, staff incentives were not the only reason for this development. Other factors, such as changes in operations, may have played an even more important role. Nevertheless, monetary short-term staff incentives have significantly contributed to these achievements.

INCENTIVISING SAVINGS AT KENYA POST OFFICE SAVINGS BANK

Presented by Sarah Serem, Chief of Human Resources, Kenya Post Office Savings Bank

The origins of Kenya Post Office Savings Bank (KPOSB) date back to 1910 when the Kenyan postal service provider had started savings services. KPOSB was incorporated through an Act of Parliament in 1978 as a parastatal institution. It reports directly to the Ministry of Finance. With 471 outlets, the bank offers the largest branch network among the Kenyan financial institutions. The bank serves over two million customers countrywide.

At present, KPOSB offers six savings products, money transfer services, a VISA card, and a number of commission based services such as the payment of pensions.

Traditionally, public sector organisations do not make heavy use of performance based incentive schemes. In KPOSB, there are three different types of staff incentives in effect for the bank's 1,245 employees. They include:

1. A merit pay scheme under which staff can increase their monthly salaries based upon qualitative semi-annual performance appraisals which are conducted by the immediate supervisors. In practice, these salary increments are rather determined by tenure than by performance. The savings bank has further observed that most staff members do not appreciate these qualitative performance appraisals as accurate and fair performance measurement tools. Hence, employees expect regular increments and KPOSB has experienced that this scheme has only little impact on staff performance. However, the merit pay scheme contributes to low staff turnover rates.
2. KPOSB awards outstanding performers with commendation letters, certificates for training and other acknowledgements such as lunches with the CEO.
3. The savings bank employs a wide range of non-performance based incentives which enhance staff loyalty and commitment. They include ten different types of allowances (e.g. staff loans, insurances, pension scheme, leave). However, in the turn of time, these allowances have raised staff expectations and their impact on staff commitment is reduced.

Recently, and in line with its shift to a profit-seeking institution, KPOSB has started to explore the possibilities of implementing performance based incentive schemes. KPOSB believes that linking performance to pay will help to align the employees' goals with those of the bank, enhance staff productivity and efficiency, and increase the savings bank's profitability. At present, KPOSB has been designing various performance based incentive schemes on branch, regional and head office level.

An incentive scheme for KPOSB's **branch staff** focuses on savings mobilisation through enhanced customer service. Since savings mobilisation is a long-term team effort of branch staff, the planned incentive system is designed as a team-based quarterly scheme. Most of KPOSB's savings products are not domiciled, which means that accounts cannot be allocated to particular branches. Hence, the branch performance cannot be measured by evaluating the performance of the branches' savings portfolio. As second best solution, KPOSB intends to evaluate branch performance according to six parameters including:

1. The number of accounts opened;
2. The number of accounts closed;
3. The number of transactions;
4. The volume of deposits;
5. The income from commission-based services (e.g. money transfers through Western Union);
6. Irregularities and mistakes (e.g. overdrawn accounts).

Branches are provided scores which reflect the performance of the branch in each of these areas. When providing these scores, it is essential to consider the operational circumstances of the branch (e.g. whether a branch is computerised or not) as well as management's preferences (e.g. for particular products). Based upon these scores, branches are ranked and staff of the best performing branches receive some small, symbolic rewards. At a later stage, KPOSB intents to provide staff with bonuses which are determined by these branch performance scores.

To avoid a common drawback of group incentive schemes, namely the free rider behaviour, KPOSB plans to conduct additional tournaments between tellers. Under such competitions, the best (and weakest) performers are identified. Later, better performing tellers would become eligible for a higher share of the branch bonus than the weaker performers.

Essentially, KPOSB's **regional staff** support the operations of branches. Hence, KPOSB plans to appraise the region's performance according to the average performance score of the branches which the regions supervise. It is planned to identify the best performing regions and reward their staff symbolically (e.g. with commendation letters, trophies or branded gifts).

However, KPSOB predicts that this simple incentive system will not be sufficient to increase staff productivity significantly. Since around 80% of the savings bank's regional staff are involved in routine work, additional individual incentive schemes are planned to be employed. Therefore, the different tasks of staff are identified and weighted according to the time which is needed to complete them. Short-term bonuses are then provided to individual staff members. The size of these bonuses depends on the number of completed tasks. To assure a high quality of work, mistakes will reduce the size of these bonuses.

The remaining 20% of regional staff have multiple tasks which cannot be measured with a few indicators. However, if they were excluded from such bonus schemes, they would probably become demotivated. Hence, KPOSB intents to provide them quarterly bonuses which are calculated as a function of the overall regional performance (as measured in the tournament between regions) and the average performance of the other regional staff.

Head office staff and especially managers have longer-term and multi tasks. The achievement of their goals cannot be measured as straightforward as the achievements of branch or regional staff. Hence, KPOSB plans to employ a long term incentive scheme which focuses on enhancing staff loyalty and commitment. In particular, the bank intents to implement a semi-annual or annual profit sharing plan under which head office staff become eligible for a certain percentage of KPOSB's profit.

With the increasing importance of profitability for KPOSB, the savings bank has identified the need to employ performance based incentives to boost staff productivity. As a parastatal institution, the bank faces some legal constraints in implementing monetary incentive schemes. Thus, KPSOB intends to launch non-monetary incentives, which can be transformed into bonus schemes once the bank has received respective permissions from the board.

STAFF MOTIVATION THROUGH INCENTIVES AT UGANDA MICROFINANCE UNION

Presented by Jonathan Nkoola, Assistant Director Operations Supervision, Uganda Microfinance Union

From its foundation in 1997, the Uganda Microfinance Union (UMU) has acknowledged staff as its most important asset, and, consequently, has spent great effort in building up a strong staff commitment and motivation. Customers recognise motivated staff through a better service quality. As UMU has grown, it identified the need for institutionalised staff incentive schemes to support and enhance existing staff motivation.

UMU's staff incentive scheme, which is currently pilot tested in four branches, has evolved in five steps:

Firstly, UMU hired a consultant to discuss the principal advantages and drawbacks of staff incentive schemes. Internal discussions have revealed that branch-based incentive schemes would fit best into UMU's organisation culture because teamwork is crucial for UMU's operations. In contrast to individual incentive schemes, team based ones are more likely to meet the objectives of UMU's staff incentive scheme, namely to enhance collective responsibility, team work as well as to contribute to the achievement of common goals. UMU is aware of the fact that free rider behaviour is likely to diminish the impact of such group schemes. To keep this potential detrimental effect as small as possible, UMU has encouraged branch managers to identify such free riders.

Secondly, UMU reviewed its salary grades to reduce differences in basic salaries within functions, which a merit pay scheme has caused over time.

In a third step, management identified five core parameters to measure the performance of branch staff. They include:

1. The portfolio at risk;
2. The outstanding loan portfolio volume;
3. The number of outstanding loans;
4. The number of new clients;
5. The profitability of the branch.

Different weights that reflect institutional preferences are allocated to each of these parameters. Weights also differ across different functional levels of staff to assure a closer link between staff performance and the reward. For instance, the portfolio at risk rate has a higher weight in branches that employ a large number of field officers (who are in charge both, of lending and recovering loans in arrears). Based upon the achievement of the branch in each of these areas, a branch bonus pool is calculated. This pool is distributed according to the functional level of staff. In our example above, field officers would receive a relatively higher share of this bonus if the portfolio at risk was low and, thus, has contributed relatively much to the branch bonus pool.

