The SEEP NETWORK

BUILDING STRONG NETWORKS:

An Institutional Strengthening Guide for Microfinance Networks

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Acknowledgements

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The Guide represents an attempt by SEEP to codify what it has learned from its many years of work with microenterprise and microfinance networks. The text is based on background research conducted on nine country-level microfinance associations, SEEP's own experience as a network technical service provider, and recent published research on such networks.

This Guide would not have been possible without the collaboration and support from SEEP's network partners around the world. Heartfelt thanks goes to all of the staff and board members who took time out of their incredibly busy schedules to generously contribute time, knowledge and experience to this guide:

AEMFI (Ethiopia)

ALAFIA (Benin)

AMFIU (Uganda)

COPEME (Peru)

REDIMIF (Guatemala)

RFR (Ecuador)

MEA (South Africa)

MCPI (The Philippines)

MFC (Central and Eastern Europe and NIS)

SEEP would like also like to thank Peggy McInerny for her commitment to SEEP, her invaluable editorial expertise and key contributions to the content of the Guide.

The Guide remains a work in progress. It is SEEP's hope that future editions will result from feedback from networks around the world and reflect the continuing development of the microfinance sector.

Sharyn Tenn
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Introduction

Microfinance networks are regional- and country-level associations of microfinance and microenterprise institutions. Their members typically have diverse target clienteles, use diverse methodologies and operate independently of one another. These organizations come together in a network to improve microfinance best practices, share information and coordinate efforts to promote an enabling policy and funding environment for microfinance. The second edition of SEEP's *Global Directory of Regional and Country-Level Microfinance Networks* lists 50 such networks operating in all regions of the world, the members of which collectively serve more than 16 million end-clients.

The Role of Microfinance Networks in Building a Healthy Microfinance Industry

Microfinance networks play an important role in developing inclusive financial sectors in developing countries. As meso-level actors, their ostensible role is to support retail microfinance institutions (MFIs) with services that improve their institutional performance, as well as to advocate for an enabling environment for self-sustaining MFIs. Networks are thus an essential component of the microfinance industry infrastructure.

Similar to financial services associations in developing countries (see annex 1), microfinance networks primarily focus on promoting transparency in the microfinance industry, representing the needs and interests of their members, and improving members' institutional strength. The Pakistan Microfinance Network, for example, promotes performance standards and financial transparency by publishing a semi-annual report that documents member performance in the areas of financial sustainability, operating efficiency, portfolio quality and savings mobilization.

By adopting and promoting standards for all MFIs, networks build public confidence in institutions that handle the scare resources of low-income people. Through training services, networks build the capacity of MFIs so that they can provide much-needed financial services over the long term. MFIs can only become permanent financial service providers, however, if they operate in an enabling legal and regulatory framework. Microfinance networks also provide a critical forum where MFIs can reach consensus positions on policy issues, which the network can then advocate before the appropriate government authorities.

Network Services

The services offered by a microfinance network reflect the stage of development of the microfinance sector that it serves. In countries where microfinance is in the early stages, networks generally focus on policy advocacy and building the capacity of their members. In more mature microfinance sectors, networks assume a market facilitation role and begin to offer more value-added services, such as market research and financial intermediation. The range of services offered by networks is extensive and varies from institution to institution (see Table 1).

Table 1. Examples of the range of microfinance network services

Awareness building Capacity development Exchanging advice Facilitating discussions Financial intermediation Finding expertise Impact analysis Information exchange and dissemination	Industry learning Innovation Institutional development Knowledge creation Media campaigns Microfinance best practices Monitoring and evaluation News and events information	Peer learning Performance monitoring Policy advocacy Research Technical assistance Training Training of trainers Web-based resources

Challenges

Networks face the same challenge of institutional sustainability as do MFIs. Across the board, networks encounter difficulties in strategic planning, financial viability, human resource capacity, service delivery and gaining credibility and legitimacy. They proactively address these challenges by seeking support in the form of technical assistance, network capacity assessments and training workshops.

Despite these challenges, a number of microfinance networks have already achieved significant successes, from influencing the development of new microfinance laws in Uganda and Azerbaijan to providing badly needed training services to Pakistani MFIs. This guide is intended to support similar successes by helping networks maximize their potential as key actors in the microfinance industry.

Overview

The objective of this technical guide is to provide microfinance networks with tools to strengthen their institutions. The guide reviews the current state of network practice in six areas of network effectiveness (governance, operations, financial viability, human resources, external relations and service delivery), outlines common challenges faced by networks in these areas, and offers practical strategies to improve performance. Throughout the guide, the experience of actual networks are used to illustrate the text.

This publication has grown out of the work of the Small Enterprise Education and Promotion (SEEP) Network[1] with regional and country-level microfinance networks over the last twenty years. Two SEEP documents provided important inputs to the present guide: the Network Capacity Assessment Guide (which includes the Network Capacity Assessment Tool, or NCAT)[2] and the SEEP Technical Note, "Achieving Financial Sustainability."[3] The NCAT is an assessment tool that evaluates networks in the six key areas of network effectiveness (see Box 1). Used in conjunction with the NCAT Scoring Guide, the tool assigns a score to each area of effectiveness, using performance indicators based on the real-life experience of microenterprise networks around the globe, as well as that of SEEP itself.[4] (See annex 2 for a description of the NCAT.)

Two recent research papers on microfinance networks also contributed significantly to the present publication, particularly the analysis of current practices found in Part I. These papers are "Microfinance Associations (MFA): Their Role in Developing the Microfinance Sector" by Roland Gross and Michael Brüntrup of GTZ and "Emerging Issues for National Microfinance Associations" by Gregory Chen and Stephen Rasmussen.[5]

The SEEP Technical Note, "Achieving Financial Sustainability," was the outcome of a six-week online discussion for microfinance associations held in summer 2004. SEEP and its members have concluded in this paper that "financial viability" is a more appropriate term for sustainable networks, which are unlikely to become completely financially independent, but may make great strides toward this goal.

Methodology

In preparation for writing this guide, SEEP worked closely with nine country-level microfinance associations to document their experience and strategies for becoming effective networks (see annex 3 for "snapshots" of the individual institutions). The networks were selected on the basis of geographic diversity, as well as their documented success in at least one of the six areas of effectiveness. The nine networks featured in this research were:

- Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro Y Pequeña Empresa (COPEME), Peru
- Red de Instituciones de Microfinanzas de Guatemala (REDIMIF), Guatemala
- Red Financiera Rural (RFR), Ecuador

1. The SEEP Network is an organization of more than 50 North American private and voluntary organizations that support micro- and small businesses and microfinance institutions in the developing world. Its mission is to advance the practice of micro- and small enterprise development among its members, their international partners and other practitioners.

2. The NCAT is a customized adaptation of the Organizational Capacity Assessment Tool (OCAT) developed by PACT in 1998. A U.S.-based nongovernmental organization that seeks to build the capacity of local leaders and organizations worldwide to meet pressing social needs, PACT encourages users of the tool to adapt it to their specific needs and purposes.

3. SEEP, "Achieving Financial Sustainability: Six Key Strategies for Microfinance Associations," SEEP Network Technical Note, no. 1 (October 2004) (Washington, DC: SEEP Network).

4. It should be noted that in addition to these six areas of effectiveness, networks that benefit from significant donor support can experience swift growth, particularly those that are integrated into microfinance activities outlined in a country poverty reduction strategy. Similarly, networks that operate in "microfinance-friendly" countries find it much easier to become significant advocates of microfinance, organizing high-visibility activities and effectively lobbying for a conducive enabling environment.

5. Roland Gross and Michael Brüntrup, "Microfinance Associations (MFA): Their Role in Developing the Microfinance Sector" (Eschborn, Germany: GTZ, Division 41, Economic Development and Employment Promotion, April 2003); and Gregory Chen and Stephen Rasmussen, "Emerging Issues for National Microfinance Associations," Shorebank Advisory Services, Chicago, Illinois, and Pakistan Microfinance Network, Islamabad, Pakistan, August 2005.

Box 1. Standards of network effectiveness

Governance. The network has an active, committed Board of Directors that includes leaders in the microfinance sector. The network has clearly defined membership criteria and serves a broad range of sector stakeholders. Network standards for members, such as minimum performance thresholds, are clearly understood and respected. Member needs and satisfaction drive the institution's goals and objectives, which are clearly articulated and well understood by stakeholders. The network has a vision of its future growth.

Operations. The network has a democratic decision-making structure and a well-defined organizational structure. Operational systems include planning, information management, accounting, monitoring and reporting. These systems are updated as necessary and include appropriate stakeholder input (e.g., planning and reporting). Administrative procedures and manuals are updated regularly and followed.

Financial viability. The network has an income-generation plan that emphasizes providing member services that are sufficiently in demand to cover a substantial share of costs, as well as attracting external co-financing. The network has multiple sources of funding and a strategy to diversify these sources. Key financial processes (e.g., budgeting, accounting and auditing) are transparent. The network ensures that its core operations are efficient and effective.

Human resources. Network leadership is market focused and shows initiative; its effectiveness is measured. Job descriptions and the recruitment process are transparent and clearly defined. Staff members benefit from regular supervision, incentives, performance-based appraisals and recourse procedures. The network prioritizes professional development of its staff.

External relations. The network is perceived as credible and valuable and is well positioned to influence government policies. It has close contacts with stakeholders, government agencies, other sector participants and donors. The network has a positive image among stakeholders in the sector.

Service delivery. The network's service mix is based on member demand, network capacity and a positive return on investment. The network has relevant expertise that is recognized by all stakeholders in the sector. Systems exist to process, disseminate and solicit feedback from members and other sector stakeholders. Regular surveys consistently indicate a high level of member participation in and satisfaction with the network. Network programs are actively marketed to stakeholders and the network engages in public relations on microfinance issues. Information dissemination is interactive and continuously updated. All programs include monitoring, evaluation and reporting.

- Association of Ethiopian Microfinance Institutions (AEMFI), Ethiopia
- Consortium ALAFIA, Benin
- Association of Microfinance Institutions of Uganda (AMFIU), Uganda
- Microenterprise Alliance (MEA), South Africa
- Microfinance Centre of Central and Eastern Europe and the New Independent States (MFC), Poland
- Microfinance Council of the Philippines, Inc. (MCPI), Philippines

Background research included a network questionnaire developed from a literature review and customized for each network on the basis of existing documentation (such as NCAT reports, evaluations and published statistics). In six of the nine cases, focus groups and guided discussions with individuals were held at the same time that network data was collected in person. Written questionnaires were used in three cases. In all cases, responses were followed up by telephone and e-mail contact.

This guide also draws heavily on SEEP publications. In addition to the two documents mentioned above, the guide also utilizes information and concepts from *The Network Assessment Guide*, individual NCAT reports, SEEP Technical Notes and *The Institutional Development Guide.* Network evaluations and information produced by country-level networks were also analyzed in preparation for writing this publication. Literature from more mature networks in the United States was then used to compare and contrast the experiences of relatively young microfinance associations.

Using the Guide

This guide is intended to be useful for networks at all stages of development, from those just starting out to those that have been in existence for many years. Readers are encouraged to read each section in its entirety to fully absorb the experiences of the networks that have contributed to these sections.

The guide is divided into three sections. Section I, "Building a Strong Foundation," addresses the basics of network governance, operations, human resources, financial viability and external relations. Section II, "Service Delivery," focuses on the principal services that networks provide: policy advocacy, performance monitoring, knowledge management and training. Sections I and II both offer a comprehensive set of strategies for strengthening network performance in the areas discussed.

Section III, "Strategies for Improving Network Performance," reorganizes these strategies by the four stages of network development: nascent, emerging, expanding or mature stage of development. Because it is possible for networks to be at different stages of development in different areas (e.g., a network may be a mature technical service provider, but still struggling to develop a strong governance structure), networks are invited to examine the entirety of Part III, regardless of where they identify themselves on the development spectrum. The strategies for expanding and mature networks are the same; once a network moves from expanding to the mature stage of development, the focus is on maintaining successful strategies.

Six annexes provide useful supplementary information. Annex 1 presents a short description of mature financial services associations. Annex 2 describes the SEEP Network Capacity Assessment Tool, which uses 72 performance indicators to evaluate network effectiveness. Annex 3 provides "snapshots" of the nine networks that provided basic data for this guide. Annex 4 provides full-length case studies of three networks—MFC (Poland), ALAFIA (Benin) and RFR (Ecuador)—to allow readers to explore all six areas of network effectiveness in detail in different contexts. Annex 5 contains recommended resources (i.e., publications and Web sites) for networks, while annex 6 offers several useful operational tools for networks. Throughout the guide, the 🕮 symbol indicates that an associated reference work is listed in annex 5 and the 🛠 symbol indicates that associated tips and tools are provided in annex 6.

PART 1

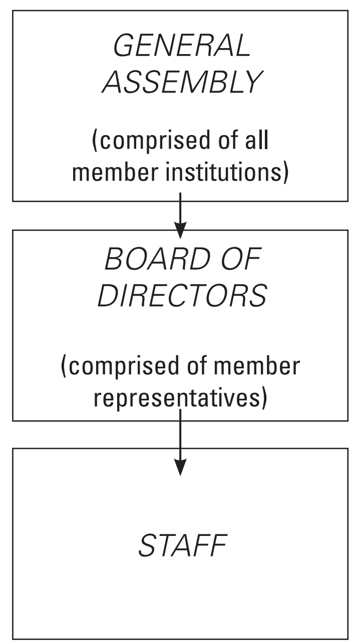
Building a Strong Foundation

1. Governance

> **Standard of Network Effectiveness**
>
> The network has an active, committed Board of Directors that includes leaders in the microfinance sector. The network has clearly defined membership criteria and serves a broad range of sector stakeholders. Network standards for members, such as minimum performance thresholds, are clearly understood and respected. Member needs and satisfaction drive the institution's goals and objectives, which are clearly articulated and well understood by stakeholders. The network has a vision of its future growth.

