

**MINUTES OF THE  
SAVINGS & CREDIT FORUM  
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***Transformation of micro-credit NGOs/projects into  
regulated MFIs***

The Savings & Credit Forum of 15 June 2007 discussed the transformation process of micro-credit projects and NGOs into regulated microfinance institutions. The forum offered a rich programme: it started with an introduction on the rationale and challenges of the transformation process and then illustrated the transformation process by presenting three different case studies.

Mr. Hansruedi Pfeiffer (SDC) first welcomed the participants and introduced the speakers: Mr. Hans Ramm, Teamleader at Intercooperation; Ms. Susanne Enz Dia, desk officer for Chad, Caritas Switzerland; Mr. Damase Gnonhossou, General Director *Union des Caisses d'Epargne et de Cr dit (UCEC)*, Chad; Mr. Leo Meyer, Co-ordinator for Southeast Europe, HEKS; Mr. Martin Heimes, Co-ordinator EFSE Development Facility; and Ms. Jessica Jacob, student at the University of Geneva.

Hans Ramm introduced the topic by explaining the **development context**, the **rationale**, **preconditions** and **challenges** of the transformation process. He argued that since the 1990s institutional transformation has become an objective for bigger outreach and reducing donor dependence. There are several rationale for an NGO to transform into a regulated MFI: most important, an MFI has more possibilities to diversify products, establish a stronger equity base and improve governance and management. These are all crucial aspects to achieve operational and financial sustainability and to increase outreach. Hans Ramm also pointed out that there are several preconditions for the transformation process; only projects or NGOs with a certain scale of operation, a commitment to growth and a given market potential should initiate a transformation process. Moreover, a project/NGO should be sufficiently supported by donors or investors, as this challenging process requires certain technical assistance.

The speaker emphasised three crucial and challenging aspects of the transformation process: **human resources**, **management systems** and the **legal transformation process**. He pointed out that transformation necessitates a tailored human resource policy, which includes not only the building of additional banking and marketing skills, but also the creation of a corporate identity and a mental change of staff, as "beneficiaries" of an NGO become "clients" of an MFI. In addition, an NGO planning to transform into a regulated MFI requires an improved integrated management information system (MIS), a new marketing and product development strategy, internal control and audit, and a system for liquidity management and treasury. For these investments, NGOs/projects usually require technical assistance. Moreover, Hans Ramm pointed out that the legal transformation process entails several challenging decisions: the form of legal status and the ownership of the new institution has to be chosen, and the transfer of all assets, liabilities and personnel of the project/NGO to the new formalised institution has to be organised. In conclusion, Mr. Ramm illustrated his presentation with the example of the transformation of the NGO Acleda in Cambodia into Acleda Bank.

During the following discussion, the possible negative effects of transformation were discussed, in particular, the possibility that an NGO undergoes a "mission drift" away from reaching the poor when transforming into a regulated institution. However, participants argued that even when institutions start serving higher market segments, they normally continue to offer adapted products to the poor. It was also emphasised that the NGO should not remain involved in the operations of the financial institution, and above all not undermine commercial operations with subsidised loans.

The first case study on the **Union des clubs d'épargne et crédit du Mayo-Kebbi (UCEC Pala)** in Chad was jointly presented by Ms. Susanne Enz Dia, who described the support of Caritas Switzerland to the transformation and institutionalisation of UCEC and Mr. Damase Gnonhossou, who emphasised the strategy and challenges of the process. Ms. Enz Dia first presented the history of UCEC and of Caritas' support to the union. After an external evaluation in 1999, Caritas and UCEC initiated a restructuring process of the union with the objective to achieve operational and financial self-sufficiency. Caritas ensured its support to this process, but also announced that it would gradually withdraw its assistance. Ms. Enz Dia pointed out that the institutionalisation and commercialisation of UCEC entailed a necessary change in the mentality of UCEC's staff and of the church representatives with whom Caritas and UCEC closely collaborate.

Mr. Damase Gnonhossou presented the **strategy and challenges of the institutionalization of UCEC** by emphasising the different steps of UCEC's transformation. The most challenging step was the necessary changes in the human resource policy. UCEC set up a system of incentives for staff and concentrated efforts on motivating staff e.g. through study tours to other unions and countries. Moreover, standardisation of procedures of the different savings and credit clubs as well as unified planning and monitoring of their budget had to be established. In order to work towards financial sustainability, UCEC also started collaborating with local banks. As to legal transformation, UCEC has obtained a microfinance licence in 2006. But the restructuring process continues even after the achievement of legal transformation. The objectives of the near future are to set up an efficient MIS and to attract investors in order to achieve financial self-sufficiency in long term.

After a common lunch, Mr. Leo Meyer presented HEKS' assistance to **LAM and FAER (Romania)** in their transformation from rural development programmes to MFIs. The two programmes started as humanitarian support programmes in the early 1990s, but soon became rural development projects with a credit component aimed at supporting private sector initiatives. The transformation into MFIs was an evolutionary process and had to be constantly adapted to the changing legal framework. In 2002, both programmes were reorganised as a foundation. During this process, financial and non-financial services were separated and first steps were taken to work towards financial sustainability. With the adoption of a new microfinance law in 2005/6, the legal transformation into an MFI became possible. At the same time, a new orientation targeting financial self-sufficiency with external refinancing was adopted for the two MFIs. HEKS has supported the transformation and commercialisation process with technical assistance and through linking the MFIs with potential investors.

The **viewpoint of such a potential investor – the European Fund for Southeast Europe (EFSE)** – was presented by Mr. Martin Heimes. Mr. Heimes first introduced EFSE's criteria for qualifying for a loan and technical assistance. In addition to key indicators such as portfolio quality, management capacity or transparency, an MFI also needs to have a vision and willingness to grow and commercialise its operations. In the case of LAM/FAER, EFSE singled out two areas for technical assistance: product design and strategic planning. This also includes assistance in merging the operations of the two separated institutions. The speaker argued that LAM/FAER need to realise their full market potential, since the Romanian market is developing fast.

The last input of the forum was given by Jessica Jacob, a student of the University of Geneva, who presented her research on the **transformation of the Bolivian NGO Pro-Credito into an MFI and subsequently into a bank**. From its creation in 1991, the NGO Pro-Credito intended to offer a broad range of financial services and targeted to achieve financial sustainability. It soon became evident that Pro-Credito had to adopt another legal form in order to reach these objectives. The transformation into the MFI *Caja de Ahorro y Préstamo Los Andes* allowed the institution not only to diversify its services, but also to attract private capital and to accelerate its growth. After a decade of gradually increasing its share on the Bolivian microfinance market, the MFI Los Andes started the transformation process into a commercial bank. The institution could only grow further by adopting the legal form of a bank. An essential motive for transformation was that many of the MFI's clients had developed their business to such a point, that they required a broader range of banking services,

which only a bank could offer them. Through the transformation into *Banco Los Andes ProCredit*, the institution also gained a better status and a corporate image inspiring stability.

The double transformation of Los Andes ProCredit was accompanied by several challenges for instance in the field of human resources or with the introduction of new services and products. The institution, however, succeeded in overcoming these difficulties, not least because it followed a constant vision of growth and received the necessary support from international donors and the ProCredit Bank network.

After a lively discussion, Hansruedi Pfeiffer shortly summarized the key findings and conclusions of the workshop. He thanked the speakers, the participants and organisers of the forum for such rich and diverse presentations.

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