Fourthly, UMU pilot tested this scheme in two branches between January and May 2004. While the pilot test uncovered that staff generally understood the incentive scheme and worked towards achieving their goals which are related to the five performance measurement parameters, it also revealed a drawback: staff did not significantly increase their productivity. The reasons for this were quickly found: the incentive calculation was not calibrated carefully enough. The rewards offered were set too low and some of the benchmarks of the scheme were set too high. Hence, staff did not perceive that the rewards offered were not worth the extra efforts required.

Consequently, UMU redesigned the incentive scheme to assure that a better job performance leads to significant increases in staff remuneration in a fifth step. This revised scheme is being pilot tested since June 2004 in four branches and will be rolled out to all branches by January 2005 if the scheme meets its objectives. So far, the pilot test of the revised scheme has shown that staff increased both, the quality and quantity of their work. The scheme has enhanced overall staff morale and collective responsibility. In comparison to the previous scheme, free rider behaviour was reduced because staff not only has an incentive to perform better but also to identify and sanction those who do not contribute to the branches' success. To increase their rewards, staff who usually work in the office supported field staff more frequently and increasingly acknowledged the challenges of field work.

In addition to this incentive scheme UMU employs a number of non-performance based and performance based incentive systems. Among the non-performance based incentives are lunch subsidies, a medical insurance (which also covers one dependant family member), transport subsidies, staff loans, gym membership for managers, annual bonuses and a participatory approach in setting targets. Additional performance based incentives include rewards for "employees of the year" and staff of the "branch of the year" as well as a system which emphasizes performance as criteria for promotions.

Apart from rolling out the branch based bonus scheme, UMU's next steps include the implementation of an Employee Stock Ownership Plan, car loans for staff, and the inclusion of the employee's family in its health insurance scheme.

CONCURRENT WORKING GROUP MEETINGS:

At the October 2003 General Assembly meeting of the MicroFinance Network, members expressed interest in creating and participating in working groups as a way to increase involvement in Network activities and to increase the knowledge that members have of each other's work. The purpose of setting up Working Groups was to advance the practice of MFN members through exchanges of learning and joint work on specific topics. These topics, selected by the Network members aim to boost member knowledge and move MFI members and the microfinance industry towards improved or expanded operations and outreach.

- **Staff Incentives** (Facilitators – Martin Holtmann and Mattias Grammling)
- **Pro-Consumer Policy** (Facilitator – Beth Rhyne)
- **Housing** (Facilitator – Richard Shumann)

WORKING GROUP SESSION ON STAFF INCENTIVES

Facilitators: Martin Holtmann and Mattias Grammling

Current Working Group members:

MFN

- ABA, Egypt
- BancoSol, Bolivia
- BRAC, Bangladesh
- CERUDEB, Uganda
- Compartamos, Mexico
- PRODEM FFP, Bolivia
- SHARE, India
- UMU, Uganda

Background:

The MicroFinance Network, in collaboration with MicroSave-Africa and CGAP, has been analyzing the existing staff incentive schemes of microfinance institutions in terms of their overall design features, their comprehensiveness, and their effectiveness in achieving the intended results. A staff incentives team, made up of a subset of MFN members, the MFN Director, senior CGAP staff, and two independent microfinance specialists on incentives has developed and distributed a worldwide survey, the results of which will be analyzed on a number of levels: institutional size, structure, location, and methodology. The information collected will be used to help further develop the toolkit and provide valuable recommendations for MFIs considering initiating a staff incentives scheme or making changes to an existing program.

Objectives:
1. Review work done to date
2. Identify ways in which members can contribute to ongoing work of staff incentives team
3. Develop action plan for working group for the next year

Review of Working Group discussion:

See section Session Seven on Staff Incentives

Action plan of the working group for the next year:

- The working group facilitators will publish a document on best practices by mid 2005.

- The working group members agreed on providing feedback on the toolkit. This feedback will be of great value for the second edition of the toolkit.

- A number of working group members expressed that they wished to share their reports on staff incentives internally. A list of MFIs which have participated in diagnostic reviews, a brief categorization of their most important staff incentive schemes and the members' expertise in the design of staff incentive schemes is included in Annex B. Institutions who wish to share their reports are encouraged to contact the respective MFIs directly.

- Selected topics on the design of staff incentive schemes will be discussed in quarterly telephone conferences.

- All participants of the working group meeting indicated that they liked to participate in (follow-up) diagnostic reviews on their staff incentive schemes.

An overview of the existing literature on staff incentives for MFIs is provided in the CGAP Microfinance Gateway Highlight which can be accessed by following the link below:

WORKING GROUP SESSION: PRO-CONSUMER POLICY

Facilitator: Beth Rhyne

Working Group Members:

- ABA
- PRODEM FFP
- Compartamos
- Constanta
- BRI

Background:
The goal of the MicroFinance Network Working Group on Pro-Consumer Policies is to raise the level of awareness of consumer protection and to increase the transparency among Network members on consumer protection issues. The Working Group seeks to establish a dialogue among members so that as a Network, we can identify ways to deal with the relevant issues before a regulatory response comes about. With the support of the SEEP Network Consumer Protection Working Group and ACCION International, the MicroFinance Network will adopt a pro-consumer pledge and will commit to taking action in response to the pledge.

From the period of March through August 2004, the MFN Working Group on Pro-Consumer Policies conducted a series of individual interviews with members to raise awareness about consumer protection and to explore how the Network can move towards adopting a code of practice among its members. Based on conversations, the existing codes and the other information, Beth Rhyne developed a draft Pro-Consumer Pledge for the MicroFinance Network, also used by the ACCION Network.

Objectives:

1. Discuss the implications of the pledge for members as individuals and for the MicroFinance Network
2. Identify ways to implement the elements of the pledge
3. Develop action plan to increase country-level awareness and for implementation of pledge

Action plan of the Pro-Consumer Working Group:

The members of the Pro-Consumer Working Group determined that they would engage in the following activities to move beyond the signing of the pledge. Members agree to participate in promoting the pledge through the MFN website and in their own institutions, including making copies for distribution and wall posting. The Network will explore ways to advertise the pledge through the International Year of Microcredit and through CGAP. MFIs will explore ways to promote the pledge locally as well. Working group members believe that it is important that the pledge have an impact on the culture, policies and procedures of the institution. The MicroFinance Network can help members develop best practice guidelines and general guidelines for applying principles. It would be helpful to have documentation on best practices. Looking further into the future, there may come a time when the industry actually has a system of pro-consumer stamp of approval (ISO).

WORKING GROUP ON HOUSING

Facilitator: Richard Shumann, ACCION International

Working Group Members:

- Al Amana
- Compartamos
- FINAMERICA
- Los Andes
- Mibanco
- PADME

Background:
Many of the world's poor live in substandard housing and need finance to improve their living conditions. Many microfinance institutions, already serving low income clients, are well placed to meet the demand for housing loans. They are becoming more concerned with issues specifically related to housing lending. In response to this interest, the Microfinance Network established a working group on housing finance. The primary objectives for the group are:

- Create a worldwide learning forum for MFIs involved in housing finance.
- Share information on successful housing finance products and strategies.
- Identify challenges to extending the outreach of housing microfinance, and propose solutions.
- Develop tools to help members carry out the working group's recommendations.

Through the working group, MFN spoke with six institutions, Al Amana, FINAMERICA, Los Andes, Compartamos, Mibanco and PADME concerning housing lending. Some institutions have mature housing loans, while others are considering this type of lending. Based on these conversations, the session in Tanzania will focus on the following:

Questions for Discussion:

1. How can MFIs ensure quality control?
2. What possibilities exist to enter into alliances with construction companies?
3. What technical assistance should the MFI give its clients? What are the implications on the institution's human resources and cost structure?
4. How should MFIs respond if clients do not have land titles, or live in informal settlements? Can they finance client efforts to formalize their homes?

