A Comparison of Growth Strategies
of the Members of the EMN Working Group
on Growth and Key Findings for Peer Exchange

Microfinance Growth Stories in the EU

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1. Introduction

The starting point of the European Microfinance Network (EMN) Working Group on Growth has so far been limited to the explanatory power of success factors for microcredit provision at the institutional level in Europe. Moreover, the growth of a microfinance institution (MFI) depends on a multidimensional set of factors, such as the market (potential), services needed by its clients, product design, the environmental and legal framework and institutional factors. The analysis of success factors is of high relevance not only for individual MFIs, but also for the microfinance sector as a whole in Europe. This is due to the design and amount of recent European Union (EU) funding, which is based on the idea of developing high-growth organisations throughout the EU-28 member states (sees Chapter 2).

Since the initial meeting on the 16th of December, 2010 in Hamburg, the EMN Working Group on Growth has implemented a multi-annual strategy to reach the general objective of the group, which is to develop and test an analytical framework for a practice-based assessment and identify and highlight growth stories and strategies of MFIs in Europe (see Chapter 4). In detail, the aims are:

- Identify paths to sustainable microfinance growth with success factors in Europe, but also acknowledge consequences/barriers of growth (e.g. issues of risk and default, limits of growth);
- Develop a demand-side perspective on micro-lending activities in Europe as a starting point and benchmark for any discussion on growth strategies suited to the identified demand situation; and,
- Allow more substantial peer exchange about growth strategies between MFIs in Europe.

Therefore, the EMN Working Group on Growth developed an analytical framework for such a practice-based assessment - called the grid - of the growth perspectives of MFIs in Europe, including instruments for gathering and organising relevant data. Throughout the duration of the working group, the group fine-tuned these instruments, presented in Chapter 3, and produced data for the following growth stories and strategies (Chapter 4).

The group had nine working meetings (Hamburg, Paris, Amsterdam, Berlin, London, Brussels, Bucharest, Amersfoort and Stockholm) from 2010 to 2013. Furthermore, the group held two workshops to present its work at the EMN conferences in Amsterdam (2011) and Bucharest (2012). In addition, the group organised one workshop with representatives of the European Commission (EC) and the European Investment Fund (EIF) in Brussels to present the analytical framework and discuss the implications of the first results from the pilot cases and growth strategies of MFIs.

The EMN Working Group on Growth includes the following members/organisations:

Name	Organisation	Country	Role
Michael Unterberg / Mirko Bendig	evers & jung	Germany	Coordinator
Jorge Ramirez Puerto	EMN	Belgium	EMN contact
Faisel Rahman / Guillaume Foucaud	Fair Finance	UK	Board liaison
Georgie Friedrichs	Qredits	Netherlands	Core member
Andrea Limone	Per Micro	Italy	Core member
Justine Palermo	ADIE	France	Core member
Ovidiu Candea	Rocredit	Romania	Core member
Helena Mena	Milenium bank bcp	Portugal	Associated member
Sonja Reinhardt	GLS Bank	Germany	Associated member

2. The Promise of Growth for MFIs in Europe

The microfinance market is still growing in Europe; the number of loans issued by the European MFIs year over year is increasing. The survey, "Overview of the Microcredit Sector in the European Union for the Period 2010 – 2011" summarizes the development: between 2010 and 2011, the reported number of loans disbursed by participating MFIs in the covered EU member states rose by 24 percent (Bendig, Unterberg, Sarpong, 2012). Compared to the results of the previous survey for the years 2008 and 2009 this marks a rise of 45 percent in the number of loans and five percent in the total volume (2011 compared to 2009) (Bendig, Unterberg, Sarpong, 2012). The growth is driven by a steep rise of the microfinance sector as a whole and increased activity within certain countries, e.g. Germany, Spain and the Netherlands.

This underlies the growing importance of microfinance as a market segment with the potential to reduce poverty and unemployment while simultaneously boosting financial and social inclusion.

However, growth on the European scale is generally caused by:

- The increase of disbursement of loans by existing MFIs, and
- The entry of new MFIs into the market.

The Netherlands has experienced a significant increase in the number of microloans disbursed. This is driven by a national MFI - Qredits - that was established in 2008 and is endorsed by the national government.

The growth becomes evident by the 1,000 microloans disbursed in 2011 by Qredits alone.

In Spain, the microfinance situation changed dramatically in 2010 as a result of the crisis. Only a handful of previous 20 institutions still promote microfinance products. They currently struggle to offer financing alternatives to those beneficiaries wanting to start up or consolidate a small business. The growth in Spanish microfinance can be attributed to one organisation mainly focusing on personal microlending (i.e. the sector is growing driven by this one institution, whereas the rest of the sector is suffering a downturn).

In Germany, the publicly funded national fund - labelled "Mikrokreditfonds Deutschland" - was on a growth track as well in 2011 and 2012. This growth was forced by the entry of new MFIs (up to more than 50). However, only a few of these MFIs succeed in providing microloans on a significant scale (more than 500 microloans per year)
In the near future, new challenges for the sector, and especially MFIs, will emerge explicitly related to the scale and the growth of their activities. Foremost, MFIs will be challenged by policy makers and the general public to show their significance. This is mainly due to their outreach and the related social impact. If an MFI is growing, the risk to lose focus on its social mission and previous target groups by tailoring products more to less disadvantaged or bankable clients becomes prevalent.

One of the issues challenging the future of European MFIs is the ability to maintain operations over time, i.e. to be financial sustainable. The institutional landscape of MFIs is very heterogeneous concerning the types and maturity of MFIs. For instance, the microfinance sector and MFIs are more mature in Eastern Europe than in Western Europe due to institutional factors. The advanced maturity in Eastern Europe also relates to the scale of their micro-lending activities.