Board of Directors and General Assembly

Typical Organizational Structure of a Network



The two bodies that govern most networks, the General Assembly and Board of Directors, are both composed of representatives of member institutions. All network members belong to the General Assembly and generally have the same voting rights, regardless of their size, type of end-client or portfolio value. In order to meet the needs of different types of members, or to fulfill specific functions (e.g., audits), networks may occasionally establish special committees to advise the General Assembly or the Board on specific issues.[6]

The General Assembly elects a Board of Directors, which guides and supervises the network. Given that the majority of directors are elected from MFI member institutions, the Board is intensely concerned with the needs and priorities of network members. The Board is generally responsible for hiring and reviewing the performance of the network Executive Director, who in turn is responsible for hiring a professional staff when needed.

In many cases, the initial Board of Directors—often comprised of the presidents of leading MFI members—is actively involved in governing a network during its initial stage of development. Thereafter, the trend has been to delegate more power to the Executive Director, once this position is filled.[7] The Microfinance Centre in Poland provides a good example of this trend. In its early years, the MFC Board was actively involved in day-to-day operations. As the network developed and grew, however, the Board began to focus more on strategic issues and allowed the Executive Director to actively manage network operations.

Because networks face a diverse array of challenges (e.g., political, operational and financial), they need good governance systems to help them navigate their organizations towards success. According to Gross and Brüntrup, network governance "is closely related to . . . membership structure, but must also take into account the services they provide (with their special demand for management and decision making) and the overall environment in which they operate (for instance, the decentralized distribution of their members, bad communication, etc.)."[8]

Challenges

As previously mentioned, network Boards are composed of representatives of member institutions, duly elected by their peers. While this represents a democratic, participatory process, this type of Board composition can create

6. See Gross and Brüntrup, "Microfinance Associations," 2003, 61.

7. Ibid.

8. Ibid.

unique challenges. For example, when members serve on the Board of Directors, a network runs the risk that a director will use his or her seat to advance the interests of a particular institution, rather than those of the network as a whole. Another challenge is naming a Board with an appropriate mix of skills for good governance. Certain necessary skills, such as fundraising or knowledge of performance management, for example, may not be found among directors elected by the General Assembly.

Box 2. Transparent Governance

The General Assembly of ALAFIA (Benin) is composed of the network's 26 member institutions and meets once per year. Members elect the Board of Directors as well as members of the Monitoring Committee, which oversees the operations of the Board. The latter committee is composed of two members who meet twice per year and report to the General Assembly on Board activities. Its existence underscores ALAFIA's commitment to transparent governance.

Another common challenge faced by many networks is that most Board members, who are generally senior managers of member institutions, have no experience serving on a board. As a result, Executive Directors of networks run the risk of being micro-managed by board members who are used to managing their own institutions. In addition, without clearly defined Board qualifications, networks could end up with democratically elected Board members who lack the skills needed for sound board governance. Therefore a major challenge for networks is how to develop an effective board with members that offer a varied set of skills.[9]

Membership

Networks generally have either limited or open membership. The type of membership offered by a network should be based on its strategic objectives. Networks that are primarily concerned with influencing governments to change policy are usually best served by a large membership base.[10] In contrast, networks that are primarily concerned with providing services to their members are best served by limited membership, which facilitates general agreement on what network services should be.

Much like trade associations in other sectors, limited-membership networks restrict their members to microfinance institutions. They may also apply more restrictive criteria, such as legal registration, a minimum number of clients served or financial performance (see Box 4). Some networks represent only sub-sectors of the sector, such as microfinance NGOs or savings and credit cooperatives. Networks with such restrictive criteria tend not to include the majority of microfinance service providers in the country.

In some markets, more than one microfinance network is in operation. The merger between MCPI and PHILNET in the Philippines demonstrates a proactive attempt to create a single body that could best represent the industry in a specific country (see Box 3).

Box 3. MCPI merges with PHILNET

In 2004, the Microfinance Council of the Philippines, Inc. (MCPI) merged with PHILNET, a network for NGO MFIs that used Grameen Bank lending methodology. The major motivation for the merger was to strengthen MCPI as the leading microfinance network in the Philippines. The merger was made easier by the fact that eight leading MFIs in the country were originally members of both networks. MCPI was chosen as the surviving entity because its membership was more inclusive. The benefits to MCPI have been a stronger asset position, additional members and reinforcement of the network's public credibility.

9. Ibid, 62.

10. For more on the reasons why a large, diverse network is preferable for policy advocacy, see Part II, "Policy Advocacy."

Challenges

To be truly representative of the microfinance industry, network membership should consist of the majority of MFIs in the country or include MFIs that serve the majority of the existing client market. As they grow, networks must overcome the challenge of managing growth and its potential impact on network operations.

Defining Documents and Procedures

Boards generally assist networks to become professional organizations. Part of this task involves creating corporate documentation on the goals and operational rules of a network. Virtually all formal microfinance networks have by-laws and/or a constitution that guide the governance of the network. These documents typically contain information on:

- the Board of Directors (e.g., qualifications, recruitment, responsibilities, voting and election procedures, terms, quorums, terms of office, election of officers, duties of officers, board committees)
- the roles and responsibilities of the General Assembly
- the role of the Executive Director
- office and financial operating procedures

These documents are important and are often referred to by the Board and Executive Director. However, some associations tend to adopt generic organizational by-laws that do not address the institutional specificities of a network, such as the need to assure democratic representation of members on the Board. Some networks also find it difficult to define the appropriate length of a Board term, so as to ensure effectiveness and fair representation. For example, the term of office on some Boards is limited to one year—too short a period to allow continuity of strategic direction. Other networks have no term limits at all, which limits how democratic the Board will be, running the risk that the body could be dominated by one strong personality.

Finally, most networks establish procedures for how they will make decisions on such issues as programs, activities, budgets and staff size. Open knowledge of these procedures is crucial to the transparency of network operations.

Challenges

In certain networks, elaborate charter and mission documentation can threaten to over-bureaucratize the body.[11] It is thus important to keep the extent and detail of corporate documentation in balance with a network's size and capabilities.

Membership Criteria and Standards

Many networks have adopted codes to ensure that all members understand and respect the network's mission (see Box 4). In addition to emphasizing the value of being a network member, Codes of Conduct (or Codes of Practice) allow a network to verify that members fulfill their responsibilities to the network and do not contribute to negative perceptions of microfinance in the country or region. Many networks believe it is more beneficial to the industry to use such codes as guidelines, rather than strictly imposed rules with mandatory sanctions. Regardless of how such codes are enforced, they should be subject to member oversight.

As noted, many networks also establish minimum membership criteria for membership. MCPI of the Philippines restricts full membership to MFIs with over 3,000 clients and a loan portfolio of US$200,000. REDIMIF in Guatemala requires that members have 500 or more active clients, active credits of US$131,000 in 2005 and a

11. Gross and Brüntrup, "Microfinance Associations," 2003, 62.

Box 4. AMFIU's Code of Conduct

I. General Membership

- Responsibly manage funds at their disposal.
- Work actively towards building sustainable institutions by applying best practices and constantly monitor the performance of their businesses and strive for ways of improving efficiency and better delivery of services.
- Abide by the guidelines set down by the regulatory body (Bank of Uganda) where these guidelines are applicable to their organizations' activities.
- Build public awareness and trust of the sector by encouraging it to meet the highest standards of quality.
- Meet the needs of their clients in an efficient and prompt manner.
- Educate the public and their clients about the needs, strengths and responsibilities of the microfinance sector.
- Conduct themselves in a manner consistent with the highest degree of professionalism, and respect fellow members of the association.
- Re-assess the needs of the sector on a regular basis to ensure that needs are being met in the most efficient and relevant way.
- Submit their institutions' financial accounts for annual external audit, in the interests of responsibility and transparency.
- Institutions shall at all times safeguard the interests of their employees, colleagues and clients, provided that they shall not knowingly be a party to any illegal or unethical behavior.
- Institutions shall refrain from conduct or action which detracts from the reputation of the association.
- Institutions are required to exercise integrity, honesty, diligence and due care in carrying out their duties and responsibilities. They shall conduct themselves with courtesy and consideration towards all with whom they come into contact in the course of the execution of their work.
- Institutions shall at all times be cognizant of their responsibilities as competent organizations towards the wider community. They shall follow the guidance of this Code and in circumstances not provided for, should conduct themselves in a manner consistent with the good reputation of the association.
- Personal relationships can affect objectivity. There is a particular need, therefore, for an institution to ensure that its objective approach to any assignment is not endangered as a consequence of any personal relationship. Such problems can also exist in cases of close friendship or relationship by blood or marriage or where work is being done for a company dominated by one individual.
- Clients have an indisputable right to choose their source of finance and financial services and to change to others should they so desire.
- Institutions are strictly accountable for all client monies received in the course of the execution of their duties.

II. Criteria for Leadership

To be a leader of the network, the following attributes should be taken cognizance of:

- No criminal record against one's name; be a person of honesty and impeccable integrity.
- The institution from which the prospective leader emanates should have a Board of Directors.
- Audited financial statements [from the institution where the prospective leader works]
- Must be willing to attend Board meetings and should step down if absent from three consecutive meetings without sending apologies.
- Must represent a legally registered microfinance institution, preferably engaged in a "best practices" method of operation.
- Adherence to the provisions of the constitution.

maximum 10 percent portfolio at risk greater than 30 days (PAR > 30). REDIMIF allows MFIs that do not meet these criteria to become members for a fixed period, during which time they are expected to improve their performance and comply with the criteria.

Challenges

In countries with a young microfinance sector, small MFIs may not meet minimum membership criteria for outreach and loan volume criteria because the sector has yet to experience a consolidation process.

Although some networks have clear membership criteria and performance standards, they cannot always enforce them. MCPI cannot enforce its standards because its General Assembly has not authorized it to do so. As a result, MCPI relies on moral suasion to encourage members to adhere to performance standards. Unfortunately, the network does not offer members any incentives that would motivate them to adhere to these standards. The challenge of MCPI is thus to keep members committed to achieving high standards of performance in the absence of enforceable sanctions.

Table 2. Governance Strategies

Challenge	Recommended Strategies
Identify and attract appropriate members	• Establish minimum, clearly understandable membership criteria that require some level of participation in the network • Adopt a code of conduct to which members should adhere 🛠[12] • Consider establishing financial performance standards and a performance monitoring mechanism[13]
Ensure that all members understand the network mission	• Create a strategic plan that illustrates how all network activities contribute to its mission 📖[14] • Refer to the network's mission in all marketing materials
Build a network that can affect public policy	• Establish an open network membership and attract a large number of members
Build a balanced Board of Directors	• Identify the skills and work experience that would be useful on the Board and seek out members that fit these criteria • For networks with diverse members (e.g., MFIs, commercial banks, credit unions), consider creating Board seats for representatives of each group • Create reserved board positions to represent additional membership segments • Create appointed director positions to increase Board capacity in key areas, such as policy advocacy and fundraising (e.g., bring on a former member of parliament to guide policy advocacy work)
Decide whether or not to expand the network	• Link the issue of expansion to the network's mission, particularly its defined targets • Build consensus among members on the need to expand • Address the implications of expansion: amending the mission, and/or activity profile, hiring additional staff, etc.
Manage network growth	• Ensure that the network is as representative of the microfinance sector as possible • Consider expanding network membership so that the network represents more actors in the sector • Recognize the increased interest in microfinance among commercial banks and the growing number of transformations and mergers of traditional MFIs • Plan for growth and increase capacity as membership increases by identifying changing human resource needs (e.g., need for different competencies) • Consider consolidation with existing networks • Consider establishing new member categories, such as associate members or honorary members (with limited rights and benefits) to create a more inclusive membership • Develop a pricing strategy to attract a diverse membership

12. This symbol indicates that associated tips and tools are provided in annex 5.

13. See ALAFIA case study in annex 3.

14. This symbol indicates that there is a useful reference in annex 4.

Table 2. Governance Strategies (cont'd)

Challenge	Recommended Strategies
Meet the needs of diverse members while ensuring fairness and equality	• Explicitly recognize and openly discuss disparities in member size to avoid the perception of special treatment • Ensures that all members are equal partners, regardless of size or other differences; give each member the same voting rights in the General Assembly • Ensures that both smaller and larger members have sufficient representation on the Board, either via working groups or guaranteed seats on the Board • Elect or appoint directors who can reach out to a diverse membership
Build a strong and effective Board	• Include Board development as part of the board's annual plan, allowing the body to systematically evaluate its needs and build up areas of relative weakness through training and exercises • Ensure that the Board has an internal self-assessment mechanism • Elect a special member committee to assess and report on the Board's performance on an annual basis[15]
Develop policies that ensure a democratic Board and Board leadership	• Develop customized governance documents (by-laws and/or constitution) that specifically address the representative nature of the network • Implement such policies as staggered elections and term limits for Board officers

15. See ALAFIA case study in annex 3.

2. Operations

Standard of Network Effectiveness

The network has a democratic decision-making structure and a well-defined organizational structure. Operational systems include planning, information management, accounting, monitoring and reporting. These systems are updated as necessary and include appropriate stakeholder input (e.g., planning and reporting). Administrative procedures and manuals are updated regularly and followed.

Networks should have a clear expectation of member involvement in their operations. Although network members play an active role in operations, many networks are now professionally managed, with skilled professionals leading each operational area.