Based on discussions in Arusha, the Working Group will continue dialogue on issues that are important to the members. This dialogue may include further conversations, specific action research, or a follow up meeting.

The Housing Working Group Session at the MFN Conference in Arusha had nine participants from eight institutions. There was a consensus around the following:

- ➢ The group defines housing finance broadly, including loans to support house construction and purchase, buying land, and improvements to existing structures.
- ➢ Housing finance meets a basic human need and thus greatly improves quality of life.
- ➢ Institutions must know their markets and legal contexts well before launching housing finance programs. This is particularly important in dealing with mortgages and foreclosures. These factors vary among regions, countries, and even within countries.
- ➢ The main challenge for the future is achieving scale in housing finance to have a sustained impact on the poor.

The discussion focused on five issues.

1. Why do housing finance?

Some institutions may see housing as a consumer product, outside of their mission to provide enterprise lending. However, housing loans improve the shelter of the poor, thus serving their basic needs. Clients often demand housing loans, so institutions should respond to them, particularly as microfinance becomes more competitive. In some countries, such as Morocco, MFIs are the only institutions financing housing for the poor. Finally, MFIs are already providing housing finance, as some clients already take business loan funds and apply them to their homes.

2. What collateral should we use?

Many institutions providing larger loans take mortgages as collateral. These are often hard to enforce, so are not true mortgages because the institution lacks full control over the underlying asset. Institutions need to decide how to react in these situations. Specific, local circumstances can be important; for instance, PRODEM in Bolivia arranges for people to purchase houses belonging to defaulters as a means of recovering loan amounts without recourse to courts. Developing innovative ways to enforce guarantees in the absence of an efficient legal system requires deep knowledge of local markets, as well as creativity.

3. Medium term funding

Many MFIs face difficulties in accessing liabilities with terms greater than two years to fund housing portfolios. Pension funds will work only with institutions with high, independent financial ratings. Breaking down housing loans into steps, like in TSPI in the Philippines, through progressive building, makes terms more accessible to institutions and clients. Al Amana in also Morocco is focusing on progressive loans. Public authorities may also have funding sources available.

4. Quality Control

Institutions want to be sure that homes improved or built with their loans are of as good quality as possible, but ensuring this can be costly and complicated for institutions. Many MFIs train loan officers in basic principles of construction. Others may add a staff engineer to verify construction plans for large projects. MFIs would like to work with property developers to build new houses for low-income clients. However, such firms focus on middle and upper class clients and demand high margins.

CEMEX in Mexico has developed an innovative program, Patrimonio Hoy, so the poor can buy materials to improve their homes. CEMEX advances materials to poor clients organized in ROSCA-type groups who promise to save to cover the coast of the supplies. CEMEX staff also provide standardized plans and basic technical advice to the clients. This program hopes to reach one million people over the next five years.

5. Lending in informal settlements

Some institutions are concerned about lending to people living in illegal settlements. This can be done, if the MFIs know the local context well and are confident homes will not be destroyed.

They must also know that homeowners have some documented right to live in their dwelling, even if this is not a full land title.

Next steps:

There is a consensus to continue discussions on several topics, notably collateral and medium term funding, by email over the next year before reconvening at the next annual conference.

CONCLUSION:

The 11th annual MicroFinance Network conference looked at some cutting edge issues on the minds of leading practitioners and industry supporters from around the world: accessing capital on local markets, working with international investors/lenders, technology innovations in the field; the challenge of rural outreach; taking a stand on pro-consumer microfinance; and using staff incentives to improve efficiency and productivity.

Over the course of three days, conference participants examined the different ways MFIs have addressed these issues and discussed the possibilities of translating these experiences into change within their own institutions.

Some of the key points that emerged from the conference:

Microfinance in Tanzania

- There is a strong priority from the government to support ways to reduce poverty in the country. The Central Bank has worked to help create a regulatory and supervisory framework to facilitate the long-term growth and sustainability of microfinance.

- Challenges remain. Capital requirements have to be balanced in order not to constrain the institutions, creating a situation where small unsustainable institutions become regulated institutions and later they die. Ownership and governance issues are other key challenges, with an emphasis on sufficient capacity to regulate and be regulated that must be faced by both the institutions and the regulators. Cost factors must be considered. The Central Bank will have to explore prudential conditions that may be very difficult to put in place with such diversity of services offered.

- PRIDE Tanzania started in January 1994 and has worked to expand its program to a network of 25 branches serving well over 61,000 clients. PRIDE’s main product offering, a single loan product based on solidarity group guarantee, will soon be joined by a second loan product, the Fahari loan now in pilot testing, which will target high-end borrowers from among its existing clients. With a renewed call for further outreach to rural areas, PRIDE continues to grow a “sustainable financial and information services network for micro and small scale entrepreneurs to increase incomes and employment and stimulate business growth”.

Global Perspectives on Progress and Challenges Observed in Microfinance

- The explosion of access points in microfinance where poor people can get and use financial services, is going to change the scope of the industry. Internet kiosks, point of sale machines, ATMs and mobile banking are but a few examples of what is going on in the field.

- Credit information, technology, and quality information on financial performance are going to enable exponential growth in the future.

- Governments understand what is needed to support sustainable microfinance, however, with proposals like low interest rate caps and new anti-money laundering laws, industry supporters need to propose viable alternatives, including such examples as such as the adoption of pro-consumer agendas.

Tapping into Local Capital Markets

- Tapping into domestic capital markets is possible for microfinance institutions. It takes preparation and planning, educating and understanding the needs of the market, flexibility, and the position to offer a sizable issue. It also requires good governance, transparency with a track record of financial reporting, and the ability to speak the investors' language. The example of a bond issue can be a very good way to diversify a funding strategy using local currency.

- Raising capital is not without risks. In some cases in terms of the interest rate risk, the option to raise funds form capital market can be expensive, as in the case of BRI. It is also important to consider how the funds will be used in order to effectively maintain a balance between assets and liabilities.

- In thinking about where to go for raising funds, it is often less expensive to go local than international, as in the case of a local bond issue, it is always much easier to control. Another benefit is that there is not a gap on local currency and this may limit unnecessary exposure. Local issues can show the industry how to get into the market. Finally, it is helpful to work with established companies in order to let the market know the seriousness of the venture and raise credibility and interest in the issue.

- It is essential to develop a clear long-term financing strategy for the MFI which looks at both sides of the balance sheet and sets parameters for debt and equity from local and from foreign sources. The asset and liability goals should withstand a stress test which considers risk factors such as potential devaluation or funder concentration.

Working with International Institutions

- When considering foreign exchange issues and risk mitigation, it is important to look at the appropriateness of product and to ensure that both investors and MFIs are aware of the risks involved. Investment funds are often passing on risk through currency exposure to MFIs, who are even less equipped to take that risk. On the equity side it is the problem of the investor to assess potential risk. All parties need to be fully cognizant of the potential risks to themselves and to the other parties, particularly to the MFI, so that the clients do not suffer in the long run.

- MFIs need to be clear with investors about what they are looking for; often what they need is credit, or the backing of a respected player in the more sophisticated marketplaces. With this backing, they can obtain the cash in local currency and avoid unnecessary foreign currency exposure.

- One way to reduce currency risks is through hedging, although not all MFIs are adequately prepared to use this type of instrument. Other mechanisms include guarantees and back to back transactions.

- The MFIs can increase their knowledge of risk exposure through working with rating agencies and bank supervisers. They need to conduct appropriate due diligence, and can look to the MIX reporting for guidance and perhaps seek donor funding for treasury management training.