For many MFIs, sustainability started with financial sustainability.
Presently, MFIs now address a 'triple bottom line': business orientation, balancing their economic, social and environmental policies with performance. To be financially sustainable as an institution requires the institution to cover its operational costs with its revenues. MFIs are forced to be as efficient as possible and charge interest rates and fees that will cover their costs in order to be sustainable. Increasing their lending activities can help the institution realise economies of scale and therefore drive down the operational costs per borrower, leading to financial sustainability in the medium term.

This directly leads to a broader view of sustainability, i.e. the balance between social, economic, ecological, and cultural objectives. Social performance and impact will increasingly become a priority for MFIs, going beyond the general assumption that microfinance is a 'good thing'. MFIs will have to measure and show their impact on society and the beneficiaries they serve. This will become progressively more important for growing institutions, which are in a conflict of

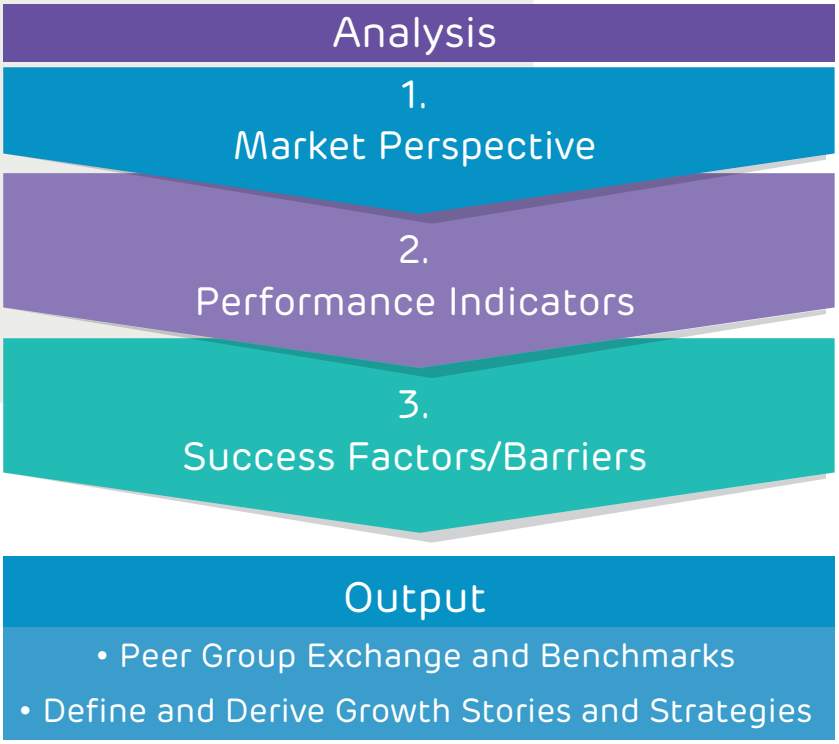
interest and must address the trade off of being financially sustainable while simultaneously issuing microloans to disadvantaged target groups. Finally, the environmental impact is becoming an important issue on the political agenda of MFIs, so-called "green microfinance".

Microfinance is still a new and unconventional phenomenon in Europe, but the sector is gradually receiving more attention and support. The strong growth of the sector demonstrates that microfinance is needed in Europe. Moreover, microfinance has become an effective instrument for stimulating social inclusion through the promotion of entrepreneurship and the development of microenterprises and businesses (Molenaar 2008). To remain on the public and political agenda, the sector has to prove its path to financial sustainability while realising social impact and growing outreach.

3. The Analytical Approach and its Added Value for MFIs

The grid is an analytical approach primarily established from practical experiences rather than a research perspective. It functions as a tool to identify stories and strategies towards the sustainable growth of microfinance organisations in Europe. Therefore, the grid includes three main dimensions (see figure below) to enable an MFI or a group of MFIs for peer group exchange, i.e. to benchmark its activities with MFIs employing a similar approach, e.g. comparable due to their target market or groups.

Figure 1:
Overview of the grid - the analytical approach developed by the Working Group



1. Market perspective (see blueprint in Appendix)

"You wanna grow; you have to know your market?" - In most cases, MFIs base their business activities and future strategic plans on the assumption that the demand is given, i.e. there is unsatisfied demand or potential clients in their target markets. Therefore, this dimension aims to identify comparable market perspectives of MFIs in their respective country of operation including a quantitative estimation of market potentials for MFIs. Consequently, the market perspective of each MFI or country builds the backbone of the grid tool, as it provides the possibility to start a MFIs' peer exchange on a common ground. The tool is generally divided in two main columns:

a) Target markets
b) Market perspective of MFIs

The grid acknowledges three target markets (subdivided by different rows) for microfinance in EU member countries. Each of these target markets features the financial needs of a specific target group:

1. Business: Financial needs of existing companies (companies older than three years, allowing for cash-flow analysis)
2. Enterprise: Financial needs of start-up companies and existing companies not yet older than three years (cash flow projections)
3. Personal: Financial needs of individuals/consumers

Under this approach, the grid tool covers target group orientation of MFIs. For each target market, the estimated market size (in absolute number) has to be filled-in by the MFI or in the best case inserted using statistical data. Then, market access for each target market is estimated by the MFIs for three segments: the unbanked (person/company with no bank account and no access to other financial service), the underbanked (person/company with a bank account, but no access to credit services) and the banked (the remaining/majority of businesses/persons). Finally, the MFIs estimate the potential market share for each segment of the target markets in the country that can be covered by the MFIs.

In order to move to the next analytical step - the supply side - the EMN working group prepares a collection of financial and non-financial services, which are needed by the above defined target groups. This functions as a collections process only, i.e. it is not an additional analytical step for the grid user.

