SAVINGS & CREDT FORUM
FRIDAY, NOVEMBER 22, 2002

FINANCIAL VIABILITY:
BALANCING TARGET GROUP OUTREACH AND PROFIT ORIENTATION

To the participants of the Savings & Credit Forum and other interested parties

November 25, 2002

Dear colleagues, dear Madame, dear Sir,

THE S+C FORUM OF FRIDAY, NOVEMBER 22, PROVIDED US WITH THOUGHTFUL AND INTERESTING INSIGHTS INTO THE PROBLEMATIC OF FINANCIAL VIABILITY OF MICROFINANCE INSTITUTIONS, ESPECIALLY IN RELATION TO TARGET GROUP OUTREACH.

Ruth Egger presented the donor perspective of how to promote financial viability of microfinance institutions (MFIs). Kimanthi Mutua, director of K-Rep, the bank in Kenya that serves the target group, provided us with an illustrative example of what the institution can and should do in order to reach financial sustainability. Finally, Rochus Mommartz presented some interesting insights into a private investor's approach to the promotion of financial viability of an MFI.

All three presentations, as well as a bibliography, can be downloaded at SDC's finance website (www.intercooperation.ch/finance). The main questions and points of discussion from the plenum are summarized hereafter.

Donor's perspective:

- When talking about promotion of financial viability of savings and credit institutions, both donors and investors seem to use the same approach. In all cases, financial support should be based on a realistic **business plan** and clearly state the **duration of the engagement** and the **exit strategy**. These conditions should be negotiated and approved between all stakeholders.

- It is more difficult for donors, than for investors, to provide directly equity capital to an institution. If and when needed, donors can provide **soft loans and guarantees**, which are not provided by banks or private investors. They can also help creating **links** between the institutions they support and banks (or investors) that provide capital.

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- Donors should invest in **equipment, capacity building, and human resource development** for the institution. They could promote and support specialized **training institutes** in order to continuously train staff for MFI's.

MFI's perspective:

- If the MFI wants to reach sustainability, it has to make sure that clients grow with it. It is important to **gain clients fidelity** and to **diversify the services** offered, including saving, health insurance, etc. The aspects of target group outreach should be a constant concern for the institution.

- Continuous **training** and a high level of **commitment** of the staff are key factors to guarantee the sustainability of an MFI.

- Financial viability means also institutional viability: **clear ownership and accountability** of the institution, **long-term commitment** of donors and investors (with clear exit strategies), **professional management, good governance and transparency**.

- The **political and economic environments** are also key factors for an institution's success in reaching financial viability. In high inflation economies or countries with high level of civil unrest, it is probably not appropriate to create an MFI.

Investor's perspective:

- It is difficult to transform an NGO type of institution into a financially sustainable MFI, because of differing objectives and approaches. IMI/IPC often have created their institutions from scratch and play a **central role in the board and the management** of the institution.

- IMI/IPC supported institutions are mostly created in the capital cities and expanded to other urban areas. In rural areas, financial institutions still need to be made financially viable, particularly to provide loans for agricultural activities.

- Even investor supported MFI's need **donor grants for technical assistance** to initiate activities or introduce innovations.

Hoping to see you numerous for the next S+C Forum, still to be announced, we remain,

With best regards,

The organizing team, FEM (Finance, Enterprise and Markets),
Intercooperation