Pro-Consumer Microfinance

- Developing a Pro-Consumer Agenda is good business. It raises the standards within the industry and ensures that clients are treated in a fair manner. The Microfinance Network Pro-Consumer Pledge concisely sets out the principles of pro-consumer microfinance. It defines principles to ensure that financial services benefit customers while also seeing that the legitimate needs of microfinance institutions are met so that they can continue providing services over time.

Innovations in Rural Finance

- Outreach in rural areas is a challenge, but is possible. Institutions must think about local conditions and sustainable long-term solutions. Start-up and operational costs will be higher in the beginning, but cost efficiencies can eventually be obtained and passed down to the clients.

- Introduction of technology in rural areas is evolving. Rural areas can generate internal savings. This will increase greatly with an on-line system. PRODEM has been able to do this even with an off-line system, covering about 70% of the portfolio with local savings. Loan and savings products need to be adapted to the productive cycle of the area.

- There needs to be more cooperation between non-financial NGOs and regulated financial institutions in order to better offer clients both financial services and non-financial services such as training for small farmers in new areas.

- With an innovative franchising scheme, XacBank is outsourcing some of the servicing of clients in the rural areas. In this way, they will be able to more efficiently reach a greater number of clients with financial products in widely dispersed areas.

Information Technology

- Technology is helping to increase outreach in urban areas as well rural. Points of sale through ATMs or mobile banking are developing rapidly and will be a way to significantly expand the number of clients served.

- Mobile banking can reduce transaction costs (travel) for clients, can reduce congestion in branches, increase deposits, increase market penetration, help sustain customer loyalty, and enhance overall profitability.

- Of the many risks financial institutions face, the most important risk arises from the nature of credit transactions, the promise of future repayment for access to loan funds now. With the objective to maximize sales, minimize bad debts and build sustainable customer relationships, credit scoring can effectively process information on loan applicants and assess the potential for loan repayment.

Staff Incentives

- Staff incentives can be a valuable tool for increasing efficiency in an organization and helping the institution to meet specific goals – either increased profit or outreach. In the case of BancoSol, monetary short-term staff incentives have significantly contributed to these achievements.

APPENDIX I: CONFERENCE AGENDA

Sunday, November 7th

6:30 – 8:30 pm	**Welcome Event**

Monday, November 8th

8:15 – 9:50 am	**Working Group Meetings** - Staff Incentives (Facilitator – Martin Holtmann) - Pro-Consumer Policy (Facilitator – Beth Rhyne) - Housing (Facilitator – Richard Shumann)
10:00 -10:45 am	**Official Welcome and Introduction of Participants**: Special Welcome by Hon. Iddi Simba (MP), Chair of the Board, PRIDE Tanzania Remarks by Maria Otero, ACCION International (MFN Chair and President, ACCION International) - Brief introduction of current members; invited microfinance institutions and special guests
10:45 -11:00 am	**Official Opening of the 2004 Conference – Guest of Honor** Hon. Edgar Maokola Majogo (MP), Minister in the Vice President's Office Responsible for Poverty Eradication
11:00 - 11:20 am	Coffee Break
11:20- 12:00 pm	**Key Note Presentations** - Elizabeth Littlefield, Director and CEO, CGAP - Grace Rubambey, Director of Microfinance, Bank of Tanzania
12:00-12:15 pm	**Conference Orientation** Kelly Hattel, MicroFinance Network
12:15 – 1:45 pm	Lunch
1:45 – 2:00 pm	**Session One**: **Presentation and Orientation on Branch Visit** **Visit to PRIDE Tanzania branch offices** (split into 3 groups)
2:00 – 5:00 pm	Branch Visits
5:00 pm	Return to Hotel
5:00 -6:30 pm	**Discussion of Branch visit** **Facilitator:** Kelly Hattel, MFN
6:30 pm	End of first day
6:30 – 7:30 pm	Steering Committee Meeting
7:30 pm	**Opening Reception and Dinner at Ngurdoto Lodge**

Tuesday, November 9th

8:00 – 9:00 am Steering Committee Meeting

9:00 – 10:30 am **Session Two: Tapping into Capital Markets – Thinking Locally**
Moderator: Kurt Koenigsfest, BancoSol
- Compartamos (Mexico) – 2003 Bond Issue on Local Markets
- BRI (Indonesia) – IPO Process and Implications/Subordinated bonds in $US and local currency

10:30 – 10:45 am Coffee Break

10:45-12:00 pm **Facilitated Discussion on Session Two**
Moderator: Kurt Koenigsfest

12:00 -1:45 pm Lunch at Hotel

1:45 – 3:45 pm **Session Three: Working with International Investors**
Moderator: Maria Otero, ACCION International
- Elizabeth Littlefield (CGAP)
- Bob Annibale (Citigroup)

3:45 – 4:00 pm Coffee Break

4:00 - 5:30 pm **Session Four: Open Discussion on Pro-Consumer Policies**

Part One: Discussion by MFN Working Group on Pro-Consumer Policies and presentation of draft MFN Pro-Consumer Pledge
Facilitators: Elisabeth Rhyne and Kelly Hattel

Part Two: Discussion of International Year of Microcredit and MFN's role in the year's activities being coordinated by the United Nations
Commentators: Aminul Alam, BRAC and Fouad Abdelmoumni - Year of Microcredit Advisory Group Members and MFN Members

5:30 – 6:00 pm **Summary of Day's Proceedings**

7:30 pm Dinner

Wednesday, November 10th

8:30 – 9:45 am **Session Five: Innovations in Rural Finance**
Moderator: Juan Buchenau
- XAC Bank (Mongolia) **-** Innovative ways to reach rural areas – Franchising
- PRODEM FFP (Bolivia) **-** Increasing rural savings for the poor

9:45 – 10:00 am Coffee Break

10:00-12:00 pm **Network Meeting (Members of the MicroFinance Network)**

12:00 -1:30 pm Lunch (with presentation by Juan Buchenau of launch of Micro Finance International Corporation, the first MFI specifically targeting immigrants in the US and linking remittances to microfinance)

2:00 – 3:30 pm	**Session Six: Joint Session with MicroSave at Serena Mountain Village** Information Technology - Teba Bank (South Africa) - Debit card system and optimizing the use of POS devices - Credit Indemnity (South Africa) - Score card-based lending - Equity Building Society (Kenya) - Mobile branch-based banking to deepen outreach
3:30 - 4:00 pm	Coffee Break
4:00 - 5:30 pm	Staff Incentive Schemes - Kenya Post Bank - Incentivizing savings - Uganda Microfinance Union - Branch-based individual incentive schemes - BancoSol (Bolivia) - Role of incentives in managing delinquency crisis
5:30 – 6:30 pm	Roundtables on Technical Toolkits
6:30 pm	**Conclusion of Conference** Maria Otero, MicroFinance Network Steering Committee Chair
7:00 pm	**Special Joint Dinner with MicroSave at Serena Hotel (hosted by MicroSave)**

APPENDIX II: PARTICIPANT LIST

Special Invited Guests:

- Hon. Mohammed Babu, **Regional Commissioner, Arusha, Tanzania**
- Grace Rubambey, Director of Microfinance, **Bank of Tanzania**
- Elizabeth Littlefield, Director and CEO, **CGAP** (USA)
- Martin Holtmann, Lead Microfinance Specialist, **CGAP** (USA)
- Bob Annibale, Global Director of Microfinance, **Citigroup, Inc.** (USA)
- Juan Buchenau, EVP-CCO, **Micro Finance International Corporation** (USA)
- Hon. Iddi Simba (MP), Chairman of the Board, **PRIDE Tanzania** (Tanzania)
- Kenan Crnkic, Executive Director, **PRIZMA** (Bosnia and Herzegovina)
- Lkhagvasuren Soronzonbold, Director of Branch Banking Division, **XacBank** (Mongolia)
- Mattias Grammling, Independent Consultant on Staff Incentives (Germany)