Network Institutional Structure

The need for a network to establish itself formally, i.e., to become a legally registered institution, varies from country to country. Many networks originated in informal working groups that were created to share operational experiences and address common constraints. For example, AMFIU-Uganda, one of the oldest microfinance networks in Africa, began as a collaborative effort of various organizations working in the microfinance industry. These organizations came together "to have a common voice; to lobby government for favorable policies; to share information and experiences; and to link up and network with both local and international actors."[16] After recognizing the importance of their networking activities, as well as their potential to wield more influence as a formal institution, they formed a professional association.

In countries where MFIs are regulated financial institutions, such as Ethiopia, networks are formed by government decree: a 1999 decree created a professional association (AEMFI) and required all legally registered Ethiopian MFIs to become its members. In order to influence public policy, some informal networks become legally registered organizations in order to be perceived as legitimate institutions. Another benefit of formal status is that it allows networks to fundraise to cover the cost of full- or part-time staff and an office (or "secretariat"). Such an institutional structure is needed to remove the work burden from people who represent the informal organization, who often contribute to network activities above and beyond their full-time jobs.

In order to offer certain services, networks may need to either change their organizational type (e.g., become a registered non-profit) or create a separate organizational entity (e.g., a for-profit entity to offer training and consulting services, as is the case of MFC). Finally, networks that begin as projects of multisectoral development organizations may need to become independent entities and develop their own governance bodies.

Challenges

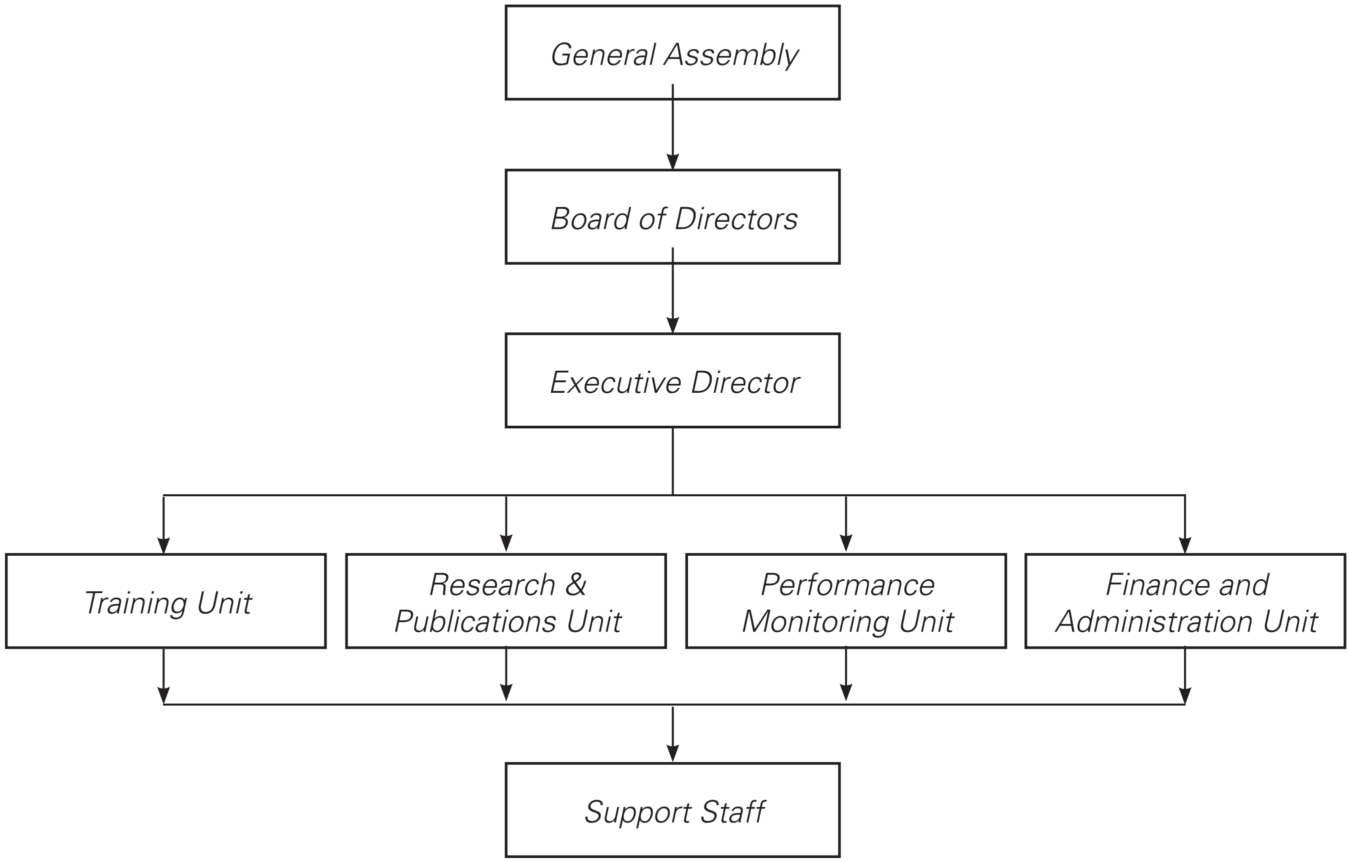
Becoming a formal network too soon runs the risk the members will not yet have established organizational cohesiveness and common goals through informal collaboration.

Systems and Procedural Manuals

Because of their small staff size, many networks do not have written manuals for operational systems and procedures. Typically, a network secretariat is small enough to allow close coordination among staff members. Lack of administrative procedures tends not to affect the performance of informal and small network secretariats. However, once a network's staff and services expand, written procedures become very important to assure efficient use of limited resources. For example, a procedures manual enables existing staff to spend less time explaining processes

16. AMFIU, *Business Plan 2003–2005* (Kampala, Uganda: AMFIU, 2003–2005).

Figure 1. Common institutional structure of a network



to a new hire. Clear financial procedures, financial controls and reporting systems, including regular audits, ensure transparent operations and proper use of funds.

Developing a Strategic Plan

The foundation of network operations is a business or strategic plan.[17] Strategic plans are time-limited documents (generally a forecast for two to five years, depending on the vibrancy of the sector and the institution) and should be regularly updated to reflect an institution's maturation. These plans determine network services and the financial and human resources needed to deliver them. Other key documents, such as an annual work plan, annual operating budget and annual activity and financial reports, are all based on the strategic plan.

In contrast with only a few years ago, most microfinance networks today have a strategic and/or business plan. However, the process used to develop these plans differed. In most cases, networks have benefited from the assistance of external consultants. Some networks develop terms of reference for a consultant to analyze their comparative advantage by meeting with key stakeholders, a process that informs the writing of a strategic plan. Other networks hire external consultants to facilitate strategic planning retreats that bring together the network's key stakeholders in a structured manner to discuss issues that feed into the strategic plan.

In December 2001, after conducting its first organizational self-assessment prior to developing a business plan, AMFIU documented the experience in a paper that now serves as a guide to successful business planning for microfinance networks (see Box 5).[18]

17. The term strategic plan is used to refer to a network's primary planning document, which may go by another name. For most networks, business plans and strategic plans refer to the same thing.

18. AMFIU, Successful Business Planning for Microfinance Networks (Kampala, Uganda: AMFIU, 2002), p.2

Box 5. Excerpt from *Successful Business Planning for Microfinance Networks*

What we did in AMFIU was to start with an organizational self-assessment. In December 2001, we spent two days in a retreat with the full Board of Directors (7 people), secretariat (3 people) and 3 other key stakeholders (including members). This was a highly participatory process facilitated by SNV and an external consultant (based on a clear Terms of Reference). The two-day exercise used AMFIU's first business plan (for 2001–2003) and the draft work plan and budget for 2002 as a basis, and specifically focused on:

- a review of AMFIU's purpose (mission and vision);
- analysis of the current and desired state of development (SWOT analysis);
- preparation of an action plan for improved performance (on key issues & capacity gaps)

Based on the outcomes of the self-assessment, the secretariat updated and revised the 2001–2003 business plan into a three year business plan for 2002–2004. This business plan was discussed and approved by the Board of Directors in its meeting on February 19th. It was then sent out to various donors for discussion and negotiation. Furthermore, it was discussed and approved by AMFIU's members during the Annual General Meeting on May 16th–17th, when all members received a copy of the plan.

Source: AMFIU, *Successful Business Planning for Microfinance Networks, 2002, page 1.*

Business plans for microfinance networks contain elements common to business plans for any organization. A good example of the structure of a network business plan is that used by AEMFI in Ethiopia, which contains:

- an external environmental analysis
- an institutional assessment, including a review of the network's vision/mission/goals, ownership, governance and funding
- activities for the time frame the plan will cover
- projections on activities, budgetary requirements, income, total costs, financing gaps and performance indicators

Challenges

Often, new networks arise out of an immediate need to address a specific issue. Once the issue is addressed, networks tend to move to the next burning issue. Eventually they find themselves carrying out activities without a strategic plan. Given the pace of their activities, moreover, many networks feel that they do not have the time to devote to strategic planning.

It can be challenging to conduct strategic planning. In some countries, networks have contracted external consultants who were not intimately knowledgeable about the network or networks and did not involve members in the development of the plan. In these cases, the resulting plans appear to be pro-forma business plans, as opposed to a plan customized for a membership association.

Annual Work Plans and Reports

A network's annual plan is typically derived from its overall strategic plan. For instance, in Peru, COPEME organizes annual strategic planning workshops that use an evaluation of the network's performance over the previous year, both to gather information on the progress of ongoing activities and create a new annual plan. This allows COPEME to develop annual goals in line with the network's strategic objectives.

COPEME's General Assembly elects a Programming Committee that participates in the annual workshop. The committee is composed of approximately 30 percent of total network members. The annual planning workshop usually takes two to three days and consists of a review of the network's strategic objectives, which establishes a foundation for network activities in the next year, together with a budget. The annual plan and budget are then approved by the Board of Directors for presentation to and approval by the General Assembly.

Some networks follow good practice by breaking their global annual work plan into implementation tracking systems for each program or unit. The plan is thus translated into the sub-activities to be conducted by each program, to which specific time frames are assigned.

Due to the nature of their organizations, networks are generally well-versed in writing annual reports for their constituents (e.g., members, donors, key industry stakeholders). An annual report typically describes the activities carried out by a network in a given year. As with other types of organizations, microfinance networks tend to use these reports as a marketing tool and usually publish them in glossy format.

Challenges

While many networks develop annual work plans that correspond to their strategic plans, they find it difficult to accomplish all planned activities. The most common reasons for this predicament are overly ambitious plans, especially given a network's limited human resources. In addition, over the course of a year, networks are often asked by members and external stakeholders to take on activities that were not a part of the original work plan. Finally, network activities are frequently funded by a variety of sources, which means the network must prepare customized activity reports for a number of different donors, a process that requires a great deal of time.

Self-Monitoring and Evaluation

According to PACT,[19] self-monitoring and evaluation enable a network to:[20]

- gauge progress made towards the fulfilment of network objectives
- create common standards for member performance
- maximize the effectiveness of member programs and/or services
- strengthen the management and efficiency of the network
- promote inter-organizational learning and accountability

As a result of donor funding requirements and the increase in capacity-building programs, many microfinance networks worldwide have been formally evaluated. However, few networks have incorporated the results of these evaluations into internal monitoring and evaluation systems. Most networks report that they presently monitor their progress by their ability to implement the activities in their annual work plan.

A few networks, such as AEMFI, are taking steps to regularly measure their performance and impact. As previously mentioned, AEMFI carried out a first-of-its-kind performance and impact assessment in 2004 with the goal of documenting lessons learned and establishing a knowledge base for better impact and performance in the future. AEMFI is also one of the few networks that tracks two key performance indicators on an annual basis: the overhead percentage (administrative costs in relation to total costs) and the donor dependency ratio (projected grant income in relation to total projected costs).

19. PACT is a U.S.-based nongovernmental organization that seeks to build the capacity of local leaders and organizations worldwide to meet pressing social needs.

20. Jeff Kwaterski, "Strengthening Networks: Reflections from PACT," presentation at the SEEP Global Network Summit, Washington DC, October 2005.

Challenges

When deciding where to invest their limited resources, most donors are interested in supporting institutions that give them a return on their investment. For networks, this means building institutional strength, measuring performance and demonstrating impact. Yet few networks have begun to measure their performance beyond the achievement of activities outlined in their annual work plan.

Table 3. Operational Strategies

Challenge	Recommended Strategies
Determine institutional structure	• Prior to becoming a formal organization, invest resources in member services to establish credibility • Rely on members to initially house network staff, provide administrative support and serve as a conduit for funds • Establish the network as a formal institution only when needed to effectively carry out activities
Develop a strategic plan	• Conduct a baseline assessment of the network, using a tool such as the NCAT (see annex 2) to identify the network's stage of development • Forecast where the network wants to be in the medium term • Develop the network's strategic and/or business plan, based on the baseline capacity assessment • Carry out a formal strategic planning exercise that includes Board directors, members, staff and key stakeholders • Discuss the strategic plan with members; have General Assembly adopt the final version as a core network document • Review the strategic plan on an annual basis and update as necessary
Develop an annual work plan	• Create an annual operating plan that details network activities and associated funding sources (both human and financial) for approval by network members[21] • Develop criteria for taking on new activities
Develop a system for network self-monitoring	• Identify key issues of governance, operations, financial viability, human resources, service delivery and external relations that need to be monitored • Develop network performance indicators and annual performance targets • Measure progress in these areas against targets set in the annual business plan
Make meeting member needs a staff priority	• Include member consultation as a task in the job descriptions of network staff • Encourage working groups to ensure member input into network decisions[22] • For networks with diverse members, appoint a liaison for each distinct group of members
Improve operational management	• Use the annual operating plan to guide network activities and resource allocation • Establish a project management process for every activity that addresses member involvement, resource acquisition, timelines and milestones, and monitoring and evaluation[23]
Establish appropriate systems and procedures	• At early stages of development, do not over-bureaucratize network operations with detailed systems and procedures. Instead, put in place a simple operational manual that documents core administrative processes • As the network activities and staff size expand, regularly update the operational manual with more detailed guidance on administrative processes
Developing an annual reporting system	• Identify all reports required annually and develop a system to collect and store information needed to ease the report writing process • Ensure the official annual report is published in a high-quality format so that it also doubles as a marketing tool

3. Financial Viability

Standard of Network Effectiveness

The network has an income-generation plan that emphasizes providing member services that are sufficiently in demand to cover a substantial share of costs, as well as attracting external co-financing. The network has multiple sources of funding and a strategy to diversify these sources. Key financial processes (e.g., budgeting, accounting and auditing) are transparent. The network ensures that its core operations are efficient and effective.

