

Savings & Credit Forum

FINANCIAL VIABILITY



November 22, 2002



FINANCIAL VIABILITY: Donor's role

What are the points, questions to be discussed, negotiated between the contracting parties:


1. Aim and objectives of the Financial Service Provider (and the Donor)
2. Concept & Strategy to reach the common aim
3. What support strategies to promote financial viability and outreach
4. What tools / instruments
5. What information / reporting need



Aim & objectives on the Donors' side

- ☀️ Serve the needs (also) of the poor who have no or limited access to adequate financial services
- ☀️ Offer a number of services, adapted to their needs & possibilities
- ☀️ Diversification of risks (clients & products); possibility of cross subsidies
- ☀️ Outreach by number of clients, geographically & by number of poor people served
- ☀️ “Entrepreneurial” decision making (behavior); efficiency and effectiveness of services delivered
- ☀️ “Sustainability” of the services in the long run


 *Assure a common denominator / philosophy on the above points*




Where & what shall a Financial Service Provider be in 5 / 10 years ?

Concept & Strategy from a point of view of

- ✿ Institutionalisation - ownership, legal structure
- ✿ Governance - selfdetermination or ...
- ✿ Management - HRD
- ✿ Financial Viability - cost coverage & efficiency
- ✿ Outreach - effectiveness
- ✿ Innovation capacity - flexibility, changing environment

 *Agree on a strategy, a business plan & stages of development*



What support strategies are conducive (impeding) to reach the common objectives of financial viability & outreach ?


- ✿ Consider your partner from the first day onwards as a “business” partner.
Bases for discussion are a common goal & a business plan
- ✿ Engage for a long term agreement for support (if needed & desired)
- ✿ Foresee risks & deviations in the business plan
- ✿ Fix interim results & allow if necessary for readjustments in the business plan
- ✿ Assure that there is a common understanding on roles & a trust on both sides (no (micro) management by the donor !)

 *Play a subsidiary but critical role*



What tools / instruments 1/2

- ✿ Capital participation (risk capital) or financing in an initial phase equipment / investment costs to allow for capital creation & for building up “reserves”
(Take into consideration follow up costs for all investments)
- ✿ Credit lines to allow for scaling up & profit or guarantees to avail commercial loans
(Relate to savings mobilisation & market rates (distortion))
- ✿ Human Resource Development: Build-up (initial) costs, foreign expertise, special training efforts
(Make it a precondition that the institution “budgets” regular costs for HRD)



What tools / instruments 2/2

- ☀ Innovations, Product Development

Participation in development costs and/or risk-sharing for testing innovations, developing products, etc.


(On the basis of a project / experiment design with budget & time frame)

- ☀ Access to new technologies, exposure to new ideas & other experiences

Linking, exchange, workshops. Support networks at national & regional level as well as knowledge management

- ☀ Coordination & Policy dialogue

Assist / influence to create a conducive environment for financial services for the poor;
minimal interest rate policy / ceilings, minimal reserves, savings mobilization, taxation, minimal capital requirements
competition

 *Tune the support / tool to the development stages (and the absorption capacity) of the institution*



What information & reporting needs ?

- ☀ Agree on certain indicators & standards to be met (*These should be fixed according to the objectives (poverty orientation & financial viability), the age of the activity, the methodology chosen and the local situation – CGAP standards are only a referral*)
 - ☀ Early information on deviation from the business plan or changes in management / governance
- ➡ *Transparency at all levels is a precondition for an effective partnership*