MFN Members and Select Board/Senior Staff:

- Motaz Tabaa, First Deputy, **ABA**
- Maria Otero, President and CEO, **ACCION**
- Elisabeth Rhyne, Senior Vice President, **ACCION**
- Richard Shumann, Director, **ACCION**
- Cathy Quense, CFO, **ACCION**
- Fouad Abdelmoumni, Director, **Al Amana**
- Sushil Roy, Executive Vice President (Operation), **ASA**
- Kurt Koenigsfest, General Manager, **BancoSol**
- Alvaro Retamales, General Manager, **Bandesarrollo**
- Aminul Alam, Deputy Executive Director, **BRAC**
- Rico Rizal Budidarmo, Head of BRI Investment Banking, **BRI**
- Yusuf Nawawi, Director, International Visitors Program, **BRI**
- Hung Linh, CEO, **CERUDEB**
- Simon Kagugube, Executive Director, **CERUDEB**
- Carlos Labarthe, Executive Director, **Compartamos**
- Carlos Danel, Adjunct Director, **Compartamos**
- Levan Lebanidze, Director, **Constanta**
- Tamar Lebanidze, Board Member, **Constanta**
- James Mwangi, Finance Director, **EBS**
- Esther Muiruri, Customer Service Manager, **EBS**
- Winnie Kathurima-Imanyara, Head, HR & Marketing, **EBS**
- Jason S. Meikle, General Director, **FINCA Kyrgyzstan**
- Carol Michira, **K-Rep**
- Damase Gnonhoussou, Directeur Général Adjoint, **PADME**
- James Obama, General Manager, **PRIDE Tanzania**
- Damas Dandi, Board Director, **PRIDE Tanzania**
- Rashid Malima, Board Director, **PRIDE Tanzania**
- Stefano Ole Teveli, MIS Manager, **PRIDE Tanzania**
- Elias Ntambi, Chief Operations Supervisor, **PRIDE Tanzania**
- Eduardo Bazoberry, Chief Executive Officer, **PRODEM FFP**
- Fernando Anker Arteaga, Chairman of the Board of Directors, **PRODEM FFP**
- Ruben C. de Lara, Executive Director, **TSPI**
- Jesila M Ledesma, Director for Social and Business Development, **TSPI**
- Charles Nalyaali, Chief Executive Officer, **UMU**
- Kelly Hattel, Director, **MFN**

APPENDIX III: BIOGRAPHIES OF PARTICIPANTS

Aminul Alam
Deputy Executive Director
BRAC

Aminul Alam holds a Master's in Physics from the University of Dhaka, Bangladesh. Before working for BRAC he held several positions at RDP since 1975 such as Director of Field Operations and Program Coordinator among others. In 1998 he started working at BRAC where he is Deputy Executive Director. He supervises all of its Development Programs including the MicroFinance Program, Sectors Program, Education Program and the Micro Enterprise Lending Program.

Fouad Abdelmoumni
Director
Association Al Amana

Fouad Abdelmoumni helped to found Association Al Amana from 1996-97 and has managed the institution since. From 2001–2003, Mr. Abdelmoumni served as a member of the CGAP Advisory Board (Consultative Group to Assist the Poorest). Before working at Al Amana, he managed the Maghreb Développement Investissement (MADI), a social venture capital fund and member of the SIDI network (based in France) from 1990–1996. He has a degree in Economics of Development from the University Mohammed V in Rabat, and an MBA equivalent from ISCAE (Institut Supérieur de Commerce et d'Administration des Entreprises) in Casablanca. He is also a civil society activist. He has worked as Vice-President of the Moroccan Association for Human Rights and as a member of the Espace Associatif for the promotion of civil society.

Fernando Anker Arteaga
Chairman of the Board of Directors
F.F.P. PRODEM S.A.

Mr. Anker is Chairman of the Board of Directors at Fondo Financiero Privado PRODEM S.A. and member of the fiduciary counsel of the Fundación PRODEM. Previously he was Vice-president of Citibank and CEO of Citibank Bolivia for 9 years. Before that he was CEO at Bolivia's Central Bank. During his professional life he has held various important positions in both the private and public sectors; CEO at Cargill Bolivia, Assistant CEO at Banco Mecantil, to name some. Currently he is first Vice-President at ASOFIN (Micro finance specialized financial entities association); member of the Board of Directors at Fundación Bolivia Exporta and member of the Board of Directors at Droguería INTI S.A.; he is also founding partner, Board Member and a principal shareholder of Innova Empresarial and Innovatel Empresarial, two leading Bolivian technology companies. Fernando Anker Arteaga graduated as a civil engineer from George Washington University, Washington DC.

Bob Annibale
Global Director of Microfinance
Citigroup

Bob has assumed a newly created role as Citigroup's Global Director of Microfinance. He leads Citigroup's commercial relationships with microfinance institutions, on a multi-business and multi-product basis, providing financing and product partnerships to institutions that serve the poor and the unbanked. He joined Citibank in 1982. After a first assignment in Greece, he held a number of senior treasury, risk and corporate positions in Citigroup in Athens, Bahrain, Kenya, London and New York. Bob competed his BA degrees in History and Political Science at Vassar College and his Masters Degree in African Studies (History) at the University of London, School of Oriental and African Studies. He represents the Citigroup Foundation on the Board of the Microfinance Information Exchange and on the Council for Microfinance Equity Investors, both in Washington. He also serves on a number of external boards and councils, including the University of London (Goldsmiths College and the Institute of Commonwealth Studies), University of Oxford's St. Anthony's College (Centre for the Study of African Economies), and on the Africa Policy Group for the UK Government's Foreign and Commonwealth Office.

Eduardo Bazoberry
Chief Executive Officer
PRODEM FFP

Eduardo Bazoberry Otero is Chief Executive Officer (CEO) of PRODEM FFP, a leading microfinance institution in Bolivia which introduced advanced technology in savings in rural and urban areas. Mr. Bazoberry has extensive experience leading public sector entities such as Corporación de Desarrollo La Paz (as Regional Manager) and Fondo de Emergencia Social (as Project Evaluator). In 1991, he joined PRODEM Foundation as Financial Operations Manager. From 1992 to 1999, he became its Executive Director. He promoted the creation of PRODEM FFP as a regulated financial institution. Since 2000, he leads PRODEM FFP as its Chief Executive Officer (CEO). He holds a Bachelor's degree in Hydraulic Engineering from the University of Maryland in USA. He has been invited to speak world wide on topics including rural micro finance and micro credit technologies. He is also a Board Member and a principal shareholder of Innova Empresarial and Innovatel Empresarial, two leading Bolivian technology companies.

Juan Buchenau Hoth
EVP-CCO
Micro Finance International Corporation

After finishing studies in agriculture and economics at the University of Hohenheim in Germany, Mr. Buchenau spent seven years as the leader of a German-sponsored project in Mexico that created and consolidated a regional rural co-operative. After a short period as an independent consultant, he carried out a number of assignments for Internationale Projekt Consult (IPC) and in 1991 became a permanent member of IPC's staff. In 1992, he was appointed long-term adviser to AMPES—an association of medium and small enterprises in El Salvador—where he led a team that designed, established and operated a rural credit unit. He also played a major role in the transformation of the AMPES Credit Service into Financiera Calpiá, a formal financial institution. From 1995 until 1999, Mr. Buchenau coordinated the efforts of Caja Los Andes in Bolivia to expand its financial services in rural areas. He designed and implemented products and procedures adequate to rural enterprises. Seconded to Frontier Finance International (FFI), IPC's Washington based affiliate, in 1999 Mr. Buchenau directed various initiatives, including a countrywide program designed to improve the supply of housing credit to low-income households in Ecuador and the coordination of country studies of rural financial markets in Latin

America and in Uganda. He is currently EVP-CCO at the Micro Finance International Corporation.