2 Performance indicators (see blueprint in Appendix)

With concern to the performance indicators dimension, the microcredit supply, features and indicators of the microcredit provision underscore the analysis. Consequently, three groups of indicators were selected by the working group to benchmark the micro-lending activities (indicators assess the previous three years):

- Outreach indicators, e.g. number of loans disbursed per year, portfolio growth or average loan size,
- Efficiency indicators, e.g. cost per loan or loans per credit officer
- Risk and liquidity indicators, e.g. portfolio at risk or share of restructured loans.

The analysis of these indicators is necessary to collect information about the performance of the MFIs for developing growth stories.

3. Success factors and barriers (see blueprint in Appendix)

Within the third dimension, the success factors and barriers are covered by a set of questions related to possible growth stories. The questions are assigned to the following categories:

- Target groups
- Governance
- Funding
- Product range
- Operational and organisational issues
- Networks and partnerships
- Legal environment
- Outreach

The aim of this dimension is to identify unique factors of an MFI that are driving the growth of the micro-lending or creating the institutional framework enabling the MFI to grow. Conversely, barriers to growth are also included, illustrating possible settings or features that might be adjusted to enable growth of an MFI.

Output of the grid (see Chapter 4)

The primary output of the grid is the benchmarking of MFIs into peer groups - based on similar market perspectives and/or performance characteristics - and to derive specific benchmark paths promoting growth. Finally, benchmarking enables us to identify and communicate growth stories increasing the visibility and awareness of policy makers and the public at large.

Added value and benefit for MFIs

What are the benefits for MFIs to use the grid tool? First of all, it highlights the demand-side perspective (as opposed to the typical supply side) of microfinance activities.

"If you want to fill a need, find out who needs what! To build a sustainable MFI you have to start with finding out what your market needs first."

Georgie Friederichs, Qredits

The EMN Working Group on Growth, especially the MFIs in the group, are convinced that such a perspective at the country-level is needed to allow a more useful peer exchange on the (institutional) success factors for growth between different microfinance organisations in Europe.

"To learn abroad look for comparable experiences. Comparing yourself with an MFI with a completely different market, or different products will not teach you anything."

Georgie Friederichs, Qredits

"The grid tool would have no value if peers do not use it so all participants may have a clear view on their position on targeted clientele, reporting standards, common points and differences."

Ovidiu Candea, RoCredit

"The work done with the Growth working group (WG) and in particular the grid was very useful in getting a clearer picture of our market, its needs and how these are addressed at the moment. This is fundamental for developing an adequate offering, but also to communicate with external parties such as investors. Being able to engage with other organisation that are at different stages of the growth path and dig deeper into success factors and barriers was equally useful for management to think ahead in a strategic manner. Although a lot of these questions are on our minds, the work done with the Growth WG was helpful in providing a framework to analyse and categorise them, while providing benchmarking references from other organisations."

Guillaume Foucaud, Fair Finance

The emphasis of the grid output is to present possible growth paths by presenting growth stories of the EMN working group members. Hereby, the deduction of the main driving success factors is the major benefit for MFIs, which were not members of the working group.

"The grid is an essential tool for understanding the position of each MFI on a market, together with the competitors, establish specific strategy in order to obtain the best performance within the niche of clientele targeted. All together on a market as Romania, each MFI may establish a specific strategy using the grid tool."

Ovidiu Candea, RoCredit

4. Growth Strategies of European MFI: Potential for Peer Exchange?

4.1. Growth Stories and Core Strategies

Based on the grid of the surveyed MFIs, the sample can be easily benchmarked into peer groups to determine specific growth strategies. To provide an overview of the MFIs covered, a table containing key characteristics of the MFIs is presented on the following page.

Each of the following MFIs has its own strategy on growing lending activities and focusing on its target groups and markets.

In general, there are four options/categories for an MFI to enter into new markets or grow in established markets:

- Market penetration
- Market development
- Product development
- Diversification

Market penetration pushes existing products within established markets using increased marketing activities. Market development cultivates new markets for current products or services. Product development generates new products for established markets. Market diversification focuses on aligning business activities to new markets with new products.

	Market	
Product	Established	New
Established	Market penetration	Market development
New	Product development	Diversification

The surveyed MFIs are presented in three categories with their growth stories and strategies in Europe below.

Name	Adie	PerMicro	Fair Finance	Qredits	RoCredit
Country	**France**	**Italy**	**UK**	**Netherlands**	**Romania**
Organizational form	Association	Limited company (can have shareholders owning capital)	Industrial and Provident Society	Foundation (non profit)	Stock company
Active since	1989	2007	2005	2009	2007
Nr. of staff	454 +1300 volunteers	37	30	40	65
Nr. of branches	120	12	5	No brances (15 loan officers)	15
Market perspektive (personal finance, enterprises, business; unbanked, underbanked, banked)	Enterprises, unbanked and underbanked + underbanked and underbanked business	Business, enterprise and personal financing; unbanked and underbanked		Enterprise, business; underbanked, unbanked and banked	
Share of business loans in total portfolio	84%	23%	10%	100%	81%
Maximum loan size	€ 10.000	€ 10.000 for personal; € 25.000 for business and enterprise	PL: £2,000 / BL: £20,000	Up to € 150.000	-
Interest rate	6.76 - 7.67%	8,50% - 11,75%	PL: 39% - 59% / BL: 20%	9,75% - 10,75%	15% - RON; 10% EUR
Average Maturity	22 months	31 months	PL: 10 months / BL: 36 months	57 months	24 months
Outstanding portfolio (31/12/2011-2012)	2012: 58 million	2011: 4,7 million 2012: 9,6 million	2011: 0,6 million 2012: 1 million 2013: 1,4 million	2011: 26 million 2012: 37 million	10,5 million
Type of BDS offered	BDS	BDS: coaching, mentoring and monitoring for all clients. Trainings (financial education) for groups.	Support provided by separate network (for BL)	BDS before and after start-up, coaching, trainingm e-learnings	BDS
Type of Coaching offered	Coaching (volunteers)	Coaching by PerMicro staff	Coaching by separate network	Coaching by volunteers, often employees from big companues who do this as CSR activity	Coaching by employees (trainers for Over indebtedness)
Funding of BDS/ Coaching			NA		
Relationship to government	Government subsidy, contributions from local institutions (BDS volunteers % funding)	No structural relations. Only sporadic funds for little coaching activities.	Initial funding by government funds. Guarantee from the EIF (if relevant), ongoing discussions with the CDFA in the UK which runs a state subsidized funding scheme	Guarantee for part of funding of Qredits itself	No relation
Relationship to banks	Preferential lines of credit from all French banks	BNL/BNP Paribas: funder and shareholder. Monte dei Paschi di Siena, BRE, Banca Prossima - Gruppo Intesa Sanpaolo: funders.	Funded by commercial banks	Funded % referrals by commercial banks	Funder