Funding Sources

All networks should plan to become financially self-sufficient, even if this goal is not fully attainable. At present, networks worldwide fund their operations from a variety of sources: membership fees, in-kind member contributions of time and expertise, special-event fees, tuition and consulting fees, donor grants, government grants and even endowments.

Although member contributions did not constitute the largest revenue stream of any network in the sample undertaken for this guide, they are nevertheless a critical component of a network's financial sustainability plan. Unlike donor funding, funds raised from member dues is a tangible expression of member support. Chen and Rasmussen emphasize that it is important to design grants and subsidies so that they add to, rather than displace, member contributions.[24]

There was a large variation in the membership dues of the networks researched for this guide, from US$100 to US$1,300 per year. The higher dues, such as those of RFR, are intended to fund specific core costs (such as principal staff salaries) through membership contributions. Such networks believe that funding staff positions in this way helps ensure the permanence of the institution. Many networks charging at the lower end of the spectrum are currently planning to revise their membership dues structure.

Most networks still charge a flat rate to all members, but innovative networks are experimenting with stratified member fees that ask larger members to pay relatively more than small ones. ALAFIA, for example, charges a low flat rate plus 0.1 percent of the value of a member's loan portfolio.

Regardless of the funding mechanism, experience indicates that if MFIs are to increase their network contributions, they themselves must be financially strong. Networks need to recognize, however, that not all members will become strong at the same rate or time, and shape their fee structure accordingly.

The general consensus in the microfinance sector is that services offered by networks, such as training, should be funded by fees.[25] Wherever possible, fees should be based on an assessment of real costs, including that of the managerial staff of the network.[26] During the early stages of a network's existence, however, this may not be viable because young MFI members may be unable to afford services based on actual costs. Nor is it always possible for a network to fund needed staff, useful publications or service development costs on the basis of membership fees alone.

Chen and Rasmussen believe that networks should aim to become self-sufficient from their inception, even if they require subsidies in their early stages of development. More importantly, these authors firmly believe that networks should cover core services (e.g., lateral learning and information sharing) solely on the basis of member fees because this would allow them to continue to function even if all outside funding was withdrawn.[27]

21. See the MFC (Microfinance Centre of Central and Eastern Europe and the Newly Independent States) case study in annex 3.

22. See RFR case study in annex 3.

23. See ALAFIA case study in annex 3.

24. Chen and Rasmussen, "Emerging Issues," 2005, 10.

25. Ibid., 9–10.

26. Gross and Brüntrup, "Microfinance Associations," 2003, 70.

27. Ibid.

MFC, for example, seeks to minimize its reliance on donors to fund "core operations." Its strategy is to cover these costs by (1) increasing the profitability of revenue-generating activities; (2) including provisions for core operational costs in proposals for project-based funding; and (3) reducing overhead costs by increasing efficiency and productivity.

Grants can be effectively used by new networks that serve young MFIs with few resources, as well as more mature networks that develop services with significant up-front costs (e.g., performance monitoring, benchmarking, and industry standards for purposes of self-regulation). Whereas the latter services may eventually be offered on a fee-for-service basis, the cost of their development can rarely be funded by member contributions. In many cases, such services can be viewed as "public goods" that justify grants from either donors or government agencies.[28]

For nascent networks dependent on donor grants, performance-based funding can focus them on sustainability and serving member needs in a transparent manner. The Swiss Agency for Development and Cooperation (SIDA), for example, made its early funding of the Micro Enterprise Alliance (MEA) in South Africa contingent on the following performance-related indicators:

- meeting the needs and expectations of members
- an increase in the number of (paid) memberships
- increased visibility and recognition as "the voice of the industry"
- effective networking and engagement with policymakers and other government agencies
- attracting and retaining competent staff members
- improved sustainability

Many networks are moving towards charging donors an administrative fee to cover overhead costs on services that are directly funded by donors. REDIMIF, for example, has established an overhead fee that ranges between 10 and 25 percent of the total cost of a service. The specific amount is determined by the network's Board of Directors and factored into the annual operating plan.

Working with members to decide how to fund different activities can clarify network goals and members' commitment to the organization. Chen and Rasmussen recommend that activities be funded on the following basis:[29]

Source of funding	Primary role of funding
Service fees from clients	Service provision
Member contributions: dues + in-kind	Lateral learning/information sharing
Public and private grants	Industry advocacy
Endowment and investments	Self-regulation

The last item in the list of sources, endowments and investments, are becoming an attractive source of permanent funding for networks. In the words of Chen and Rasmussen, "A pool of investments can generate returns that diversify [an] association's sources of revenue, help associations plan with a longer term perspective and may enable them to pursue innovative activities that cannot be supported by other sources of funds."[30] Interest-generating investments can originate with one-time grants or represent, as in the case of COPEME in Peru, recycled donor investments. COPEME uses its innovative fund to pay some of the cost of staff salaries (see Box 6).

28. Ibid.

30. Adapted from Chen and Rasmussen, "Emerging Issues," 2005, 9.

31. Ibid., 10–11.

Box 6. An innovative endowment fund

COPEME's Endowment Fund (also known as its Sustainability Fund) is designed to ensure the sustainability of the network's core functions. The Fund was created out of a credit fund that had been provided to the network by the Ford Foundation and which the network had managed efficiently. After ten years of supporting COPEME, the Ford Foundation proposed that the network establish an "endowment," to which Ford contributed US$500,000 dollars. It was assumed that COPEME would contribute an equal amount over a period of five years.

As of 2005, the "endowment" was valued at US$902,000 and was invested in American treasury notes placed in cooperatives (where it is used for credit funds) and mutual funds (where it has generated US$45,000 in interest income). The General Assembly of COPEME decides whether or not to capitalize this interest or to use it to fund the annual budget. Since the endowment fund is relatively new, the Fund's Board (composed of COPEME members, staff and donor representatives) is trying to work in a more specialized manner to invest in MFIs.

Challenges

Donor grants typically fund the start-up phase of a network. Often, such grants are tied to a specific program or service, such as capacity-building workshops. Such targeted funding can lead the network to renew the programs—and their associated funding streams—at the end of a grant period, regardless of whether the programs respond to the priority needs of its members or whether other service providers can now provide such services more efficiently.

Box 7. REDIMIF's road to financial viability

Currently, REDIMIF generates about 30 percent of its budget from dues and training fees. The network relies on ordinary dues (US$65 per month) to support operational costs and extraordinary dues to fund specific events, such as advocacy efforts. Extraordinary dues are fixed and approved by the General Assembly. REDIMIF also earns 10 to 25 percent of the cost of each of its services, which it collects from both donors and members. (Donors contribute a percentage of the cost of the services that they fund as an administrative fee, which covers certain overhead expenses.) These income-generation targets are part of the network's annual operating plan.

Roughly 70 percent of REDIMIF's budget is contributed by the Ford Foundation, the Multilateral Investment Fund of the Inter-American Development Bank and the Central American Microfinance Network (REDCAMIF). The Ford Foundation is supporting an institutional strengthening project to enable REDIMIF to deliver demand-driven products and services on a sustainable basis. The project recently funded a study that resulted in yearly financial targets that have been incorporated into the network's annual operating plans.

REDIMIF's financial sustainability plan relies on increasing membership by two institutions per year over the next 10 years, which will yield increased dues. The network will also scale up its activities from 14 to 21 per year, continuing to earn between 10 to 25 percent of the cost of each activity. To avoid creating an expensive bureaucracy and maintain its flexibility, the business plan stipulates that the majority of REDIMIF services will be provided via contracts and strategic alliances with third parties, rather than by network employees.

Table 4. Financial Sustainability Strategies

Challenge	Recommended Strategies
Build good relationships with donors	• Carry out low-cost, high-visibility activities (such as disseminating general institutional information on members) to gain external credibility • Seek 2–3 long-term donors willing to help the network build institutional capacity and fund its business plan, rather than individual activities • Ensure that donor funds support activities that are in the network's business plan • Collaborate with donors to develop realistic performance-based funding agreements
Plan to generate sufficient revenues	• Ensure at least three revenue streams, such as (i) membership dues, (ii) fees from services, and (iii) earnings from the sale of publications • Create a multiyear business plan with projections for future years and revise it on an annual basis • Ensure new activities have sufficient funding prior to their launch • Build in administration fees for donor-funded activities
Develop a plan for financial viability	• Rely on significant member financial and in-kind contributions • Consider a sliding-scale dues structure (such as setting dues as percentage of a member's outstanding loan portfolio) • Develop effective marketing techniques to attract funding. These techniques should ensure that network activities are highly visible and perceived as having an impact on the industry • Diversify funding sources to include new donors, such as foundations, partnerships with the private sector and endowment funds • Plan to cover the costs of core operations with self-generated revenue
Develop demand-driven, fee-based services	• Identify services that can largely be paid for by members or other direct users • Begin to charge fees for network services, even if such fees are nominal, to condition member MFIs to pay for services • Finance programs that are unable to cover their costs through a combination of service fees, donor funding and cross-subsidization from more profitable services
Maintain budget control	• Have each operating unit make a monthly budget presentation that compares their operating budget to the annual budget plan • Appoint a Board-level finance committee to follow the network's finances • Develop a detailed yearly operating budget • Ensure all funds identified in the operating budget are in the network's bank account before carrying out corresponding activities

4. Human Resources

Standard of Network Effectiveness

Network leadership is market focused and shows initiative; its effectiveness is measured. Job descriptions and the recruitment process are transparent and clearly defined. Staff members benefit from regular supervision, incentives, performance-based appraisals and recourse procedures. The network prioritizes professional development of its staff.

Staffing

During a network's early years, staffing is generally perfunctory. Members volunteer their time and resources to ensure that network activities are carried out. However, as the network grows and matures, staff are added, usually beginning with an Executive Director.

As Gross and Brüntrup have pointed out, a talented, well-qualified Executive Director is a necessity for networks that have progressed beyond basic lobbying and networking. A decentralized membership means that operational decision-making must be vested in the network director. Because most network members are themselves highly qualified executives, only a highly regarded peer will be able to effectively consult with them and convince them on contentious issues. Finally, the need to establish long-term relationships with the donor community and government agencies calls for an experienced, sophisticated leader.[31] To cite these authors directly:

> Good management is costly. High-quality staff (particularly executives) may be expensive, but this . . . expenditure . . . should be accepted. To make such costs more affordable, a key qualification for recruiting top staff could be the ability to write project proposals and/or excellent contacts with the donor community. Apart from the correct salary, additional attractions for high-quality personnel are international contacts and travel as well as (important!) managerial freedom.[32]

The average number of full-time employees in the sample undertaken for this guide (excluding support staff such as drivers, cleaners and messengers) was six. The exception was MFC, which has been able to greatly increase its staff by generating internal funds from its training and consulting unit.

ALAFIA, for example, elects members to commissions that oversee governance and operations and hires professionals on a contract basis to manage services identified in the strategic plan. By hiring consultants (sometimes for terms as long as 5 years), ALAFIA has more flexibility than if it hired professional staff.

Challenges

Recruiting competent network staff (i.e., people who are both efficient and well-versed in microfinance) can be difficult. Once such staff are trained and knowledgeable about a network, its activities and members, it can then be a challenge to retain them. Like most nongovernmental organizations (NGOs), microfinance networks offer interesting work, but typically, the volume of work is high and the salaries are low.

Professional Development

Few networks have established professional development plans for staff members, although staff and management both agree that staff training is needed to improve job performance. ALAFIA in Benin is an exception to this trend (see Box 8).

31. Gross and Brüntrup, "Microfinance Associations," 62.

32. Ibid., 62–63.

Box 8. Trained for excellence

Unlike the staff of most networks, the staff of ALAFIA believe that they have sufficient access to professional development. Staff training at ALAFIA is tailored to position requirements and sourced both internally and externally. All staff receive training on the challenges inherent in running a microfinance association, as well as in proposal writing, to emphasize the importance of financial sustainability. All, except the newest employees, have received training specific to their programs. Employees that were interviewed said they did not have unmet training needs. By placing a priority on staff development, ALAFIA makes sure to build in the expenses associated with this activity into its cost structure.

Challenges

Networks generally attribute deficient staff training to lack of funds for professional development, as donors are less likely to fund core operational costs. The heavy work burden of staff members is also a factor, as networks strive to be lean, cost-efficient organizations.

Two other factors reduce the incentive of networks to provide professional development training. First, network staff usually have ample opportunities to attend network conferences and trainings that can increase their knowledge and aptitude. Of course, this type of exposure is opportunistic and, although usually appreciated by staff, cannot ensure that they will acquire the skills necessary to improve their job performance. Such exposure cannot, therefore, substitute for a professional development plan that offers employees clear benefits (see Box 9).