Rico Rizal Budidarmo
Head of Investment Banking
Bank Rakyat Indonesia

Mr. Rico Rizal Budidarmo has been working for Bank Rakyat Indonesia since 1989. His current position is the head of Investment Banking. His responsibilities include capital market transactions, managing custodian, overseeing subsidiaries, raising funds and other treasury products. Prior to his current position, Mr. Budidarmo has gone through various assignments at the bank, such as account officer, assistant manager at Financial Institution and Investment, and deputy GM of Capital Market Services and Financial Reengineering. He is one of the key persons of the bank's team for IPO and Subordinated Debt Issuance. Mr. Budidarmo earned a BA in economics from Gajah Mada University, and a MBA in Finance and MIS from Stern Graduate School of Management – New York University

Kenan Crnkic
Executive Director
PRIZMA

Kenan Crnkic is the Executive Director of PRIZMA, leading and sustainable, poverty focused microfinance institution in Bosnia-Herzegovina. As a former senior operations manager at a large microfinance institution in BiH, Kenan was responsible among others also for managing the development of new products and services, market and impact research and fundraising. Kenan is a regional trainer for the Microfinance Centre for CEE-NIS and a certified service provider for market research for micro-finance of the MicroSave-Africa tools.

Carlos Danel
Adjunct Director
Compartamos

After receiving a degree in architecture, Carlos Danel began working in real estate development and social housing finance. At the same time, he helped start Compartamos, a Microfinance Institution in Mexico. Since then, he has also received an MBA from the Instituto Panamericano de Alta Dirección de Empresas (IPADE) and has left real estate to devote his time to Compartamos as Co-CEO. Mr. Danel also serves as a Member of the Board for Compartamos and has been a speaker at conferences and seminars about microfinance and socially responsible investing, including those hosted by the IDB, the World Bank and several other multilateral and international institutions. He has been a member of the faculty of the Microfinance Training Program in Boulder, Colorado and serves on the board of Colcami, Prodesarrollo, and the Directors Council of ACCION International. He has written several studies and articles on microfinance, technology and socially responsible business. He has been profiled by Time Magazine in its special edition for October 2001 and was named Global Leader for Tomorrow by the World Economic Forum in their annual meeting held in Davos, Switzerland in January 2003.receiving a degree in architecture, Carlos Danel began working in real estate development and social housing finance. At the same time, he helped start Compartamos, a microfinance institution in Mexico. Since then, he has also received an MBA from the Instituto Panamericano de Alta Dirección de Empresas (IPADE) and left real estate to devote his time to Compartamos as Co-CEO.

Ruben C. de Lara
Executive Director
TSPI

Ruben de Lara is the Executive Director of TSPI Development Corporation, one of the leading microfinance institutions in the Philippines. TSPI stands for "Tulay sa Pag-unlad, Inc." which translates to English as "Bridge to Progress." Under his leadership, TSPI reached an active clientele of 104,000 micro and small entrepreneurs and hit the 1.0 billion pesos (US$ 18 million) mark in loan releases within 12 months, ending August 2004. Mr. de Lara is a Certified Public Accountant with Masters Degree in Business Administration and in Business Economics. Prior to TSPI, he held key positions of responsibility overseeing finance and business operations for various multi-national corporations, the last of which was Phelps Dodge International Corporation, owned by Phelps Dodge, USA, the world's second largest copper mining company.

Mattias Grammling
Independent Consultant

Mattias Grammling has an MA in Sociology and an M. Sc. in Economics, both from the University of Trier, Germany. He has performed extensive research on issues related to staff motivation, arrears, child labor and integrated rural development for several microfinance institutions all over the world such as Caja Los Andes (Bolivia), CERUDEB (Uganda), Financiera Calpia (El Salvador) and Dipshikha (Bangladesh). Mattias is currently providing consulting services to a number of organizations including MicroSave and the MFN.

Kelly Hattel
Director
MicroFinance Network

Kelly Hattel is the current Director of the MicroFinance Network. She has researched, written and presented on a variety of topics related to microfinance, including the commercialization of microfinance and the financial monitoring and assessment of MFIs. In addition, as a trained member, she has participated in CAMEL (capital adequacy, asset quality, management, earnings, liquidity management) financial assessments of selected members of the MicroFinance Network. She has worked on project financing and development and microcredit lending in West Africa. As an independent consultant, Ms. Hattel researched and co-authored a UNAIDS/USAID study on the impact of AIDS on microfinance institutions in Africa. She also worked as a senior consultant for a financial consulting firm, where she focused on issues pertaining to the U.S. savings and loan industry. Fluent in French and Italian and conversant in Spanish and Bambara, Ms. Hattel also holds a master's degree in international studies from the Johns Hopkins School for Advanced International Studies (SAIS).

Martin Holtmann
Lead Financial Specialist
CGAP

Mr. Holtmann joined CGAP in late 2003 to co-manage its cooperation with commercial banks. After stints in commercial banking and management consulting, he joined Internationale Projekt Consult (IPC), where he provided advisory assistance to banks and credit-granting non-governmental organizations in Eastern Europe and the NIS, Africa, and Latin America. In the early 1990s, he helped Centenary Bank in Uganda to develop and scale up its microfinance activities. For seven years, he was the Moscow-based program manager of the European Bank for Reconstruction and Development's Russia Small Business Fund, a US $300-million initiative supported by the G7. He also served as one of IPC's managing directors for five years. Mr. Holtmann has taught financial and personnel economics at Trier University and has authored several publications on microfinance, especially in the area of staff incentives. He holds a master's degree in economics from Trier University, a master's of public administration from Harvard University, and is currently completing his doctorate in finance at the Goethe University in Frankfurt a. Main, Germany. Mr. Holtmann speaks English, German, and Spanish, and is proficient in Russian and French.

Simon Kagugube
Executive Director
CERUDEB

Dr. Simon Kagugube completed formal education at Yale University Law School in 1988 with a doctorate degree in the science of law (JSD), specializing in Company law and Corporate Taxation. He is an Advocate entitled to practice law in Uganda. He is currently the Executive Director for CERUDEB. Between 1989 and 2004, he has worked as Finance Director for a plastics manufacturing firm in Uganda; Deputy Commissioner for Income Tax, Uganda; Commissioner for Value Added Tax in Uganda; Deputy Commissioner General, Uganda Revenue Authority; Director, Tax and Legal Services, PricewaterhouseCoopers, Uganda; Chairman of the Board, Centenary Rural Development Bank Limited, Uganda and Chairman, Microfinance Support Center Program, Government of Uganda.

Kurt Koenigsfest
General Manager
Banco Solidario, Bolivia

Mr. Koenigsfest has served as General Manager of Banco Solidario (BancoSol) since May 2000. Prior to this position, he held several positions at the Banco Nacional of Bolivia, including Commercial Vice President, Product Design National Manager, Product and Services National Manager and Credit Card National Manager. Mr. Koenigsfest worked at the Banco de La Paz from 1989 to 1992 as Credit Card National Assistant Manager. He Koenigsfest has a B.S. in Business Administration from the University of North Texas.