4.1.1. Market Penetration

4.1.1.1. Adie, France

Overview

Of the covered MFIs, Adie has the longest history of growth.

The growth strategy at Adie focuses on growing the enterprise market sector with standard products (loans). In addition, Adie introduces new products and services into already developed markets. The core strategy aims to support incremental growth by strengthening already established market positions. Therefore, higher market penetration is required. One of the challenges for Adie is the effective management of a nation-wide, multi-branch organisation with a strong international network for client acquisition and product innovation.

The market perspective of Adie's growth strategy

In France, around 550,000 new businesses were created in 2012. Among them, 400,000 were self-employed businesses, of which 300,000 registered under the status of auto-entrepreneurs. Among those auto-entrepreneurs, 30% were unemployed before creating their business.

Small business creation is Adie's core market, representing more than 60% of its loans (40% are for microenterprise development). Amongst small businesses, Adie specifically targets individuals at the base of the pyramid: individuals who are unemployed, on welfare benefits and/or excluded from the traditional banking sector.

Adie primarily offers the following financial and non-financial services:

- Professional microcredit for business creation: 84% of the 13,160 microloans disbursed in 2012,
- Personal microcredit for employment,
- Business Development Services (BDS): around 15,000 beneficiaries of these business development services in 2012.

The planned growth strategy for the coming years is to:

- Double activity within five years aiming to disburse 25,000 microloans in 2016.
- Three measures to achieve this goal: improvement of internal organization by facilitating innovation in Adie's network; improvement of product offers (while diversifying and enhancing existing products) and having better visibility of activities.

Performance indicators

Adie measures its overall financial and social performance. The relevant indicators are:

- Number of contacts
- Number of person financed (and its transformation rate)
- Number of BDS beneficiaries
- Growth of the newly developed products (micro-franchise; micro-insurance)
- Risk measures of the portfolio
- Social performance: client satisfaction plus every three years evaluation of SPI

Following is a list of key success factors and barriers to the growth of Adie are presented:

Success factors for growth

- 25 years of experience in the field
- Leader position in the targeted market
- Well-developed network
- Wide range of product offerings
- Recognized actor in the field of business creation

Barriers to growth

- Microenterprise regulation in France: complicated business creation process in France, especially for those who are low skilled/come from a difficult background.
- Unsustainable economic model: depend on external financial resources, primarily from public sources that have tended to decrease in recent years.

4.1.1.2. Qredits, the Netherlands

Overview

Qredits has the most focused growth strategy of the covered MFIs.

The central goal of Qredits' growth strategy is to become operationally self-sustainable. Furthermore, Qredits is working on establishing a core product (enterprise and business loan and coaching) for an underserved market sector (business/enterprise).

Microfinanciering Nederland

Qredits' core strategy aims to standardize pre-finance services (training, coaching, e-learning) to locate and develop clients with high quality applications. The screening process and risk management, i.e. the successful personal screening of clients by looking at each application and its individual merits, is one of the key elements of the provision process. In addition, Qredits is already extending cooperation with additional market actors (i.e. banks, chambers of commerce). To increase efficiency, Qredits works only with voluntary coaches.

The market perspective of Qredits' growth strategy

The national market for Dutch microfinance is potentially large, as commercial banks are retreating from financing small business and entrepreneurial loans. Qredits targets all individuals with a viable business plan who cannot find financing or coaching through existing channels. They have a large market share, as Qredits is the only microfinance institution operating nationwide in the Netherlands. However, the potential market is even larger, so Qredits aims to increase its market share. The main problems facing Qredits are client outreach and the quality of applications. Qredits tries to increase application quality with coaching and supportive tools.

In the Netherlands, over 100,000 new businesses were created last year. These businesses compose a large part of Qredits' market, as 70% of Qredits' clients are start-ups, mostly self-employed businesses. 27% of Qredits' clients start up while also being on welfare benefits. As this group is increasing, clients who are currently on welfare are an important part of Qredits potential market. Of these start-ups, potentially up to 45% are not being served by banks, indicating that they are underbanked and potential clients of Qredits. Qredits also supplies loans to existing businesses that are underbanked or unbanked, and sometimes even banked but unable to attain sufficient financing to invest and grow.

Services offered:

- Microcredit for enterprises and business,
- Business loans up to € 150.000,
- BDS provided by volunteers to clients who have received loans,
- BDS by volunteers to clients without a loan, or before start up, and
- Supportive tools, such as e-learnings and entrepreneurial plans.

Qredit's growth strategy is to develop a financially sustainable institution (in the long term) by increasing lending activities (target of approximately 1,300 loans a year) by;

- Improving the outreach of Qredits to its target groups;
- Improving the application quality and increasing the rate of successful applications;
- Utilizing the full potential of effective credit monitoring methods;
- Improving the efficiency of the organization; and,
- Attracting independent funding and building an equity base.