The second factor that prevents networks from providing professional staff development is that most networks view themselves as new and evolving organizations, rather than permanent institutions. There is a tremendous difference in staff motivation between organizations that see themselves as up-and-coming and those that see themselves as more stable. Employees of the first category will work hard for little pay, believing that some day there will be a pay-off, either financial (as in the case of a private company), or in reputation, as in the case of a network. However, employees of stable organizations believe that such organizations should compensate them well and provide benefits commensurate with their positions.

At RFR, each program develops an annual work plan against which staff is evaluated at the end of each year. Every two weeks, staff members review each other's progress in carrying out work-plan activities. If professional development activities were included in these work plans, the process would ensure that current staff acquired skills relevant to their positions.

Box 9. AMFIU's administrative strategy

Like many networks, AMFIU has a flat administrative structure, leaving little room for promotion. Without the motivation of promotion, however, staff members who seek to advance may seek a job elsewhere. AMFIU leaders realized that staff turnover had led to the decline of other networks, which led them to convince the Board of Directors to revise the network's human resource strategy to improve staff retention. Once the board was convinced, they in turn convinced AMFIU's donors and the strategy was developed.

With the help of a consultant funded by one of its donors, AMFIU began setting performance targets for all staff in February 2005, based on the goals articulated in the network's business plan. Staff appraisals are now used to determine how staff members contribute to the fulfillment of network objectives. The transparent process allows staff and management to share the same expectations of their performance. In addition to setting performance targets, management ensures that staff are aware of their important role in the success or failure of AMFIU.

Once staff retention was recognized as critical to AMFIU's sustainability, AMFIU surveyed staff satisfaction and realized that some employees were on the verge of leaving. These employees were contemplating changing jobs in part because they felt they should be compensated more, and in part because certain staff members had obtained advanced degrees or specialized educations. In order to ensure retention of all staff, salaries were increased to a level just below the top- paying NGOs in Uganda. This strategy means that staff purely motivated by money will not remain with the network, but ensures that those motivated by its mission will not feel they are making a tremendous professional sacrifice to work at AMFIU.

AMFIU is also committed to having its staff develop the skills needed by the network. Its human resources development policy reimburses employees for education in the skill areas that AMFIU needs. If a staff member successfully completes a course, AMFIU reimburses the cost and the employee agrees to work at AMFIU for two years, or reimburse AMFIU the amount paid. If the staff member fails a course, the course must be repeated at the employee's expense. With these progressive policies, AMFIU hopes to build its future without losing valuable staff.

Table 5. Human Resources Strategies

Challenge	Recommended Strategies
Develop a staffing strategy	• In the network's early stages of development, designate a steering committee composed of representatives from member institutions to manage operations • Consider hiring a part-time staff to coordinate the activities of the network during its early stages • Encourage member organizations to allow staff to contribute a percentage of their time to network activities • For each staff position, conduct a cost-benefit analysis of: permanent staff versus limited-term consultant • Consider hiring someone to do fundraising on a part- or full-time basis • Maintain as lean and efficient a secretariat as possible while ensuring a manageable work-load for staff
Build a professional network staff	• Create job descriptions based on strategic and operating plans • Give each candidate employee a thorough briefing on the network's mission, members, activities, finances and employee benefits • Implement an extendable probationary period for new staff • Describe the network's recruitment process in the human resources policy manual • Prioritize the promotion of existing staff, but be realistic about their capacity and professional development needs
Retain quality staff	• Keep the human resources policy manual up to date and available to all staff • Ensure that staff salaries are competitive with those of other, similar organizations • Manage staff with transparency • Establish staff incentive programs linked to continued employment, such as linking educational benefits to specific time commitments to the network • Consider developing a flexible time/compensation policy to acknowledge the demanding schedule of network staff • Carry out a staff satisfaction survey to demonstrate the value of staff inputs
Make staff management transparent	• Provide a detailed orientation for new staff members, including an explanation of network policies and procedures • Work with staff to develop career path plans by creating the potential for staff members to be promoted and establishing criteria for promotion • Establish individual performance goals for staff members, based on the network's annual plan • Evaluate staff performance against performance goals to ensure progress is made on network goals
Strategically develop staff capacity	• Conduct a skills inventory to identify existing skills, as well as skills required in the future • Establish a professional development plan for each staff member to encourage development of these specific skills; include fulfillment of plan in performance goals and annual appraisals • Reward exceptional performance with professional development opportunities • Cross-train staff in key skills, such as proposal writing • Support staff to pursue their professional development objectives through tuition reimbursement, time off for courses, etc.
Establish staff performance appraisal system	• Develop staff performance targets that are linked to business plan objectives • Implement a six-month probationary period for new staff • Appraise and incentivize new staff at the end of the probationary period • Conduct annual staff performance appraisals, including staff self-appraisals • Consider employing the 360-degree participatory appraisal format
Encourage succession planning	• Delegate key Executive Director responsibilities to senior staff to ensure that the network would function optimally in the event of his or her absence • Develop the leadership skills of the network's Executive Director and managers • Leverage network's position as a national and international microfinance actor to provide staff with opportunities to engage with other microfinance actors[33]

33. See MFC case study in annex 3.

5. External Relations

Standard of Network Effectiveness

The network is perceived as credible and valuable and is well positioned to influence government policies. It has close contacts with stakeholders, government agencies, other sector participants and donors. The network has a positive image among stakeholders in the sector.

Networks must be able to credibly represent their members. To achieve credibility, a network must be able to convince its own members that it has the contacts and ability to influence others. It must also be able to convince third parties that it enjoys the confidence of its members. Finally, it must have a sufficiently public profile to be recognized by other stakeholders in the sector.

Leadership

Research conducted for this guide shows that strong, consistent leadership at the Board and executive levels is critical to gaining the confidence of network members and other stakeholders in the microfinance sector. While respected practitioners are preferred to represent the sector, research demonstrates that consistency may be more important than pedigree. It also shows that credibility takes time to build—no leader begins with credibility among all stakeholders.

It is important that the Board of Directors and members of a network recruit, elect and appoint appropriate executives (and Board members) and provide them the incentives needed to ensure long service in office. Inconsistent leadership can diminish a network's credibility. Most networks recruit senior executives of member MFIs to serve on its Board. Their status within their own organizations gives the Board credibility among members, as well as facilitates decision making by the Board.

A quick succession of respected leaders in leadership positions does not build credibility as well as one respected individual over a number of years. The latter case characterizes the experience of both ALAFIA and MFC, whose Executive Directors have proven themselves talented leaders over periods of five and six years, respectively, in office.

Challenges

While the Executive Director and sometimes the Chairman of the Board tend to be the official face of the network, it may not always be possible for a network to hire or elect microfinance leaders. Where specific skills or contacts are needed, it may be necessary to look beyond the sector to recruit leaders that can advance the mission of the network.

Significant Contacts

Networks with strong reputations tend to have contacts at high levels with all relevant bodies, including government, donors and other sector participants (including private-sector actors, such as commercial banks, rating agencies, benchmarking services, etc.). Because most network members join a network at least partially to have a voice in policy decisions affecting microfinance, it is particularly important that network leaders have contacts among appropriate government officials.

MFC, which serves members in 26 countries, does not focus on one-on-one relationships with government agencies in individual countries. Nevertheless, it has effectively supported regulation conducive to microfinance by sponsoring country-level workshops, as well as regional forums where policymakers across the region meet to discuss current issues with MFI practitioners (including MFC members) and other microfinance experts.

Networks that serve MFIs in a specific country generally focus on cultivating relationships with officials working in the various branches of government, including the Central Bank, the Ministry of Finance and members of parliament (see Box 10). ALAFIA, for example, has been very active in policy advocacy work, directly engaging with the government on proposed laws and hosting both national and regional workshops.

In many cases, MFIs create a network specifically to lobby the government more effectively on regulatory issues. The leaders of these MFIs have often invested significant time and effort in cultivating relationships with both key government agencies and donors. In many cases, the network and the government will work together to draft recommended legislation and/or create regulatory units for microfinance units of Central Banks. Often, the network leader's relationships with established donors can facilitate funding for such efforts.

Forging contacts with other microfinance networks and associations, whether at the national, regional or international level, is another important way to enhance a network's public profile and the range of its contacts. MFC, which focuses on industry-level issues, has in particular followed this route, cultivating strong relationships with regional and international networks, as well as other significant stakeholders in the sector (e.g., CGAP, Mix Market, MicroSave Africa). ALAFIA has followed a similar route, forging strong relationships with the Africa Microfinance Network and such technical service providers and partners as SEEP, PlaNet Finance and the ILO.

Challenges

Most networks excel at developing and maintaining local and international contacts. However, by maintaining and developing new contacts, some networks have found themselves spread too thin. They are investing time in too wide a variety of contacts yet yield very little added value from some of them. A network is challenged to develop more strategic contacts that can offer tangible inputs towards achieving the network's goals and objectives.

Box 10. MCPI becomes a policy player

MCPI was informally established in 1997 as the Philippine Coalition for Microfinance Standards and legally registered in 1999 as the Microfinance Council of the Philippines, Inc. (MCPI). The network's Executive Director has been with the network since its inception. In fact, he was a member of the original coalition that became MCPI. His longstanding work in microfinance and service as head of the network have allowed MCPI to advocate microfinance policy at the highest levels of government.

In 2000, the government believed that there were too many banks in the country. To stimulate consolidation, it passed a policy stipulating that no new banks could open in the Philippines. Because the law included microfinance institutions, MCPI realized it would have to advocate an MFI waiver. Fortunately, at this time, the Philippine Central Bank (BSP) appointed an official to oversee the microfinance portfolio. MCPI cultivated a relationship with this official, inviting him to speak at the official launch of MCPI. He became a friend of the network and arranged for it to participate in writing a speech for a member of parliament, who eventually sponsored a bill that limited new banks only to microfinance banks. This was MCPI's first policy success.

In early 2001, BSP created a microfinance unit. Thanks to its earlier efforts, an MCPI member was asked to head the unit, providing the network with an unprecedented ally and contacts in the BSP. In 2002, MCPI joined forces with the National Credit Council to request that donors no longer provide loan funds for microfinance, but invest instead in capacity building. This move averted the Asian Development Bank from pumping a large amount of liquidity into MFIs at a time when there was sufficient local liquidity to meet their needs.

Currently, MCPI is preparing to fight for an exemption from taxes for microfinance institutions. This promises to be its biggest fight yet, and at a time when the governor of the BSP, an MCPI ally, is leaving. Naturally, MCPI is already cultivating a relationship with his successor.

Credibility

Performance standards imposed by donors can enhance both the capacity and credibility of microfinance networks. One of MFC's first donors, for example, required strict cost recovery for a training program. The focus on cost recovery led the training and consulting unit to take a business-oriented approach to its activities; profits from this program now contribute significantly to covering the network's core costs. ALAFIA has also experienced the positive effect of donor-imposed conditions, which have increased its credibility with third parties and reinforced its standing among its members (see Box 11).

In addition to performance standards imposed by donors, networks gain credibility by serving as the source of industry information for a region or country. In the case of MFC, the network has concluded a contractual relationship to conduct performance analysis of MFIs in its region for the *MicroBanking Bulletin* of the Mix Market. ALAFIA, on the other hand, has taken the initiative to define credible performance indicators for MFIs in the West African region and launched a systematic monitoring system for its members.

Another strategy to increase network credibility is to develop specialists within the organization (such as trainers and researchers) who can relate to third parties on a professional level. MFC has successfully built in-house expertise in key areas, enabling it to develop multi-level relationships between the network and its partners that add to the network's credibility.

Box 11. Building credibility

One of ALAFIA's main donors required it to offer at least one training workshop with 20 participants every four months, organize an annual national summit on microfinance, develop a plan for a training center and work with the government's Microfinance Unit. Not only did this work plan enable the network to develop high-level contacts, but donor funding positioned ALAFIA to gain a greater voice on national committees.

Care International is presently supporting ALAFIA on a three-year project to build the network's institutional capacity through strategic plan development, MIS development and improving training and policy advocacy services. The project stipulates that ALAFIA sustain an operational self-sufficiency ratio of approximately 50 percent. As a result of its relationship with Care, ALAFIA has become a member of both Care's consultative committee and a steering committee (together with Care and the Danish Agency for Development Assistance).

Public Profile

Most networks organize an annual meeting for their members, which is generally the largest event they sponsor each year. These meetings provide a network the opportunity to reach out and share relevant data with members, government officials, private-sector leaders, the media and representatives of other microfinance organizations. Many such meetings are presented as "summits" or "conferences" designed specifically to share best practices and the latest innovations in microfinance products, service delivery and regulatory frameworks.

Outreach to the private sector and media, together with useful publications and information dissemination, are additional tools that raise the public profile of a network. Many networks publish a newsletter for their members and many give interviews and write articles for local newspapers. ALAFIA, for example, was recently the focus of a documentary that was shown on television in Benin.

Challenges

Networks are often so immersed in a range of activities—training, information dissemination, policy advocacy—that they can overlook the need to actively shape their public image. Consciously deciding how a network should project its identity to stakeholders outside of its organization is a key component of successful public relations. MFC, for example, recently realized that it did not have a clear marketing strategy and is now working on branding its services.

Credibility, like leadership, takes time. Networks can do themselves harm by selecting goals or activities that are overly ambitious for their current stage of development. Instead of increasing their visibility, networks that spread themselves too thin risk being perceived as lacking depth and quality. Building an organization must be done with an eye toward its public reputation. A network should thus pursue goals that it can competently achieve, creating confidence in its work among members and laying the groundwork for progressively more challenging work as the organization matures.