Carlos Labarthe Costas
Executive Director
Financiera Compartamos SA

Carlos Labarthe is General Director of Financiera Compartamos SA, a Mexican regulated microfinance institute that has almost 75,000 active clients. Mr. Labarthe oversees operations, strategic planning and human resources. Mr. Labarthe was previously director general for Asociación Programa Compartamos. He has presented at several fora on microfinance on a variety of topics in microfinance. He is a member of CGAP's Policy Advisory Group (PAG). Mr. Labarthe studied Industrial Engineering at the Universidad Anáhuac (Mexico) and he has been trained in microfinance at the Economics Institute in Boulder, Colorado. Additionally, Mr. Labarthe is a member of the Steering Committee of the MicroFinance Network.

Levan Lebanidze
Executive Director
Constanta Foundation

Mr. Levan Lebanidze holds a B.Sc. in History, Honors Diploma from Tbilisi State University, an MA from the Central European University, History Department, Budapest and an MBA from

ESM Tbilisi. From 2002 to 2004 Mr. Lebanidze was Program Manager of Constanta Foundation, a microfinance institution which has been operating in Georgia since 1997. Since 2004 he has been the Executive Director of Constanta Foundation. Constanta's mission is to provide long-term, sustainable financial services to economically active, self-employed citizens of Georgia with a primary focus on women entrepreneurs.

Tamar Lebanidze
Member of the Board of Directors
Constanta Foundation

Tamar Lebanidze is member of the Board of Director of Constanta Foundation, one of the leading Georgian microfinance institutions implementing microcredit activities. Constanta has been funded by UNHCR, Save the Children/USAID, CGAP, Shore Bank/USAID and BP BTC. Tamar has been with Constanta since its foundation and has had major contributions towards the development of microfinance activities in Georgia. Prior to this position she worked for several international humanitarian and commercial organizations including Save the Children USA, Medicines Sans Frontiers, Holland and Spartacus International. In addition to her work in development, she has 12 years of experience as a scientific worker at the Institute of Physiology, Georgian Academy of Science and two years teaching experience at the Tbilisi State University. She is the author of several publications in physiology and microfinance.

Jesila Ledesma
Director for Social and Business Development Services
TSPI

Jesila M. Ledesma is the Director for Social and Business Development Services of TSPI Development Corporation. Being mainly responsible for research and product development initiatives of the organization, Ms. Ledesma led in the design of improved micro-insurance benefits for TSPI clients. Her current passion involves the development of farm credit for small Filipino farmers. Ms. Ledesma obtained her Masters degree in Agriculture and Rural Development from the Institute of Social Studies in The Hague, Netherlands. She is a certified market research trainer of MicroSave Africa.

Hung Linh
CEO
CERUDEB

Hung Linh has over 30-years of experience in commercial banking in USA, with the last 15 years working as a consultant in banking and financial management for various international institutions such as USAID, World Bank, and IMF. He has specialized in financial institution capacity building, credit management, SME and microfinance. He has had practical working experience in some 2 dozen countries in Africa, South America, Asia and Eastern Europe. He has been CEO of Centenary Bank since January, 2002.

Elizabeth Littlefield
CEO
CGAP

Ms. Littlefield is a Director of the World Bank and the CEO of CGAP. CGAP (the Consultative Group to Assist the Poor) is a multi-donor microfinance organization dedicated to building financial systems for the poor. Ms Littlefield comes to CGAP from the investment bank JP Morgan, where she was the Managing Director in charge of JP Morgan’s Emerging Markets Capital Markets in London until recruited to join CGAP. As such, she oversaw JP Morgan’s financing business in Central, Eastern and Southern Europe, Central Asia, Middle East and Africa. This involved arranging public bond issues, private placements, securitized and derivative structures and related advisory work, such as credit ratings. In this capacity, she was responsible for most of the first-time public ratings and bond offerings of emerging market sovereign borrowers in the 1990s as well as the subsequent corporate and bank issues. Prior to this position, Ms. Littlefield held positions as Vice President and Head Debt Trader for Africa, Eastern Europe and Asia, and as a Director in JP Morgan's Paris Office in Corporate Finance, among others. In parallel to her career in investment banking, Ms. Littlefield also spent a year and a half in 1989-1990 on secundment to several microfinance institutions in West and Central Africa and in Pakistan. She has served on the executive board of several organizations including Women's World Banking, Profund and Africa International Financial Holding. Ms. Littlefield has also been a founder of several of not-for-profit organizations including an organization that linked European food banks and homeless shelters and the Emerging Market Charity in the UK. A US and UK citizen, Ms. Littlefield is a graduate of Brown University and Ecole Nationale de Sciences Politiques in Paris.

Jason S. Meikle
General Director
FINCA Kyrgyzstan

Mr. Meikle has been the General Director of FINCA Microcredit Company since its incorporation a year ago. Previously he was Country Director of the USAID funded FINCA Kyrgyzstan microcredit program from 1999-2003 and Regional Manager and Operations Manager for nearly two years before that. He is an American citizen resident in Kyrgyzstan since 1995. Mr. Meikle has also worked with private foreign investment in Kyrgyzstan and as a Peace Corps volunteer working with local businessmen. Mr. Meikle holds a bachelors degree from Brown University with two majors in Anthropology and Economics.

Charles Nalyaali
Chief Executive Officer
UMU

Mr. Charles W. Nalyaali is UMU's Chief Executive Officer and one of the co-founders of Uganda Microfinance Union. Mr. Nalyaali founded UMU after serving at the Bank of Uganda in the Supervision Department for 19 years, where he rose in ranks from Banking Officer to an Assistant Director. Mr. Nalyaali is a holder of a Masters degree in Sustainable International Development from Brandeis University in the United States and has a Bachelors degree of Commerce in Finance from Makerere University in Uganda. Mr. Nalyaali has also attended several courses in banking both locally and abroad.

Yusuf Nawawi
Head of International Visitor Program
Bank Rakyat Indonesia

Mr. Yusuf Nawawi joined BRI in 1985. As of November 2004, Mr. Nawawi was head of the International Visitor Program (IVP) of Bank Rakyat Indonesia his primary responsibilities being to provide training for international visitors and to provide public relations for the bank's micro banking business. He is also responsible for coordinating the bank's participation in international forums, especially with respect to microfinance. Mr. Nawawi has had various assignments at the bank covering almost all aspects of the bank, including credit, human resource management, branch manager, reorganization / reengineering team, and training and education. Mr. Nawawi has a BA in Economics from Sriwijaya University and a MBA in Banking and Finance from the Wetherhead School of Management – Case Western Reserve University.

James N. Mwangi
Finance and Strategy Director
Equity Building Society

James N. Mwangi is the Finance & Strategy Director of Equity Building Society - Kenya. He joined EBS in 1993 when it was technically insolvent and has provided leadership which has helped see the transformation of EBS through a mission shift from a mortgage provider to a leading microfinance institution in Africa. Outreach has increased from 4,000 customers to over 200,000 customers in 10 years. Prior to his current assignment, Mr. Mwangi was a bank group financial controller and prior to that an auditor with Ernest & Young.

James J. Obama
General Manager
Pride Tanzania

Mr. Obama was head of Operations Department with PRIDE Tanzania for a period of three years before becoming the Operations Manager and Deputy General Manager in June 1999. He held this position for another three years before being appointed to his current position as General Manager. He is trained in business management and holds MBA and BCom (Hons) degrees, majoring in finance and marketing. He has ten years of working experience in microfinance and has held senior positions including Director of Operations at MEDA in Tanzania where he was responsible for designing and managing a wholesale credit facility for Tanzanian MFIs. Prior to his carrier in microfinance, he worked for a 22 year period in various capacities in the civil service including 6 years at a commercial bank and four years at an information technology training institute. He has attended a number of microfinance training programs including the Microfinance Best Practice in Managua (Nicaragua), Boulder (USA) and the ILO institute in Turin (Italy).