Performance indicators

Qredits measures its overall performance and growth by the success of its clients, their social performance and its sustainability. Therefore, the relevant indicators are:

- Number of new loans provided and the corresponding outstanding portfolio;
- Risk measures of the portfolio (PaR ratios, write off ratios);
- Number of BDS clients;
- Number of entrepreneurial tools provided; and,
- Social performance, e.g. success of clients (number of sustainable businesses created, number of people no longer on benefits, number of jobs created, number of people with access to regular banks, improved skills, etc.)

The number of clients that are operating a successful business and becoming economically independent are the key success measure for Qredits. This corresponds with the number of clients who have repaid their loans, including those who are now successfully supporting themselves in another way and the number of jobs created. Hence, social performance is definitely part of Qredits' performance management and growth strategy.

Following is a list of key success factors and barriers to growth for Qredits:

Success factors for growth

- Legal framework: support by the national government and banks with respects to funding and guarantees (national approach);
- Operational: cooperation with banks, combination of personal screening and IT system, one central back office for efficiency, commercial bank sustainable approach, developed tools to support entrepreneurs, use of marketing tools;
- Market leader for applications outside of regular channels, nationally visible; and,
- Well-developed network (banks, accountants, insurance companies, coaching network all supporting the initiative).

Barriers to growth

- Regulation on savings (legal framework);
- Equity (organizational);
- Applications that are complete with sufficient quality (framework conditions); and,
- Outreach of clients

4.1.2. Mixed Strategy: Market Penetration and Product Development

4.1.2.1. Fair Finance, UK

Overview

Fair Finance is the only MFI in the working group focusing primarily on personal finance and planning to grow with a strategy based on personal finance.

Fair Finance's main objective is to become financially sustainable and win a significant market share in London. Initially, this is achieved by providing personal loans, but also by introducing new products (savings and insurance) to those not already served in the existing market, i.e. financially excluded individuals who cannot access mainstream finance. In the medium term, these products will roll out to the same market segment in other parts of the country, which are not or only slightly covered by existing social finance intermediaries.

The market perspective of Fair Finance's growth strategy

According to a recent report by the CDFA, eight million people on lower income in the UK cannot access finance from mainstream banks, with 4m to 7m using high cost credit (DWP Credit Union Expansion Project 2012). Due to the on-going credit rationing from high street and commercial banks, Fair Finance's perception is that this market is growing rapidly. At the moment, a large share of this market is served by for profit intermediaries that are high cost lenders, i.e. charging high or extraordinarily high interest rates.

Fair Finance's personal loan business is directly targeted at this segment of financially excluded individuals who cannot access mainstream finance and instead are forced to use high cost lenders, e.g. door-to-door lenders. The aim is to reach a significant market share in London first, and then consider rolling out their services in parts of the country that are not or slightly covered by existing social finance intermediaries.

Fair Finance provides personal loans from £100 (approximately 120 EUR) to £2,000 (approximately 2,350 EUR) to individuals with maturities from six months to 24 months. Fair Finance is also planning to introduce savings and insurance products for their client base in the upcoming years.

Fair Finance also have a charity subsidiary that provides debt advice for individuals in financial difficulties.

Performance indicators

The primary indicators Fair Finance uses to measure the success in their growth strategy are the number of loans made on the production side and the PAR ratios and write off ratios on the risk side. The production side measures how their lending activities are expanding in comparison to their business plan/strategy, while the risk ratios reflect the quality of their portfolio, client screening (loan decision making) and service provided to clients. A low default rate gives an indication that Fair Finance correctly assessed the clients' circumstances and did not put their clients in financial difficulties with inappropriate products or issuing credits, which do not fit the repayment possibilities of the client.

Fair Finance measures the extent to which they reach their target population of financially excluded by gathering data on clients' demographics, total indebtedness, use of high cost lenders and revenues. Hereby, the main target of Fair Finance is to grow their lending activity to people suffering from acute financial exclusion and maintaining low bad debt rates.

To achieve their growth target, Fair Finance needs to become financially sustainable. To do so, they also monitor their net income/loss at the end of each quarter and compare this to their business plan.

Their social performance and impact is reaching excluded individuals (see above for criteria) with suitable products, in particular with respect to flexibility and cost. With regards to the latter, Fair Finance reduces the costs for their clients compared to the traditional high cost lenders.

Following a list of key success factors and barriers to the growth of Fair Finance:

Success factors for growth:

- High demand for loans on the UK subprime market and lack of competition from affordable finance providers means that the demand for Fair Finance's services is high.
- From an operational/organizational perspective, Fair Finance benefits from the support and commitment of its strong board. Fair Finance is also supported by several large private companies that are providing us with skills, training, pro-bono work that helps them addressing some of their issues. It also benefits from its location in London that allows them to tap into a deep labour pool and attract talented staff.
- On the framework side, Fair Finance benefits from a legal framework that is favourable to new entrants, where the cost of regulation is low as is the administrative burden proportionally to their size.
- Links between MFIs and banks/consulting/law firms companies as key skill providers could be part of a peer exchange.

Barriers to growth:

- The first key barrier to success is investment capital to scale up the organization, and in particular equity capital. This barrier may prevent Fair Finance to reach their target size on the market and stay a minor organization with a limited impact.
- From an operational/organizational standpoint, quality staff with key skills such as IT systems can be difficult to find on the market.
- Knowledge sharing about IT and systems in a growth context could potentially be a useful exercise. Financing conditions are likely to be much more country-specific and might be less adequate for such knowledge sharing peer groups.

4.1.2.2. PerMicro, Italy

Overview

PerMicro has the broadest approach to growth of the covered MFIs.
The general goal of PerMicro's growth strategy is to increase market share over all covered segments. In addition, PerMicro introduces new products and services into already developed markets and new markets. PerMicro originally focused on unbanked persons with the need of business development services, but the risk management is starting to limit the market outreach in the business and enterprise segment.