Table 6. External Relations Strategies

Challenge	Possible Interventions
Build a good public reputation	• Meet regularly with government officials, donor representatives and influential MFIs • Consider expanding the network's membership or forming coalitions with other organizations to enhance the institution's voice in policy discussions • Identify internal (Board, member MFIs, staff) and external spokespersons (key allies) to promote the work of the network • Focus on delivering quality services even if this means taking on a limited number of activities and doing them well • Participate on industry task forces that address key issues in microfinance • Consider appointing a Board member for the express purpose of building relationships with government officials who are involved in microfinance policies • Use professional expertise within the Board, and among members and staff, to deepen relationships with public and private sector institutions
Become the representative of the microfinance sector	• Hold an annual conference • Be seen as *the* source for information on the industry by, at a minimum, collecting and consolidating general institutional information from all members • Maintain a media presence through newspaper articles, television interviews and press kits at network events
Develop international visibility	• Participate in regional and/or international networks • Develop partnerships with networks in other regions • Attend and present local experiences at international conferences • Invite international experts to the annual network conference • Disseminate information about members and the national microfinance industry to key international knowledge centers (such as popular international microfinance websites and listservs) • Only maintain strategic contacts that can offer tangible inputs towards achieving the network's goals and objectives

PART 2

Service Delivery

6. Service Delivery: An Overview

Standard of Network Effectiveness

The network's service mix is based on member demand, network capacity and a positive return on investment. The network has relevant expertise that is recognized by all stakeholders in the sector. Systems exist to process, disseminate and solicit feedback from members and other sector stakeholders. Regular surveys consistently indicate a high level of member participation in and satisfaction with the network. Network programs are actively marketed to stakeholders and the network engages in public relations on microfinance issues. Information dissemination is interactive and continuously updated. All programs include monitoring, evaluation and reporting.

A network's success relies on its ability to provide demand-driven services to its members in a sustainable manner. How networks position themselves to deliver services is therefore of primary concern. As this section makes clear, networks can selectively focus on one or two services, outsource services for which they do not have the institutional capacity (e.g., training), offer a full range of services to members using their own staff or act as a "market facilitator" by stimulating the growth of a local microfinance services market.

It should be noted that relevant network services are likely to change as microfinance institutions mature over time. Decisions on the mix of services and the role a network should play in offering these services should always be based on market analysis, member demand and feedback, institutional capacity and considerations of cost effectiveness.

Today, most networks offer one or more of the following core services:

- policy advocacy
- performance monitoring
- knowledge management
- training

The New Frontier in Network Services

In addition to these core services, only a few networks in countries such as El Salvador, Nicaragua and Pakistan have begun to explore developing more complex services that support the market infrastructure needed for self-sustaining microfinance providers. These services include:

- Facilitating new product development to incorporate transactions into MFI services
- Serving as financial intermediaries between investors and donors to provide MFI members with access to loan funds
- Facilitating the development of national credit bureaus.

Further research activity needs to be carried out which identifies the success factors and challenges faced by networks when delivering these services. This information will also provide guidance to the global community of networks interested in expanding their service offerings.

The sections below provide critical analysis of two key issues related to the type of services networks provide: (1) the stage of the development of the microfinance market in the country in which they operate and (2) the network's own stage of institutional development:

Services by Stage of Microfinance Market Development

Stage I: Early Stage of Microfinance Market Development

Characteristics:

No competition between MFIs; Informal agreements between MFIs prevent direct competition; Uniformly high interest rates; Inefficiencies; No MFIs with over 10,000 clients; Few types of MFIs; Few products; Poor record-keeping by MFIs; Little information dissemination; High-levels of MFI donor-dependency.

The Role of the Network:

At this stage the MFIs need the following services from MFAs: A forum for information and lateral learning among members on a voluntary basis; Capacity building for improving and expanding retail financial services, such as loan officer training, microfinance accounting and portfolio management; and awareness building activities to educate policymakers about the characteristics of an enabling environment for microfinance.

Stage II: Burgeoning Stage of Microfinance Market Development

Characteristics:

Some competition in urban areas; Some clients take loans from more than one MFI; Agreements between MFIs prevent competition in non-urban areas; Some interest rate differentiation; Greater efficiency; More types of MFIs; One or more MFIs with over 10,000 clients; Some market research and new products; Larger MFIs producing good financial statements; Some informal industry information available; Increased financial self-sufficiency, less dependent on donors.

The Role of the Network:

At this stage the MFAs tend to provide MFIs with: Regular, formal capacity building activities either self delivered or brokered, including more advanced topics such as product development, marketing and financial ratio analysis aimed at improving financial self sufficiency; Development of a code of conduct that all members can adopt to level the playing field; financial performance monitoring; research, collection and dissemination of industry information; and advocacy activities for an appropriate legal and regulatory framework for microfinance.

Stage III: Vibrant Stage of Microfinance Market Development

Characteristics:

High degree of competition between MFIs; Little collaboration between MFIs; Clients with multiple loans from more than one MFI becomes common; Interest rates drop; Some highly efficient operations; Commercial banks involved in Microfinance; Consumer lenders move into the market; Vigorous search for profitable market segments; Product differentiation; Cross-subsidization to develop less profitable markets; MFIs producing high quality financial statements; Industry information reported regularly from a reliable source; High levels of financial self-sufficiency seeking commercial capital (loans, investments) and effectively intermediating savings.

The Role of the Network:

As MFIs become more specialized and commercial in nature, they will expect MFAs to continue to provide capacity building activities as well as specialized training or consultancies in management, board issues or compliance; intense lobbying when issues affecting microfinance arise; self-regulation and standard-setting; and financial intermediation activities (wholesale loan funds, facilitating linkages to capital markets).

Services by Stage of Network Institutional Development

Nascent Networks

Informal and/or young networks tend to focus on only a limited number of services that are typically related to why the network was originally created. Such start-up networks generally operate with limited financial and human resources. At this stage, the association is often loose and informal; members meet voluntarily with no or rotating leadership. Activities might include exchanging information, lateral learning and developing a strategy to respond to potentially threatening government policies.

Challenges

The service delivery challenges faced by nascent networks include lack of human and financial resources; reliance on members and the Board of Directors to organize network activities in addition to working full-time jobs; and lack of credibility to influence government policies and attract donor funding.

Box 12. The Evolution of MCPI Services

Before MCPI-Philippines became a formal network, it was a donor-funded project called the Philippine Coalition of Microfinance Standards. The Coalition was composed of 69 institutions and represented most of the key stakeholders working in microfinance in the Philippines; its main objective was to develop MFI performance indicators. When the project ended in 1999, Coalition members agreed to establish a formal network that, in addition to promoting performance standards, would advocate an enabling environment for microfinance. However, it wasn't until 2004, when the network developed its first business plan, that MCPI officially broadened the scope of its services to include advocacy, knowledge management, product development, client assessment and performance standards.

Emerging Networks

Typically, networks at this stage have hired an Executive Director or coordinator, who focuses his or her energy on implementing operational systems and fundraising for future services. Networks also begin to explore their service options at this stage. Although policy advocacy tends to be a core service, networks begin to offer additional services in response to member needs, such as capacity building and information management (i.e., serving as an information hub on the microfinance industry). Many networks at this stage become visible on the radar screens of donor organizations precisely because of these two services. Networks also begin to feel overburdened during this stage, as their activities begin to outpace their capacity.

Challenges

Many emerging networks do not have sufficient time to develop a service delivery strategy and offer member services in an ad-hoc manner. They often fail to adequately consider member needs when determining what services to offer, as well as to evaluate member satisfaction with these services. Because of their need for financial support, a network may take on donor-funded activities that do not address the actual needs of its members. This lack of a strategic approach to service provision can eventually put a network's institutional sustainability at risk.

Emerging networks also tend to devote little thought to such issues as the viability of a service, whether the network is best positioned to deliver it and whether it can be sustained over the long run. For example, networks will often subsidize the cost of a service to encourage members to participate. This practice can lead to later difficulties, as members must eventually be weaned off subsidies to pay the full cost of network services.

Expanding and Mature Networks

As networks mature and become more institutionally sustainable (and can draw on appropriate human and financial resources), they tend to become more strategic in how they determine and deliver services to their members. Such networks are often engaged in specialized training or consultancies (e.g., on management, board governance or regulatory compliance), intense lobbying, self-regulation activities, and intermediating funds.

As MFI member institutions in turn become more specialized and commercial, they develop new expectations of the network that represents them. In fact, at this stage the local market may sustain multiple networks representing different types of members. By this time, MFIs will often have more resources and can begin to provide some of the services that the network previously provided, such as staff training.

For over seven years, MFC has been the main provider of capacity building and research services for the microfinance sector in Central and Eastern Europe and the Newly Independent States. In 2005, however, it undertook a strategic planning process to radically shift its thinking on service provision in the region (see Box 13).

Box 13. MFC launches a network-wide innovation process

MFC's new strategic plan integrates all of its functions (training, networking, research and policy advocacy) behind the goal of meeting end-client needs. As part of the new plan, the network will implement an "Innovation Scaling Up" (ISM) model. The model builds on the existing MFC operational model—in which data collected on regional trends informs action research—to allow the network to identify and share useful microfinance innovations with its members. It consists of a four-step product development cycle: identification, testing, adaptation and scaling-up.

The project will offset the high cost of innovation by breaking down the development process into manageable stages. MFC's comprehensive knowledge of the microfinance industry in the region will be used to efficiently allocate resources across different phases of development and identify possibilities for cost-saving and/or cost-sharing. Working with selected partners, the network will develop new services and delivery methods, and identify those that can be standardized and those that require customization. This process will also allow the network to provide related technical assistance packages to MFIs as a new service.

Challenges

Networks that capably deliver demand-driven services to the microfinance industry run the risk of being perceived more as service providers than membership associations. They may also have the unintentional impact of crowding out market-based service providers by offering services (often subsidized) that other private-sector entities could provide. The role of networks in providing services is complex and involves a number of issues, such as:

- determining the "right" mix of services for their members
- the role of members in the design and delivery of services
- strategies for obtaining feedback on the quality of network services
- determining which services are "private goods" and which are "public goods"
- determining how to price services
- cost-effective alternative models for delivering services, such as service brokerage and outsourcing
- the relationship between (mature) networks and other technical services providers

Services that Meet Member Needs

Experience shows that an open network can find it challenging to meet the needs of a wide variety of institutions. For example, it can hurt a network's credibility with industry stakeholders if one or more large institutions either choose not to affiliate with the network, or leave the organization altogether. On the other hand, small members can quickly become disenchanted with a network that seems to represent only its larger members.

Without creating specialized units to serve distinct member groups, networks with diverse members will find it difficult to reach consensus and provide targeted services. In Ecuador, for example, microfinance NGOs tend to experience a unique set of issues, such as how to run a microfinance program out of a multi-sectoral NGO. The Ecuadorian network, RFR, thus created member sub-groups to better meet the specific needs of different types of members.

Ensuring that network activities reflect member needs requires more than Board approval or a presentation at the annual meeting. It requires members to drive the network's strategic and operational planning. To ensure a participatory planning process, AMFIU utilizes its annual organizational assessment exercise to develop and update its business plan. AMFIU argues that the key word in a successful business planning process is 'ownership.' AMFIU recommends that networks "involve as many people as possible from within the organization in the development of the business plan: Board of Directors, management, staff and members."[34]

Box 14. Determining network services based on member feedback

ALAFIA conducts periodic evaluations of network services with a team that visits members to identify their needs and difficulties vis-à-vis network services, such as training. ALAFIA also sends out a questionnaire asking members if their training needs are being met and if they have additional needs; the network then adapts its training program each year to meet new needs. Other network activities, such as policy advocacy, are developed through extensive member surveys and consensus building.

Certain networks have developed innovative mechanisms to involve members in the delivery of services, such as COPEME in Peru and RFR in Ecuador (see Box 15).

Box 15. Involving network members in service delivery

COPEME, Peru. COPEME was originally established to assist unregulated NGOs to reach the performance standards needed for transformation into legally registered MFIs. It has since grown from NGO members alone to include all types of non-profits involved in microenterprise development, such as business development service centers. It is now in the process of evaluating the incorporation of other existing networks in Peru, such as rural and municipal cooperatives.

COPEME views its decentralized governance structure (it has 8 regional branches) as the key to institutional sustainability. The structure was put in place to serve members at the regional level. Each branch has between three and eight affiliates, elects its own regional president and hires a coordinator to execute local activities. Each branch receives a budget from COPEME and prepares an operating plan that is presented at the annual planning workshop. The branches are represented on the Board and all their activities are coordinated with the organization's executives.

COPEME's eight branches represent the network before regional government authorities and in regional economic development plans. They also expand the network's service offerings by developing appropriate services for members in their respective regions, ensuring local and regional impact within the framework of the network's strategic plan. The branch system enables network activities to more closely reflect the interests of COPEME members and other entities that support small and micro-business in the regions. It also generates synergy among network members.

RFR, Ecuador. RFR ensures member participation in its activities by organizing five distinct member working groups that meet once a month to provide guidance on and inputs to RFR activities in credit bureau development, project implementation, publication development and dissemination, capacity building and technical assistance delivery, and MFI self-regulation.

RFR developed the working groups to make more effective decisions on specific topics by incorporating the expertise of member specialists. Members contribute their time and expertise on a volunteer basis at monthly meetings. The rules of each working group are established and approved by its members. An RFR staff member and the working groups then share responsibility for implementation of group activities.