María Otero
President & CEO
ACCION International

María Otero is President and CEO of ACCION International. She was previously ACCION's Executive Vice President, from 1993-1999. Ms. Otero joined ACCION in 1986 as director of its microfinance program in Honduras. Ms. Otero has authored several monographs on microfinance and co-edited The New World of Microfinance. She serves as chair of the Steering Committee of the MicroFinance Network, co-chair of the Microenterprise Coalition, and has served in a variety of advisory and board positions, including the Policy Advisory Group of CGAP. In 1994, President Clinton appointed Ms. Otero as chair of the Board of Directors of the Inter-American Foundation, a position she held until December 1999. Ms. Otero currently sits on the board of several institutions including the Calvert Foundation, the United States Institute of Peace, and the Advisory Board of the United States General Accounting Office. She also serves the board of BancoSol and Mibanco. Since 1997, Ms. Otero has been an adjunct professor at Johns Hopkins School for Advanced International Studies. She received a master's degree in international studies from Johns Hopkins SAIS and a master's in literature from the University of Maryland. Ms. Otero was born and raised in La Paz, Bolivia, and resides in Washington, DC.

Catherine Quense
CFO
ACCION

Catherine Quense joined ACCION in 1983 as the assistant to the director, working on the formulation and implementation of a national education program designed to raise awareness about Latin American development issues. ACCION's CFO since 1985, Ms. Quense is responsible for financial and administrative management, including budget preparation and analysis, fiscal planning, human resource management, supervision of office operations and management information systems, coordination with external auditors, and administrative and financial systems support for associate programs and field staff. Ms. Quense is also involved in strategic organizational planning and development for ACCION International, as well as model development for ACCION USA. Prior to joining ACCION, she served as director of operations for both the Cambridge Family and Children's Service and the Cambridge and Somerville Cooperative Apartment Project. Ms. Quense holds a master's of public administration from Harvard University's John F. Kennedy School of Government and a bachelor of arts in Latin American studies from Yale University.

Alvaro Retamales Contreras
General Manager
Bandesarrollo

Mr. Retamales is an Industrial Civil Engineer ("Universidad de Chile") with a Master's degree in Business Management ("Universidad Adolfo Ibañez"). He has also obtained degrees in Decisional Marketing at the Department of Industrial Engineering of the "Universidad de Chile" and in Poverty Reduction Strategies in Latin America at the World Bank Institute - Politic Sciences Institute of "Universidad de Chile". His work experience relates to banks and financial companies, where he acted as (in chronological order) Deputy Manager (Banco O´Higgins), Financial Manager (Grupo Mellafe y Salas) and General Manager/CEO of "Financiera Acceso S.A." (FFP) Bolivia. Today, he is General Manager/ CEO of "Bandesarrollo Microempresas S.A.", Affiliate of "Banco del Desarrollo" (Chile).

Elisabeth Rhyne
Senior Vice President
ACCION International

Elisabeth Rhyne is ACCION International's Senior Vice President for International Operations/Africa and Senior Vice President for Policy, Research and Financial Analysis. In addition to leading ACCION's operations in Africa, Ms. Rhyne oversees the CAMEL team, ACCION's publications, and directs ACCION's research efforts to develop new financial products and assess poverty. Ms. Rhyne has published numerous articles and books on the topic, including The Commercialization of Microfinance: Balancing Business and Development (co-editor), Mainstreaming Microfinance: How Lending to the Poor Began, Grew and Came of Age in Bolivia (author), and The New World of Microenterprise Finance (co-editor), all published by Kumarian Press. Ms. Rhyne was Director of the Office of Microenterprise Development at the U.S. Agency for International Development (USAID) from 1994 to 1998, where she developed and managed USAID's Microenterprise initiative. She has lived in Africa (Kenya and Mozambique) for eight years, working in the microfinance field.

Sushil Roy
Executive Vice President
ASA

Mr. Sushil K. Roy is the Executive Vice President (Operation) of ASA and born in January 1954. He obtained a Masters degree with honors from Dhaka University, Bangladesh in 1976. Mr. Roy has 25 years practical working experience in the field of development especially in microfinance and human relations' development training in two leading NGOs in Bangladesh (8 years in BRAC and 17 years in ASA). Mr. Roy has provided Technical Assistance Service to the UNDP MicroStart Program in Nigeria & Philippines, PRISMA in Peru, SDP in Yemen, NBJK & BANDHAN in India on sustainable microfinance operations and has provided evaluation and project appraisal service to NBJK in India & SNMB in Bangladesh. He conducted a good number of training courses at home and abroad and attended various seminars and workshops related to microfinance in Germany, Switzerland, Thailand, Indonesia and India as a resource person as well as a participant.

Grace Rubambey
Director of Microfinance, Bank of Tanzania

Ms. Grace Rubambey, a microfinance expert, is a holder of BB.A. (Econ) and M.A. (Econ) degrees from Kent State of University, Kent, Ohio, USA. She has been with the Bank of Tanzania (central bank) for more than 25 years and has held a number of management positions since 1981 including Manager of Economic Research and Statistics, Director of Rural Finance, Director of Financial Markets and currently Director of Micro-finance. Ms. Rubambey led the team that drafted the National Micro-finance Policy for Tanzania and the National Task Force that reviewed and prepared the legal, regulatory and supervisory framework for micro-finance. Ms. Rubambey has also been a member of the Board of PRIDE Tanzania since its establishment. While in the service of the Bank of Tanzania, Ms. Rubambey was seconded to the Nairobi-based African Rural and Agricultural Credit Association (AFRACA) as its Secretary General for five years (1984 – 1989). She has also done a number of consultancy assignments for various local and foreign organizations inside and outside the country.

Richard Schumann
Director
Marketing & New Product Development

Richard Shumann leads ACCION's housing lending program worldwide, which uses innovative credit and collateral procedures to support home improvements and construction for the working poor. His work includes market research, developing new housing products, advising on implementations, and disseminating the results of housing lending. Seven ACCION affiliates offer, or will have, microhousing programs by mid-2004. Before working in housing, Mr. Shumann served as ACCION's resident advisor in Mozambique, where he supervised credit methodology transfer, credit administration, staff development and training and institutional development for ACCION's partner Tchuma Cooperativa de Credito e Poupança. Mr. Shumann has an extensive background in African microfinance and rural development. Before joining ACCION in 2002, he spent three years in Mozambique working on microfinance operations and business development projects for ACDI/VOCA, Ebony Consulting International, and the Cooperative League of the USA. Mr. Shumann holds a master's in public affairs from the Woodrow Wilson School of Public and International Affairs at Princeton University. He earned his B.A. in economics from Macalester College (Minnesota). He is fluent in English, Portuguese, French and Spanish.

Soronzonbold Lhagvasuren
Director of the Branch Banking Division
XAC BANK

Mr. Soronzonbold has been the Director of the Branch Banking Division of XAC Bank since November 2003. He has been working for XAC Bank since 1999, performing different tasks such as being the Director of Administration Division, Manager of the Customer Service Division, Marketing Manager and also worked as a credit specialist.
He has a Bachelor's Degree in Finance Administration in Banking, with Distinction from the Mongolian National University.

Motaz El Tabaa
First Deputy Executive Director
Alexandria Business Association - SME project

Motaz El Tabaa joined ABA in February 2004. From 1979 to 1995 he worked as a Senior Manager for credit & marketing at the Commercial International Bank (Egypt). From 1995 to 1997 he was Director of the Delta Branches for the American Express Bank and then from 1997 to 2003 he joined the Egyptian Financial Group (EFG-Hermes) as a General Manager for the Delta Branches. In addition, Mr. El Tabaa has been a lecturer at the Arab Academy for credit courses to banking staff and Financial Advisor and BOD member in several companies.