PerMicro's core strategy is to establish a strong community with trade unions and cooperation networks (i.e. banks, etc.) for client acquisition regardless of whether the loan type is personal, business or enterprise finance.

The market perspective of PerMicro's growth strategy

The target markets of PerMicro are the unbankable and underbanked people in the following markets: personal finance, enterprise and business.
PerMicro is planning to grow by expanding its activities:

1) **Among enterprise and business clients:**

- Developing strategies to reach more underbanked clients. Further, potentially issuing higher amounts of microcredit could lead to better repayment conduct and result in a better portfolio quality;
- Targeting young people interested in starting up new businesses or business activities rather than looking for a dependent job.

2) **Personal finance market** by enhancing the relationships with local networks and communities.

For each market segment (business, enterprise and personal), PerMicro offers different products in order to address a wide scope of client needs. PerMicro offers credit protection insurances and intermediates other financial services, such as current accounts. Moreover, PerMicro provides non-financial services such as consulting and advise, coaching, mentoring, education and training, financial literacy and money management.

Performance indicators

The number of new loans disbursed and the number of new clients per year are increasing, while the cost per loan is decreasing. This indicates that PerMicro can provide a higher number of microloans with the same resources (e.g. staff and the number of branches). In addition, staff productivity, closely related to previous indicators, has also improved. Moreover, the default rate is decreasing illustrating PerMicro's increasing portfolio quality. Currently, the social impact of PerMicro is measured by analysing the demographic data of their clients: gender, age, nationality, etc. At the moment, PerMicro is developing a more sophisticated social impact analysis system.

Following is a list of key success factor and barriers to the growth of PerMicro:

Success factors for growth

- Market perspective: fostering the relationships with local networks and communities; development of the synergies with BNL network.
- Operational and organizational: mission involvement, commitment and flexibility of the staff; deep rooted branches in the territories.
- Framework conditions: shareholder support for reaching break-even within 2014; commercial and social partnerships with other stakeholders (banks, institutions).
- The custom scoring system and sophisticated risk management system represent interesting points for a peer-to-peer exchange.

Barriers to growth

- Framework conditions: there is an increasing number of "quasi-competitors" developing microcredit programmes characterized by low interest rates and volunteer activity without commercial approach and no sustainability aim.
- Operational and organizational: absence of guarantee tool in order to cover a part of portfolio risk.

4.1.3. Product Development

4.1.3.1. RoCredit, Romania

Overview

RoCredit illustrates a growth strategy in the most dynamic market of those MFIs covered by this study.

The goal of RoCredits' strategy is to maintain its market position via moderate growth by providing new products (large range of credit products, e.g. RoCredit plans to issue credit cards) in an existing markets, i.e. financing enterprises in all sectors (industry, commerce, services, education, consumption, agriculture and other) with a market penetration strategy.

RoCredit changed its growth strategy, which has attracted many new clients. RoCredit diminished its risk by focusing on the project history of their clients and peers. The advantage is that scanning in depth with more scrutiny. RoCredit has no problem in finding clients for their strategy.

The market perspective of RoCredit's growth strategy

The Romanian microfinance sector registers a low number of non-banking financial institutions (NBFI's) competing for more than 600,000 companies and more than 8 million individuals. The NBFI's registering the highest growth and having the largest market share compete in distinctive areas of Romania.
RoCredit changed its strategy to reduce its sector risks by dividing its credit portfolio by all types of activity (industry, commerce, services, education, consumption, agriculture and other).

Keeping in mind that RoCredit is the second largest NBFI in Romania, RoCredit aims to maintain its position and increase the number of both business and individual clients.

To achieve this objective, RoCredit developed a wide range of products and offers including training and coaching, consultancy and a recent program designed to help clients understand that tailored products are a must for the success of the investment process.

Performance indicators

RoCredit measures its overall financial and social performance. The relevant indicators are:

- Portfolio yield; Self-sufficiency; Operating expense ratio; PAR 30 and risk coverage together with the risk indicators established through internal norms and procedures (especially reputational), and

- Social performance indicators: gender of clientele; age; under banked; social assisted; start-up; below the poverty limit.

Success factors for growth

ROCREDIT is one of the fastest growing MFIs in Romania. This is primarily because RoCredit adapted its strategy with regards to the legal framework and market perspective. In order to sustain the annual growth, RoCredit monitors its market position. Consequently, RoCredit implemented a wide range of products from financial to non-financial including training and coaching sessions with both existing and potential clients, using knowledge achieved through internal and external trainings for productive staff.

Referring to RoCredit's market position, the most important success factors are the product design, human resources and the technical infrastructure in place.

Referring to RoCredit's operational and organizational success factors, the compressed structure of personnel in combination with an optimized number of Board meetings leads to a fast decision-making process. This leads to recognition of RoCredit as a fast crediting institution. Although the organization registered a significant growth level, RoCredit encountered difficulties related to financing its operations. Being a 100% Romanian entity with a large number of shareholders it observed a lack of interest from European investment bodies.

Barriers to growth

One of the most important barriers to ROCREDIT's growth is access and attraction of external funding.

Although the legal framework is well organized by the Special Registry in Romania, MFIs are directly affected by the number of constraints imposed through the legal framework for credit institutions (related to banks). The legal framework evolved in a manner that does not differentiate MFIs (in the Special Registry) from banks.

Although RoCredit matured during the past years, lack of investors keeps the company on a moderate growth trend.

Additionally, the company benefited from qualified personnel, especially at the headquarters level. However, the high fluctuation rate resulted in a low number of candidates in rural areas and is considered to be a barrier in the development process.

However, the most significant barrier concerns the low level of investments made by international financial bodies into Romanian micro-lending activities although the market is not yet saturated and market share can easily be increased through existing NBFI's.

