



Financing Rural Finance Institutions

Challenges & Elements for Successful Interventions

Marc de Sousa-Shields
Enterprising Solutions

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- Market Reform & Liberalization
- Unprecedented Opportunities for Rural Economies and the Rural Poor
- Small Populations, High % Poor, Narrow Band of Economic Activity
- Poor Social & Physical Infrastructure
- High Transaction Cost, Unique Risks, Lack of Collateral

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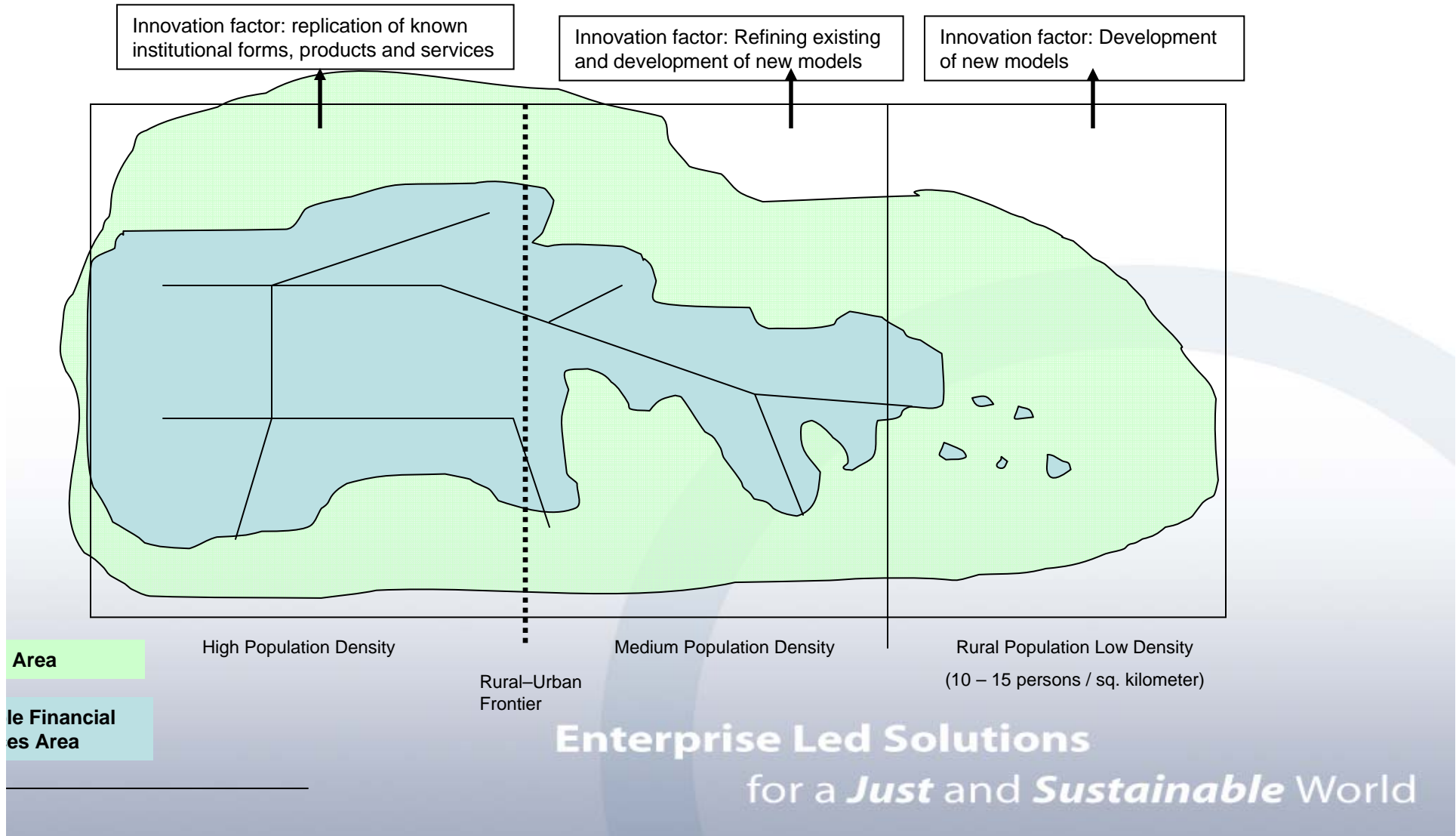
Financial Institution Characteristics

- Offer broad range of products and services
- Have sources of external capital or pool savings
- Transparent and transportable credit histories
- Lending Not tied to specific crop
- Tailor products to client household income cycles
- Diversified loan portfolios
- Do not tie loans to particular use
- Strategies for overcoming transaction costs

