



# Microfinance Associations Strategies for Sustainability

Diana Dezso, SEEP Network  
Jenny Morgan, SEEP Network  
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# What Is A Microfinance Association?

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- *Member-based* association
- Made up of independent MFIs working in a similar setting
- May be informal; often formalize as industry matures
- National, sub-national, or regional in scope
- Provide services, and engage in activities, for the benefit of its members

# Common Roles of a Network

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- Promoting best practices
- Capacity building
- Information exchange and dissemination
- Industry learning
- Performance monitoring
- Policy advocacy
- Technical assistance



# Stage I: Early Stage of Microfinance Market Development

## Characteristics:

- No competition between MFIs;
- Informal agreements between MFIs prevent direct competition;
- Few types of MFIs; Few products; Little information dissemination;
- High-levels of MFI donor-dependency.

## Possible Role for MFA:

- Forum for information and lateral learning among members on a voluntary basis;
- Capacity building for improving and expanding retail financial services, such as loan officer training, microfinance accounting and portfolio management;
- Awareness building activities to educate policymakers the characteristics of an enabling environment for microfinance.

## Stage II: Burgeoning Stage of Microfinance Market Development

### Characteristics:

- Some competition in urban areas;
- Agreements between MFIs prevent competition in non-urban areas; Some interest rate differentiation;
- Greater efficiency; Some market research and new products;
- Larger MFIs producing good financial statements; Some informal industry information available;
- Increased financial self-sufficiency, MFIs less dependent on donors.

### Possible Role for MFA:

- Regular, formal capacity building activities
- Development of a code of conduct
- Collection and dissemination of industry information;
- Advocacy activities for an appropriate legal and regulatory framework for microfinance.

# Stage III: Vibrant Stage of Microfinance Market Development

## Characteristics:

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- High degree of competition between MFIs;
- High levels of financial self-sufficiency seeking commercial capital (loans, investments) and effectively intermediating savings.
- Commercial banks involved in Microfinance;
- Product differentiation; Cross-subsidization to develop less profitable markets;
- MFIs producing high quality financial statements;
- Industry information reported regularly from a reliable source;

## Possible Role for MFA:

- Continue the provision of capacity building activities as well as specialized training or consultancies in management, board issues or compliance;
- intense lobbying when issues affecting microfinance arise;
- self-regulation and standard-setting;
- financial intermediation activities (linkages to wholesale loan funds/capital markets).

# Areas of Network Effectiveness

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- Governance
- Operations
- Human Resources
- Financial Viability
- Service Delivery
- External Relations

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# **Network Governance: Members Make the Difference**



# Strategy 1: Strong and Balanced Board of Directors

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- Identify the skills and work experiences that would be useful on the board
- Create appointed director positions to increase capacity in strategic areas such as policy advocacy or fundraising
- For networks with diverse membership, create director seats for representatives of each group
- Ensure the board has an internal self-assessment mechanism

## Strategy 2: Strong Membership

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- Establish minimum, clear membership criteria that require some level of participation in the network
- Ensure that the network is as representative of the microfinance sector as possible
- Develop strategies for managing growth
- Develop strategies for managing a diverse membership

## Strategy 3: Ensure all members understand the mission of the network

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- Create a strategic plan that illustrates how all activities of the network contribute to the mission
- Ensure the board actively pursues strategic coherence in network activities
- Review the strategic plan at least annually and update as necessary
- Include reference to the network's mission on all marketing materials

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# Network Operations: Keeping Members Involved

# Strategy 1: Build systems for operations management

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- Create an annual operating plan for approval by the membership
- Develop criteria for taking on new activities
- Establish project management process for every activity
- Develop a system for network self-monitoring and measure progress against targets
- Develop an annual reporting system

## Strategy 2: Create opportunities for member involvement

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- Develop working groups around specific activities or themes
- Adapt peer learning into capacity building activities
- Implement a consensus building approach to policy statements
- For diverse membership, consider appointing a liaison for each distinct group of members

## Strategy 3: Prioritize member needs

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- Develop a system for assessing member needs
- Ensure member feedback reaches the board of directors
- Prioritize member consultation in job descriptions
- Use working groups to ensure member input into decisions
- Build consensus among members for policy positions
- For networks with diverse membership, appoint a director liaison for each group

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# Network Human Resources: The Foundation of Success



## Strategy 1: Recruit the right staff

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- Create job descriptions based on strategic and operating plans
- Ensure the salary is commensurate with qualifications and competitive
- Establish a recruitment committee within the board
- Implement a probationary period that is extendable
- Establish contingency plans--- appointing acting staff, hiring consultants

## Strategy 2: Prioritize transparency

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- Provide a detailed orientation
- Ensure the human resources policy manual is up to date
- Establish promotion criteria
- Evaluate performance against the annual work plan

## Strategy 3: Strategically develop staff capacity

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- Identify skills the network will require in the future
- Establish a professional development plan and include its fulfillment in the employee's annual appraisal
- Reward exceptional performance with professional development opportunities
- Cross train staff in key skills, such as proposal writing

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# Network Financial Viability: Plan For Financial Success

# Strategy 1: Plan Strategically

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- Create a business plan with realistic financial projections
- Ensure new activities have sufficient funding, or fundraise for them
- Develop a financial viability plan

## Strategy 2: Develop Demand-Driven, Fee-Based Services

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- Price services (trainings, capacity building, consultancy, etc.) appropriately based on actual costs and financial projections
- Annual meetings – opportunity to generate income for the network
- Work with donors to include an administration fee or overhead rate within all project proposals/funding
- Develop appropriate membership fee structure

## Strategy 3: Diversify income sources

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- Develop 2-3 long term donors who will fund the business plan rather than individual activities
- Strategically design the most appropriate breakdown for your network:
  - % of membership fees
  - % of income generated through fee-based services
  - % of donor support, etc.

## Strategy 4: Financial Controls

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- Regular analysis of financial projections vs. actual
- Each unit presents monthly budget comparisons
- Appoint a board level finance committee to follow network's finances



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# Service Delivery Strategies

## Strategy 1: Determine the Right Mix of Services

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- Develop demand-driven services based on regular member needs assessment and network capacity
- Identify areas in which the network has a unique advantage in the market and does not compete with members
- Evaluate the effectiveness of services provided and member satisfaction
- Develop new products and service opportunities

## Strategy 2: Determine Service Delivery Strategies

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- Engage members to carry out activities, especially during the network's beginning stages
- Seek out efficient delivery strategies, including brokering, outsourcing, innovative partnerships that generate income for the network and/or keep costs low
- Focus on delivering quality services even if it means taking on a limited number of activities

## Strategy 3: Demonstrate the Value of Membership

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- Develop and clearly communicate to members the advantages of membership vs. non-membership
- Communicate the importance of providing certain services to non-members as a way of supporting overall industry development
- Encourage members to recruit non-members

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# External Relations Strategies

## Strategy 1: Build a good public reputation

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- Meet regularly with government officials, donor representatives and influential MFI's; always discuss network achievements
- Participate in industry task forces, partnerships, and collaborative efforts that address key issues in microfinance
- Consider expanding the network's membership or forming coalitions with other organizations to enhance voice in policy discussions

## Strategy 2: Become representative of the sector

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- Hold highly visible annual conferences
- Become THE source for information on the industry by, at a minimum, collecting and consolidating general institutional information from members
- Maintain a media presence

## Strategy 3: Develop international visibility

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- Membership/collaboration in regional and international networks
- Engage in peer learning activities with other networks from other countries and regions of the world (such as network working groups facilitated by SEEP)
- Attend and present local experiences at international conferences



Thank you!