4.2. Insights and Derivation of Successful Growth Strategies of European MFIs

In the following analysis, insights on growth strategies and derivations are presented from the above cluster of successful growth strategies for MFIs in general. Based on the principles of the product-market growth matrix (Section 4.2) four options exist:

- Market penetration
- Market development
- Product development
- Diversification

All covered MFIs were clustered on the basis of their current and presented strategies. During the process, three types of successful growth stories could be distinguished.

Growth by market penetration

Two of the 5 MFIs covered have chosen this growth strategy for their business activities.

The ideal market perspective is a market segment with retreating financial offers for small businesses and entrepreneurial loans. The target groups of these MFIs are self-employed businesses, and entrepreneurs who have been unemployed before their self-employment as well as established microenterprises and small companies. The typical services offered in these markets are:

- Microcredits for enterprises and business and business creation
- Microcredit for unemployed
- Business development Services

To improve the measurement of the success of the penetration growth strategy, the following indicators are relevant:

- Number of contacts and transformation rate
- Number of BDS clients
- Risk of portfolio
- Social Performance/impact

Common success factors for market penetration:

- Experience in the sector
- Functional and supportive networks
- Precise, developed products
- Framework with government and banks
- Cooperation with banks, credit scoring and IT Systems
- Financial sustainability

Common barriers to growth:

- Regulation
- Equity
- Framework conditions
- Sustainability

Growth by mixed strategy: market penetration and product development

Two of the 5 MFIs covered have chosen this growth strategy for their business activities.

The ideal market perspective is an existing market segment to develop new products or increase product offerings to gain an outstanding market position. However, the two covered MFIs here do not completely share the same market positions (see above). The typical services offered in these markets are:

- Loan products for the above described target groups (including product innovations for new products)
- Non-financial services for their target groups

To improve the measurement of the success of the mixed strategy growth strategy, the following indicators are relevant:

- Outreach measures of the growth (e.g. number of loans disbursed)
- Risk control measures
- Staff productivity
- Social performance/impact

Common success factors for market penetration:

- Cooperation/partnerships with stakeholders (e.g. banks, network organisations, etc.)
- Efficient operational and organizational processes
- Favouring legal framework

Common barriers to growth:

- Lack of investment or risk sharing capital for scale up the business (e.g. equity, guarantees)
- Lack of knowledge sharing about IT systems/infrastructure

Growth by product development

One of the 5 MFIs covered have chosen this growth strategy for their business activities.

The ideal market segments are self-employed businesses, and entrepreneurs who have been unemployed before their self-employment as well as established microenterprises and small companies, which are already served by other products. The typical services offered in these markets are:

- Microcredits for enterprises and business and business creation
- New credit products, such as credit cards

To improve the measurement of the success of the product development growth strategy, the following indicators are relevant:

- Operational performance (for the new products
- Risk control measures (for the new products)
- Social performance (for the new products)

Common success factors for market penetration:

- Monitoring of market position
- Products including product innovation
- Staff
- Efficiency of technical infrastructure and processes

Common barriers to growth:

- External funding
- Legal framework
- High staff fluctuation

5. Summary

In the three years of work, the EMN Working Group on Growth has established a new tool, labelled "the grid", enabling MFIs to benchmark its peers and the opportunity to learn from other MFIs' growth stories and future strategic plans. The power of the practice-based tool is that it highlights a market perspective for any growth strategy rather than a comparison of operational factors among MFIs.

This is so important for any discussion on growth strategies and exchange between peers. Only if an MFI knows the market conditions of its peers can a comparison of institutional and operational success factors can be effective. Therefore, "always treat the markets and target groups first" is the most important lesson learnt from the work the group has completed.

By doing so, the group encourages every MFI in Europe to attempt to use the grid and the shared experiences to analyse the past growth experiences of their institution and the establishment of their future growth strategies.

Appendix

The blueprint - market perspectives

The grid of market perspectives						
Target groups			Market perspectives			
Target Markets*	Estimated market size (absolute number); Please use official data and add the respective source here.	Market access (Shares in percentage) **/***	Potential market share of MFIs (in percentage)		Services needed	Services provided
			%	Absolute		
Business (taken all existing companies)		Unbanked %			**Financial:** Access to money transfers Short term savings/save storage of money Protection (risk prevention/coping strategies) Short term liquidity (overdraft facilities) Loans for productive means Loans for consumption means Equity Guarantees Leasing **Non-Financial (internally and/or externally):** Consulting/advise Coaching Mentoring Education and training Money management/budgeting	Loans for production means, coaching
		Underbanked %				Loans for production means, coaching
		Banked %				Loans for production means, coaching
Enterprise (taken all start up per years)		Unbanked %			**Financial:** Access to money transfers Short term savings/save storage of money Protection (risk prevention/coping strategies) Short term liquidity (overdraft facilities) Loans for productive means Loans for consumption means Equity Guarantees Leasing **Non-Financial (internally and/or externally):** Consulting/advise Coaching Mentoring Education and training Money management/budgeting	Loans for production means, coaching
		Underbanked %				Loans for production means, coaching
		Banked %				Loans for production means, coaching
Personal		Unbanked %			**Financial:** Access to money transfers Short term savings/save storage of money Protection (risk prevention/coping strategies) Short term liquidity (overdraft facilities) Loans for productive means Loans for consumption means Equity Guarantees Leasing **Non-Financial (internally and/or externally):** Consulting/advise Coaching Mentoring Education and training Money management/budgeting	
		Underbanked %				
		Banked %				

