

## ➔ MONGOLIA AND MOROCCO: MICROSTART BACKS BUSINESS PLANS OF LEADERS WITH VISION

### **In a Nutshell**

Experiences from Mongolia and Morocco demonstrate the importance of backing breakthrough institutions in microfinance that can become industry leaders and engage in healthy competition in the market, while maintaining a focus on the overarching goal: reaching out to poor clients.

Past lessons indicate that while funders can invest and structure their assistance wisely, they do not create successful microfinance; managers with the vision to establish sustainable institutions do. Moreover, organizations with strong management are exactly the ones who are most likely to benefit from technical assistance – weaker institutions often cannot implement even the good ideas they receive.

### **The Story**

By allowing poor people access to financial services, microfinance is an important tool to combat poverty. Comprehensive studies have demonstrated that it helps very poor households meet basic needs and protect against risks, while improving overall economic welfare and allowing the growth or stabilization of small enterprises. By supporting women's participation in particular, microfinance takes a step towards gender equality. In general, the magnitude of impact correlates to the length of time that clients have been in the programme.

Despite microfinance's track record, however, demand for these services remains largely unmet. Estimates of the number of potential clients globally range from 400-500 million households, of which only around 30 million could tap into microfinance in 2002. While there is an understanding among international agencies and governments that poor people want sustainable access to these services rather than time-bound projects or "experiments", only microfinance programmes achieving a high degree of sustainability have secured the funding they need to serve significant numbers of potential clients.

To pinpoint how some of these factors can translate into policies and programming, the Consultative Group to Assist the Poor, a donor consortium, has developed performance standards for microfinance. These are now widely accepted as industry norms, even as an increasing number of countries have made their policy and regulatory environments more conducive to supplying financial services for the poor. There is also a growing recognition among microfinance institutions that integration into the formal financial system is required to ensure continuity and expansion. Still, only around two per cent of an estimated 10,000 to 15,000 microfinance operations and institutions worldwide operate in a professional and fully sustainable manner. They serve more than 90 per cent of the active microfinance

client base worldwide, however, and comprise professional financial institutions now independent of development aid and government subsidies.

In 1997, UNDP and the UN Capital Development Fund (UNCDF) launched the MicroStart programme in order to help build a new generation of microfinance institutions with solid institutional and financial performance. Individual country strategies have been influenced by the experience of mature markets such as those in Bangladesh and Bolivia, which underscored the importance of nurturing breakthrough microfinance institutions with the potential to become industry leaders and attract healthy competition to the market, while maintaining broad access. MicroStart programmes globally have confirmed this approach – the biggest advances have come from institutions with the vision, drive and capacity to rapidly upscale their operations. Often, 80 per cent of the results of these programmes come from 20 per cent of the institutions – the market leaders. Two examples illustrate this point.

In Mongolia, an experienced practitioner initially worked with two multi-purpose NGOs that wanted to pilot credit services. They soon realized that microfinance would consume all their internal management capacity. Preferring to continue their range of services, arrangements were made to set up a new institution dedicated to microfinance. The practitioner provided technical advice and served as a mentor to Xac, the name of the new organization, which achieved financial self-sufficiency within just 18 months following an initial, small investment of \$1 million. In three years, Xac's share of the total loans issued by the financial sector in Mongolia reached 28.5 percent. Inspired by this success, a number of other financial institutions embarked on microloan lending, while Xac became the first microfinance institute ever to be licensed by the Bank of Mongolia. Six other financial companies were subsequently licensed. Competition is now spurring healthy development of the industry, improving corporate management and increasing the variety and quality of financial services.

Another success story can be found in Morocco, where MicroStart invested \$1.5 million in seven microfinance institutions, while the Save the Children Federation provided technical advice and mentoring. In its first three years, the programme attracted 40,723 new clients, 86 per cent of whom came through a provider called Zakoura. It grew from 2,000 to 36,830 active clients while achieving financial self-sufficiency. Moreover, Zakoura increased the value of its outstanding loans from \$300,000 to over \$5,000,000 during the course of the programme, even though the monetary value of its assistance from MicroStart was only \$215,000. The institution was able to finance this growth largely by borrowing from commercial sources that trusted its businesslike approach.

A mid-term evaluation found that evidence of the technical partner's influence abounds at Zakoura. The organization was far from a top performer at the beginning, and still has a long way to go. Yet it made productive use of the learning available through MicroStart. For donors and other investors, the key is to learn to distinguish

between “small and promising” and “small and weak”. In the space of a year, Zakoura was serving 80,000 active clients, with plans to continue doubling its clientele annually. A key factor driving this growth was stiff competition from Al-Almana, the other leading microfinance institution in Morocco, with roughly the same number of clients.

### Results and Critical Factors

- Funders can support development of the microfinance sector by investing and structuring their assistance wisely. However, they do not create successful microfinance; managers with the vision to establish sustainable institutions do.
- The principal role of donors is to pick promising horses. For the most part, donors are bettors, not jockeys or trainers. The extent to which externally provided capacity development can help improve mediocre runners is often overstated.
- While weak organizations may need more assistance than strong ones, experience shows that organizations with skilful management are the ones more likely to put support to effective use. Poorly managed organizations often cannot implement even good ideas.
- Restricting investment to a particular geographic area will dramatically limit its impact and slow down the process of national coverage. It is better to start by identifying institutions that have the vision and capacity to grow to national coverage, and then back their business plans for expansion.

### Further information

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