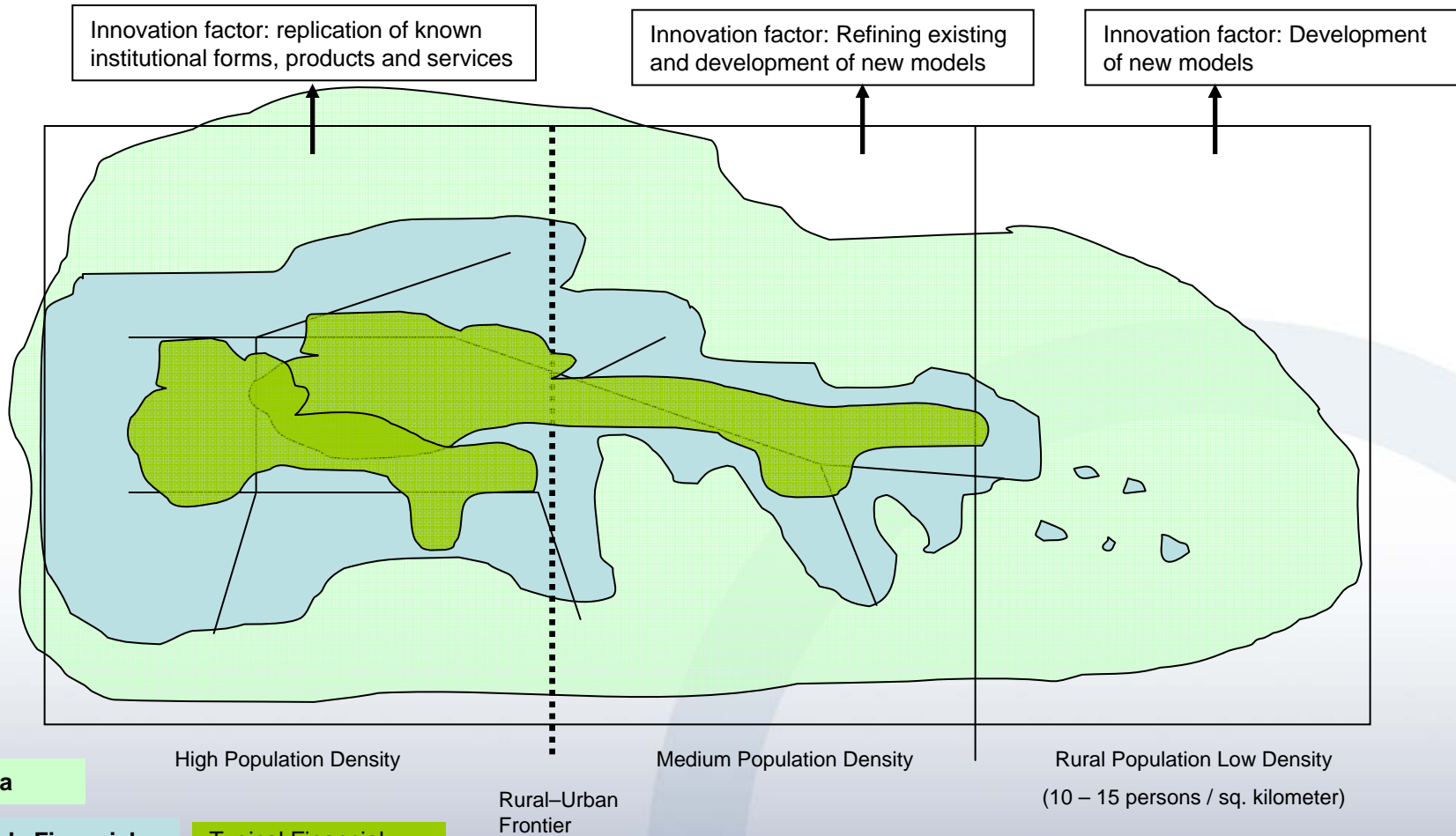
Source: Peck Christen and Pearce, CGAP Occasional Paper No 11.

Intervention Characteristics

Replication
Innovation
Modification
Experimentation
Patience



Innovation & Market Penetration



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1. Know Your Market

- Macro – Meso – Micro Level Analysis
 - Conventional Financial Markets (Urban & Rural)
 - Pro Poor Financial Markets (Urban & Rural)
- Use Financial Market Analysts not RFI or MFI Techies

(Don't let the consultants fool you: not every one can do this)

2. Sector Development Approach – Strategy

- Sector Integrated Whole (Macro Meso Micro Levels)
- Match Resources to Sector Needs (Market Analysis)
- Target High Value Intervention
- Cooperate, Collaborate with Others
(not duplicate, recreate or do something not otherwise needed)

3. Sector Development Approach – Tactics

Institutional Support

- Funding – Grants, Debt, Equity, Direct and Fast
- Debt in Step with Capacity
- Available on a competitive basis
- TA provided on competitive basis (on the ground and intense)
- Performance Based Goals and Benchmarks
 - Simple measurable attainable performance
 - Growth, sustainability, and self reliance
- Infrastructure Support
- Policy Support
- Correlation Between Lack of Government Involvement and Institutional Sustainability

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4. Monitoring, Evaluation, Enforcement

- Monitoring
 - Frequently (Quarterly) on a measurable performance basis
 - Benchmarked for fairness
 - Use an FI Expert (don't let the consultants fool you!)
- Evaluation
 - Annually based on over-all business plan objectives
 - Realistic Recalibration of expectations (up or down)
 - Redeployment of Resources (e.g., more TA more debt etc.)
- Enforcement
 - Immediate and significant action 1st Sign of Problems
 - Responsibility to act in the business like fashion sustainability objectives demand

5. Knowledge Management

- Pool and Distribute Knowledge
 - Internal Uses
 - Share Generally
 - Intellectual Capital for Management Purposes
 - External Uses
 - Share Mistakes and Successes Widely and Often
(If you can't do it publicly, do it privately)



Microfinance for a Just & Sustainable World

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