34. AMFIU, Successful Business Planning for Microfinance Networks (Kampala, Uganda: AMFIU, 2002), p. 2.

Challenges

A growing challenge of networks is how to deal with member perceptions of network benefits. Networks with heterogeneous memberships are finding it increasingly difficult to demonstrate the benefits of membership across different member types. This has become particularly evident among networks that use a sliding scale for member dues, which require more profitable members to contribute a greater amount of dues and/or fees. These same institutions often perceive themselves as receiving the least benefit from the network because they have already established institutional strength and influence in the sector.

According to Gross and Brüntrup, "[T]he mostly voluntary character of [network] membership make[s member MFIs] vulnerable to real or perceived unequal distribution of benefits. Bones of contention can be documents and other limited material for distribution, travel, donor funds, training participation, representation in meetings, presence in press conferences, rating of MFIs, etc. As long as no strong ties link members to their [network], such frustrations can quickly lead to the abandonment or dissolution of the association."[35]

Another challenge of service delivery is how to serve both members and the industry at large. Many networks feel that they serve society by providing "public goods," such as better access to financial services for all. Such public goods are based on a network's policy advocacy efforts, which may be funded by donors or members. However, the public is not represented in a network's governance structure. In a number of countries, networks encounter discontent among their members because in addition to policy advocacy, they provide the same services to member and non-member institutions alike.

The high-level challenges to service delivery and some strategies for their resolution are reviewed in Table 7 below. The following sections describe the core services currently offered by microfinance networks, together with the challenges of making such services available. Each section is illustrated with examples from real networks.

Table 7. Service Delivery Strategies

Challenges	Recommended strategies
Determine the right mix of services	• Carry out member needs assessments to develop demand-driven services • Determine a mix of network services based on member demand and network capacity • Identify areas in which the network has a unique advantage in the market and does not compete with either its members or other service providers • Determine which services are "private goods" and which are "public goods"
Determine service delivery strategies	• Rely on members to carry out low-cost activities during the network start-up phase • Focus on delivering quality services, even if this means taking on a limited number of activities and doing them well • Seek out efficient effective strategies for service delivery, including brokering, outsourcing or partnerships that generate income for the network • Transition to professional service delivery when the limitations of member-provided services become apparent, but maintain mechanisms for lateral learning
Assess member satisfaction with services	• Systematically assess member satisfaction with network services using surveys, focus groups and other tools • Collect evaluations at the end of every training session • Analyze all training evaluations to determine member satisfaction and important recommendations • Implement policy or service improvements based on member feedback
Demonstrate the value of membership by identifying clear member benefits	• Develop and clearly communicate to members the advantages of membership versus non-membership • Communicate the importance of providing certain services to non-members as a way of supporting overall industry development • Encourage members to recruit non-members

35. Gross and Brüntrup, "Microfinance Associations," 63.

7. Policy Advocacy

Working Definition:[36] Advocacy organizations or coalitions urge decision makers to take a specific action, such as cast a vote, adopt a regulation, or write an editorial. They work to build relationships that provide access to decision makers and determine what issues should be communicated to their membership and/or the general public.

Advocacy as a Core Network Activity

As membership organizations which primarily represent private, retail MFIs, networks have an important political voice. In fact, policy advocacy is often the reason why a microfinance network is created. The service is thus the initial focus of a network's members, Board of Directors, and Executive Director. The overall goal of network policy advocacy activities is to promote a legal and regulatory framework that makes possible the growth of strong, self-sustaining microfinance institutions in a given country. This goal has in recent years expanded to include the integration of microfinance into the formal financial sector.

Advocacy efforts are usually directed against existing or planned government policies (e.g., interest-rate ceilings or subsidized lending to targeted groups). In other cases, networks may pro-actively encourage governments to implement specific laws or policies (e.g., prudential regulation, self-regulation, laws on microfinance banks). The range of issues on which networks promote the views of their members include:

- interest-rate ceilings
- subsidized government lending to targeted groups of poor citizens
- government poverty reduction strategies
- laws governing microfinance operations (e.g., legal requirements of NGO microfinance programs, registered financial services providers, deposit-taking institutions, microloan collateral, consumer disclosure, etc.)
- regulation and taxation of microfinance institutions
- auditing and accounting rules
- regulations governing technical service providers and other stakeholders in the sector (e.g., auditors, credit rating agencies, apex institutions, etc.)

Advocacy efforts may initially focus on simply informing government authorities about microfinance and exposing them to international experience. MFC holds policy forums every two to three years for this purpose. Eventually, this kind of exposure can lead to legal and regulatory reform, as has been the case in Armenia and Azerbaijan.[37] Often a network promotes a policy position by meeting with government officials and joining task forces composed of public and private entities. At other times, it may provide background information on microfinance issues and help draft proposed legislation or regulations.

Occasionally, a network may even wage a court battle against an unjust law, as REDIMIF did in Guatemala when it formally declared a proposed income tax on Guatemalan NGOs unconstitutional. When confronted with complex legal issues, such as those in the REDIIMIF case, networks generally hire qualified professionals to assist them.

Although policy advocacy is a principal function of networks, it has a number of pros and cons, as shown in Table 8 on page 48:

36. Adapted from David Cohen, Rosa de la Vega and Gabrielle Watson, Advocacy for Social Justice: A Global Action and Reflection Guide (Washington, DC: Kumarian Press, 2001).

37. See MFC case study in annex 3.

Table 8. Network Policy Advocacy Work: Pros and Cons

Pros	Cons
Networks can rise above the narrow legal and regulatory issues of interest to individual members and represent the interests of the sector as a whole	Networks risk alienating their members when they meet policymakers halfway
Networks are uniquely well-positioned to provide a communication link between relevant policymakers and the microfinance sector	Networks risk alienating their members when they choose to advocate certain issues, while deferring action on or ignoring others
Networks may be better suited than individual members to strike a balance between over- and under-regulation	Networks may not have access to the most appropriate mainstream financial sector experts (and may be dominated by a practitioner perspective)

Source: MFC Presentation by Grzegorz Galusek and Tim Lyman, "Microfinance Policy Advocacy: Sharing Experience," presentation at the SEEP Global Network Summit, Washington DC, October 2002.

Gross and Brüntrup have noted that microfinance networks in many countries have been able to influence government policy despite the fact that these organizations have no real financial power. Their success in advocacy can largely be traced to two reasons. The first is that poverty reduction (and related issues, such as self-employment and women's empowerment) is a major priority of most developing nations (microfinance is considered an effective poverty reduction tool). The second reason is that microfinance networks receive significant funding from major multilateral and bilateral donors, which often actively lobby a government on microfinance in conjunction with the networks that they support. Given the importance of donors in policy work, cultivating positive, ongoing relationships with donors becomes a major component of policy work.[38]

To be effective policy advocates, networks need to be truly representative of the microfinance industry. That is, their membership should consist of the majority of microfinance institutions operating in a given country. Most networks are not, however, representative of the industry at large because a number of MFIs (or large MFIs) with significant market share do not join these organizations. As Gross and Brüntrup point out,

> Often, the cooperative sector, the consumption credit sector, the poverty-oriented programmes of commercial banks or other fragments are not covered by the MFAs. Most often, the (absence of a) regulatory framework seems to be the decisive reason for the fragmented representation of the sector. In the long run, this calls for "super-associations" as far as common interests and problems are concerned. . .[39]

One example of an inclusive network with a large and diverse membership that has led successful policy advocacy efforts is the Microenterprise Alliance (MEA) of South Africa (see Box 16).

38. See Gross and Brüntrup, "Microfinance Associations," 39–40. The authors point out that as the microfinance industry grows and becomes more competitive, there is a danger that networks could act as a cabal to protect the interests of their members. They also observe that networks do not always necessarily represent the interests of the end-users of microfinance services. For example, a network may represent only MFIs dedicated to becoming self-sufficient, and may thus conflict with MFIs that use subsidies to serve the poorest of the poor.

39. Ibid, 40.

Box 16. The inclusive strategy of MEA

The Micro-Enterprise Alliance (MEA) came together in 1993 as an informal group of representatives of microfinance institutions, banks and business development service (BDS) providers in an attempt to persuade the government to accept self-regulation of the microfinance industry. Its large size (87 members at its peak) gave MEA legitimacy as an industry voice and access to the government. A compromise in 1998 led to regulation of the sector being delegated to a third party, the Microfinance Regulatory Council (MFRC), on whose board MEA sits. The creation of this body is the network's most important achievement to date. Subsequently, MEA has successfully defined standards, benchmarks, competencies for people working in the microfinance industry and advocated for a loans registry for microenterprise lenders.

The reason MEA has achieved success and become the recognized voice of the sector is directly related to its strategic decision to be an inclusive network. Even its name, Micro-Enterprise Alliance, suggests that it represents more than just traditional microfinance institutions. This can be traced to the environment in which it operates. Microfinance regulation in South Africa is the domain of the Department of Trade and Industry, not the Central Bank. This reflects the government's understanding of micro-enterprise development as a mechanism for generating employment, rather than a purely financial mechanism. The large number of microenterpise actors in South Africa was also a consideration. MEA felt that it needed to represent the entire spectrum of organizations involved in microenterprise and microfinance in order to be heard. Its membership strategy reflects this conviction, with new, smaller members paying only 50 percent of the normal annual fee.

While MEA's "big tent" philosophy makes sense in the South African context, it also creates its biggest challenge: an inability to focus its representation on any one part of the micro-enterprise sector.

Table 9. Policy Advocacy Strategies

Challenges	Recommended Strategies
Develop a policy advocacy strategy	• Undertake an analysis of government policies, define advocacy goals, identify target audience and allies, develop a key message, identify communication partners, and evaluate the effectiveness of the advocacy activity • Consider expanding the network's membership or forming coalitions with other organizations to enhance the network's voice in policy discussions
Determine policy positions through a consultative process	• Establish consensus documents on policy issues [40] • Educate MFIs on the policy consequences of existing and proposed government programs and policies • Balance long-term policy needs against the immediate policy needs of members • Balance member interests with the interests of other relevant stakeholders, such as donors • Include all key actors (members, donors, and government officials) in an open inclusive dialogue and keep them regularly informed of developments • Ensure that donors support the network's policy position on a given issue or set of issues before actively lobbying the government
Use the contacts of the Board of Directors and members	• Create a task force to lead work on policy issues that the network seeks to address • Recruit Board members who have either worked in government or have already established extensive relationships with key government agencies
Cultivate relationships with policymakers	• Maintain contact with officials from such government institutions as the Ministry of Finance, Central Bank and the presidential administration on a regular basis by developing personal relationships and attending formal meetings • Keep abreast of institutional changes or promotions that result in the turnover of key government positions
Develop the network's power and influence	• Build a coalition with other interested parties (e.g., similar associations, NGOs, consumer-protection organizations, commercial banks, cooperatives) on specific issues of shared concern to increase network influence vis-à-vis the government • Cultivate relationships with legislators and staff in key government agencies that oversee the financial sector • Use the media to publicize the position of the network and its past advocacy achievements to garner public support • Make common cause with organizations with which the network may not normally associate, but are affected by the legal or regulatory environment (e.g., consumer lenders)

40. See Tool #5, "Decision Methods for Policy Advocacy," in annex 5.

8. Performance Monitoring

Working definition: Performance monitoring is the collection and analysis of MFI financial data to determine operational efficiency in a number of key areas. Such data can be collected by a microfinance network, a central bank or a benchmarking organization.

Performance monitoring is one of the most important services that a network can offer its members and the industry at large. For many networks, it is a core function. The service can be divided into two stages:

Stage 1. Collection of general information on the local or regional microfinance market, which provides a broad outline of the industry as a whole (referred to as "mapping").

Stage 2. Collection and analysis of performance data from MFIs.

Benefits of Performance Monitoring

In light of numerous past banking crises worldwide (and their negative consequences on all financial institutions), it is important that MFIs commit themselves to ethical and sound financial practices. The microfinance industry benefits as a whole from performance monitoring because the service builds transparency in the sector, leading to a better understanding of and trust in microfinance institutions. Essentially, making financial information about MFIs publicly available legitimizes the industry in the eyes of the local government and population and attracts donors and investors to the sector.

MFIs that openly share their financial data with the public are perceived as open and transparent about their services, building their reputations and credibility in the sector. Performance monitoring also benefits MFIs because it allows networks to identify institutional weaknesses and develop targeted, needs-based services to strengthen their members' performance. By benchmarking MFI performance, networks also contribute to the development of performance standards.[41] Finally, by making adjustments for inflation and subsidies, performance monitoring determines how MFIs would perform under "commercial" conditions.

Network Experience with Performance Monitoring

At present, the majority of microfinance networks are in first stage of performance monitoring, that is, they are collecting general institutional data on member MFIs (e.g., outreach statistics and lending methodologies). With support from international organizations, networks in countries and regions such as the Middle East, Bolivia, Ecuador, Ethiopia, Guatemala, India, Madagascar, Nicaragua, Pakistan, Peru, the Philippines and Uganda have gone a step further and are beginning to collect and analyze on the portfolio quality, operational efficiency and financial self-sufficiency of their MFI members.

Some networks are collaborating with donors and donor-funded projects, such as the Microfinance Information Exchange (MIX), to provide more detailed benchmarking services. This type of collaboration requires a full-time analyst to collect, analyze and adjust detailed financial information from high-performing MFIs in the region. The data are then presented in peer groups against which other institutions can benchmark their performance at both the regional and country level. For this type of service to be useful, however, a sufficient number of high-performing MFIs must be operating in the country or region.