The blueprint - services needed

Definitions of Services needed			
		Definition	Service Details
Financial	Acces to money transfers	Bank/current acconunt, credit cards	Cash transfer options, money transfer systems
	Short term savings/ save storage of money	Savings scheme/plans, Bank/current/ savings account, saving clubs	Security of the money saved. save for short term liquidity or expenses, cash liquid savings
	Protection (risk prevention/coping strategies)	(Micro) health insurance, lige insurance, personal belongings, general liabilitu insurance	Prevention against the consequences of illness or injury, death, damage of property, accident perpetrator, etc.
	Short term liquidity (overdraft facilities)	Overdraft facilities, credit cards	Overdraw of current/banking account for very short term and small amounts of money needs
	Loans for productive means	Loan, cash loan	Maximum amount: 6,000 euros, duration: 3-60 months
	Loans for consumption means	Loan, cash loan	Maximum amount: 6,000-35,000 euros, duration: 12-30 months
	Equity	Equity investment, silent partnership, mezzanine, etc.	Provision of initial equity or extension of existing share of equity
	Guarantees	Loan guarantee	Provision of personal guarantees, securities and premises, etc.
	Leasing	Leasing products	Use of a certain fixed asset financed via a series of contractual, periodic payments (tax deductible)
Non financial	Consulting/advise	Consulting is the provision of professional advice in a particular area of expertise, for instance such	Promotion, law, taxes, marketing, acquisition, human resource management, controlling, liquidity
	Coaching	Coaching can be seen as a more holistic development approach than consulting approaches. The objetive of the coaching is to help the coached person to develope and	Personal or entrepreneurial development, as well as topic related coaching. Coaching, measures as coaching website for coach selection process by client, payment
	Mentoring	Mentoring involves by definition a developmental relationship between a more experienced or knowledgeable "mentor" and a less experienced or knowledgeable partner, and typically involves a lot sharing of directional advice. It also mainly relies on the personal relationship between mentor and partner and intuitive process of problem solving	Mentoring programs encouraged by business angels, retired experts, volunteers
	Education and training	Education and training in turn refers to offering of specific educational programmes, e.g. financial education.	Vocational training and skills training in subsectors, seminars, possible topics: qualification and education, personal development, etc,
	Money management/ budgeting		
	Financial literacy/ educatio/capability	Training, seminars, schemes	Money and debt management, budgeting, risk prevention, planning for the future, financial negotiations with the bank, use of bank services, etc.
	Financial/Money/ Debt advise	Advisory services	Aquire abilities to handle and manage finance/money/debt

The blueprint - performance indicators

Performance Indicators. Definitions/Explanations									
Qredits									
	Absolute / %								
Potential Indicators	2009		2010		2011		2012		Definitions
Nº of loans disbursed (financial or calendar year) absolute									
Number of new clients per year - absolute									
Porftolio growth %									Gross portfolio in actual year/gross portfolio in year before
Porftolio yield %									Earned revenue (from interest earnings and fees) / Average gross oustanding portfolio
Average loan size absolute									Total value of loans / total loans
Definition of delay /arrears II (Portfolio at risk (PAR) >180 days) - %									(Value of loans recognised as uncollectible after 180 days period /Average)
Definition of delay /arrears I (Portfolio at risk (PAR) >30 days) - %									(Outstanding principal balance of all microloans past due more than 30 days / Average gross outstanding prtfolio volume at the end of the year) x 100
Loans per credit officer (staff productivity) %									Number of active loans/ Number of loan officers
	with BDS	without BDS	with BDS	without BDS	with BDS	without BDS	with BDS	without BDS	
Cost per loan absolute									Total coast during peropd/ number of disbursed loans during period (differentiated by the use of BDS)
% of clients use BDS %									(Number of clients using BDS / Number of all clients
% of porftolio restructured/ rescheduled (e.g. enlarge loan term) %									Volume of loan porftolio restructured/rescheduled /Total outstanding loan portfolio

The blueprint - success factors and barriers for growth

Succes factors & barriers	Qualitative responses related to growth success factors/barriers
1. Target groups	
Who is your target group?	
What is the target group you are really reaching?	
Has there been a recent change of the target group?	
2. Governance	
Which characteristic of the board/ management team (such the duration, skills, comittment/involvement) are success factors / barriers?	
3. Funding	
Are the sources of funding in use success factors/barriers?	
Please differentiated by different types of funding sources, percentages of sources and their respective costs.	
What is about access to additional funding?	
4. Product range	
Describe your best selling product (i.e. most income earning product)	
State the number of financial services and give an indication about your strategy behind this (product diversification vs. unique mass product strategy)	
State the number of non-financial services (e.g. BDS) and give an indication about your strategy behind this (product diversification vs. unique mass product strategy)	
Do you offer any savings products? (Use for refinancing, etc.)	
5. Operational/Organisational issues	
Which characteristic/factors of your existing staff do you perceive as success factors/ barriers?	
Have you any risk management system in use? Which factors of your risk management system favor or hinder your growth strategy?	
Do you have a marketing / distribution strategy in use (e.g. face to face interviews, screening by your own staff or intermediaries/agents, etc.)? Which factors of your strategy?	
Do you work with internal control measures (audit procedures, loan processing time, denial rate, treatment of complaints, compliance)? Do these measures favor or hinder your business growth?	
What kind of technology, IT or MIS system do you use? Do these systems favor or hinder your growth strategy?	
6. Networks/Partnerships	
Do you have any stakeholder support (e.g. from government, banks, etc.)? Does the support favor your growth plans?	
Do you have any external partners or cooperations? Do these favor yoyr growth plans?	
What is about your competitors (market share and pricing in relation to competitors)?	
7. Legal Environment	
What kind of legal entity of organisation are you? Does the type of legal entity favor or hinder your growth plans?	
Is there any specific regulation for MFIs? Does this favor or hinder your growth plans?	
Are there any specific regulations for microenterprises? Do these favor or hinder your growth plans?	
What about the welfare benefit system in your country? Does it favor or hinder your growth plans?	
Is there any and do you have access to a credit bureau? Have this any influence on your growth plans?	
8. Outreach	
How much % of the potential target group/market do you reach?	
Does your social reporting approach favor or hinder your growth plans?	

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