MFC is a network leader in performance monitoring. In collaboration with the MIX, for example, the network collects data from 49 of the more mature MFIs in its region. It then assesses the quality of this information, analyzes the data, sends an individualized report to the submitting institution and an analytical report to the *MicroBanking Bulletin* (MBB, a publication of the MIX). The network performs this service under contract with the MBB, which provides the monitoring software and part of the salary of the MFC analyst. However, MFC does

41. Benchmarks are derived by comparing the current financial performance of MFIs with peer organizations that have similar characteristics. A benchmark is the highest level of performance within such a selected group of MFIs.

not make performance monitoring a requirement of network membership, nor has it established a performance standard for its members.

In countries where unregulated MFIs operate, certain some networks, such as RFR in Ecuador (see annex 3) and AMFIU in Uganda, are beginning to play a role in the self-regulation of MFIs. In countries and regions where microfinance activities are regulated, such as Ethiopia, Uganda, Ghana and Francophone West Africa, networks often coordinate performance monitoring activities with the reporting required by regulatory authorities. Box 17 describes how ALAFIA, a microfinance network in Benin, developed a performance monitoring service.

Box 17. ALAFIA builds a monitoring service

Performance monitoring in the francophone West African Economic and Monetary Union (the UEMOA zone) began in 1995, when the Central Bank of West African States (BCEAO) identified voluntary performance indicators for the microfinance industry. Because these indicators were developed without sufficient input from microfinance practitioners, however, they were not entirely useful to MFIs in the region.

In 2002, ALAFIA teamed with Mali's national network, APIM/Mali, to identify one set of appropriate performance indicators for the entire UEMOA zone. They held meetings with each other, the BCEAO and outside consultants, culminating in a workshop in June 2002 to develop a standard list of indicators. ALAFIA's General Assembly formally adopted the indicators in December 2002, which include:

- portfolio size (such as total and average outstanding balance, average loan and saving size)
- portfolio quality (including percentage at risk and loan-loss ratio)
- productivity and efficiency
- financial viability (including operational self-sufficiency)
- balance sheet management (including the capitalization rate and return on investment)
- non-financial indicators (such as client makeup)
- prudential ratios (such as liquidity norms and risk limitation)

The network next developed a performance monitoring database and published a report that included performance data from 13 of its 26 members. A second report, in 2003, included data on 19 members. A table at the end of each report lists the average, minimum, maximum, total (if applicable), BCEAO norm and global average (if applicable) for each performance indicator. The reports are short (18–22 pages) and laid out in color with graphs and pie charts for ease of reading.

In 2003, ALAFIA offered a program in performance monitoring to its members. The network then held a workshop in 2004 to inform members about the performance indicators and monitoring process. That same year, the network updated its performance monitoring database three times.

The statutes of ALAFIA require members to submit performance data to the network and abide by the BCEAO performance standards. In practice, however, not all members are forthcoming. In 2005, ALAFIA devised a new way to encourage members to submit data. The network's annual General Assembly meeting will feature group meetings of small-, medium- and large-sized MFIs. In order to participate, however, members must be classified by size—and in order to be classified, they must submit performance-monitoring information. To date, this method has been effective in prompting network members to submit financial data to the network.

In March 2005, ALAFIA held a conference and presented its performance monitoring reports to the African Microfinance Network (AFMIN), the regional network of networks in Africa. As a result, networks in Côte d'Ivoire, Togo and Niger followed ALAFIA's example and have begun to monitor their members' performance.

Challenges

According to Chen and Rasmussen, there are three main challenges facing networks that conduct performance monitoring:

"1. establishing motivation among members to compile accurate information that may be different from what they normally report;

2. building the technical capacity of members and the association to collect and present meaningful and consistent information; and
3. overcoming the lack of uniformity that comes from diverse methodologies, accounting practices and cost-allocation rules, which make it difficult to present financial data in a comparable way."[42]

As a technical service provider in the area of performance monitoring, SEEP has identified a number of problems faced by networks in this functional area, ranging from a lack of sufficient human resources to the technology needed for performance monitoring. Other challenges include:

- difficulty getting information from member MFIs
- quality of data submitted by members
- communication difficulties with member MFIs
- remote location of member MFIs
- the overwhelming amount of data required from MFIs
- insufficient human resources at the network level to carry out activities
- lack of MFI buy-in, understanding and willingness to be transparent
- complexity of international performance monitoring tools
- technological challenges of locally developed tools
- lack of motivation among members, especially if they do not receive feedback from the network
- lack of a standard chart of accounts or standard accounting definitions for the financial reporting of MFIs
- time required to review member data

Table 10. Performance Monitoring Strategies

Challenges	Recommended Strategies
Developing performance monitoring as a key network service	• Ensure that performance monitoring is a good fit for the network's mission and objectives • Ensure that the network's Board, members and staff are strongly committed to performance monitoring as a key network activity • Integrate performance monitoring into the network's strategic and/or business planning process • Secure financial resources specifically for performance monitoring activities • Understand the labor-intensive nature of performance monitoring • Assess MFI needs for a performance monitoring system and their ability to produce accurate financial statements
Build MFI buy-in and motivation to participate in performance monitoring activities	• Link information submission to a specific benefit (e.g., receiving analytical reports with recommendations on how to improve performance, printing an MFI's name on an official document, awarding an annual prize for the best data submitted) • Raise member awareness of the importance of transparency in building industry credibility and attracting investor support • Engage MFIs in creating a set of nationally recognized definitions and performance ratios for microfinance performance, based on international standards • Engage MFIs in a participatory process to reach consensus on which performance indicators the network will track • Regularly provide network members with comparative data on their performance • Integrate performance monitoring activities with existing MFI reporting requirements to avoid overburdening members with information demands

42. Chen and Rasmussen, "Emerging Issues," 2005, 5.

Table 10. Performance Monitoring Strategies (cont'd)

Challenges	Recommended Strategies
Build member capacity to produce high-quality information	• Review the information that the network currently gathers from members • Provide training and technical assistance to member MFIs to increase their capacity to produce accurate financial statements and implement systems to collect performance data
Carry out incremental performance monitoring activities	• Initiate basic performance monitoring by collecting general institutional data on all members (e.g., name, address, areas of operation, lending methodologies) • Establish a process to collect information in a regular, timely manner • Develop a timetable for MFI members to submit performance information; begin by requiring members to submit financial statements each year • Start to collect good-quality basic outreach and volume data on at least 5 member MFIs (e.g., number of savers, number of borrowers, outstanding microfinance portfolio, average loan size, PAR > 30); slowly expand data collection efforts to include data from all member MFIs • Extend data collection to include all microfinance providers in the market, including MFIs, large banks, and NGOs—both members and non-members • Publish member data on the network website or the websites of organizations that track MFI performance worldwide
Develop network staff capacity to conduct performance monitoring	• Identify and train network staff to collect performance data, using a spreadsheet and/or database solely for this purpose • Hire a full-time financial analyst to conduct performance monitoring; ensure that he/she has a background in accounting, financial analysis and information systems • Have the analyst provide positive encouragement and assistance to member MFIs, resulting in the regular submission of financial data • Schedule on-site training of network staff on the network's performance monitoring system • Cross-train staff so that data can continue to be collected in the absence of the dedicated staff member • Once the database contains a significant amount of MFI data, schedule advanced training for network staff to create benchmarks
Build a robust performance monitoring system	• Begin collecting basic institutional data using a simple spreadsheet tool • Transition to a spreadsheet that imports data directly to avoid human error in data transfers • With the assistance of performance monitoring experts, conduct an assessment to develop a computerized system for data gathering • Install a computerized performance monitoring system
Develop partnerships	• Pool resources with other stakeholders that have an interest in industry information and collect information from all microfinance providers in the country and/or region, whether or not they are network members • Work with other stakeholders that have an interest in industry information to regularly publish such data • Partner with international technical service providers to get advice on developing performance monitoring as a service and to assess the completeness and accuracy of the data collected by the network

9. Knowledge Management

Working Definition:[43] Knowledge management by microenterprise networks refers to activities that capture, organize and disseminate information to MFIs to promote learning and improve their performance.

A large part of a network's credibility, both among members and external stakeholders, is derived from its role as a source of local industry information. This requires a network to look outside of its own membership to the broader financial services industry in which it operates. The more a network can provide information about this larger industry and the place of microfinance within it, the more useful the network will be to all stakeholders. One principal way in which networks serve their members and the industry as a whole is becoming information repositories on the local microfinance industry and international best practices.

Many networks use a variety of mechanisms to capture, organize and disseminate information, such as publishing regular newsletters on the state of the industry, hosting websites with relevant resources on the local industry and international experiences, conducting research on challenges facing the industry, and organizing public forums for information sharing, such as annual conferences.

Many networks facilitate information exchange between members through such means as exchange visits, topical seminars and member working groups or committees. However, few networks do so in a structured manner and even fewer use technology, such as listserv and/or e-mail discussions, to reinforce interactions between their members.

Box 18. MFC's Knowledge Management Activities

The Microfinance Center for Eastern Europe and the NIS is *the* primary source of information on microfinance in the vast region that it serves. The network has five main strategies in this area:

1. mapping, benchmarking and disseminating information on the performance of MFIs in the region
2. organizing regional policy forums for top policymakers where they can exchange ideas and practices for improving the enabling environment for microfinance across the region
3. hosting an annual conference that enables over 400 stakeholders in the region to learn from one another and stay abreast of international innovations and best practices
4. maintaining a database of contacts that allows the network to carefully target information dissemination (after each meeting, training, or other event, MFC staff add new contacts to the database and tag them to receive specific information)
5. marketing information through its website, informational e-mails, brochures, research publications and the network's involvement in a host of regional and international collaborative activities.

Challenges

The most significant challenge of knowledge management is to ensure that network members and other stakeholders can access the information they need without becoming overwhelmed. The mechanism the network uses to share information with its members can present an equally significant challenge. In Benin, for example, ALAFIA members value its information exchange activities as one of the most useful benefits of network membership. However, many member institutions do not have Internet access and therefore cannot reach ALAFIA's website, its main mechanism of information distribution.

In addition to lack of Internet access and the need for appropriate technology, network members can feel overwhelmed by network e-mails, newsletters and reports that they struggle to digest on top of already full workloads. The information intended to assist members improve their performance can thus become a burden, challenging networks to develop more strategic knowledge management strategies.

43. Adapted from David Cohen, Rosa de la Vega and Gabrielle Watson, *Advocacy for Social Justice: A Global Action and Reflection Guide* (Washington, DC: Kumarian Press, 2001).

Despite the plethora of information that exists on international microfinance best practices (housed in such international organizations as the Consultative Group to Assist the Poor [CGAP], the United Nations Development Programme [UNDP] and SEEP), many microfinance practitioners are frustrated by the limited amount of resources available in their native languages. To address this serious language constraint, networks such as MFC have begun to translate materials into local languages and organize regional events that mirror high-profile international conferences.

Table 11. Knowledge Management Strategies

Challenges	Recommended Strategies
Develop a knowledge management strategy	• Determine the main types of information that the network will generate and disseminate • Maintain a computerized database of contacts. Add new contacts to the database after each meeting, training, or other event. Tag each contact to receive only the information that they have requested (e.g., members may want to receive information on training workshops, while local banks may want to attend the annual meeting) • Consider hiring a knowledge management officer
Disseminate international best practices	• Follow electronic discussions on the Internet • Attend major microfinance conferences and workshops and disseminate relevant information to network members • Organize a seminar on best practices where local MFIs can share knowledge and implementation strategies; periodically invite international experts to address members • Join international working groups in microfinance (e.g., those sponsored by SEEP, WOCCU, CGAP, etc.) • Undertake research with other country- and regional-level networks to define best practices in emerging services (e.g., money transfers, savings) • Address language constraints by translating materials into local languages and organizing high-profile regional events that mirror international conferences • Manage the plethora of information available from international knowledge centers by sending targeted information to members
Market the network and its members	• Host regular international meetings that feature respected international participants • Write a regular newsletter • Host a website where network members can post their accomplishments • Commission research on local issues in microfinance and publish the results • Conduct research on international issues in microfinance in partnership with other leading networks and publish the results

10. Training

Working Definition: Training is a service designed to strengthen the management structures and operational processes and procedures of MFIs, with the goal of improving their overall institutional performance.

One of the primary reasons that networks exist is to build the capacity of their members. While all services offered by networks can be considered capacity-building activities, this section focuses on the most popular of these services: training. To date, the SEEP Global Network Directory documents 45 networks worldwide that offer capacity building services, particularly training courses.

Networks that successfully organize and/or deliver training benefit from increased publicity and recognition. If the quality of such services is high, they can generate new members for the network. For many networks, the success of training programs leads to expansion in the form of national-level training services and the increased importance of training in the network budget.

Training Delivery Strategies

Networks typically offer training courses to their members that last no longer than five days. Such courses generally address operational challenges common to member organizations. While some networks develop their own materials, others rely on existing training modules available from international organizations.

Networks generally approach training in one of two ways: directly or as a broker. Direct service networks build internal capacity by using staff and members to provide training. Using skilled staff from member organizations allows networks to ensure that real-world experience is incorporated into course content. However, this practice comes with certain drawbacks.

In its early years, for example, MFC relied heavily on members (either Executive Directors or senior MFI staff) to deliver training. However, scheduling the time of these busy managers was always problematic and did not support the increasing professionalization of the network's training and consulting business. Consequently, the network has increasingly turned to professional trainers over the years. Currently, about 55 percent of MFC trainings are led by professional staff trainers and 45 percent by the staff of member MFIs.

Networks that broker training services identify technical service providers for member MFIs. In Ecuador, RFR brokers training by providing its members access to a database of qualified technical service providers, as well as working with external technical service providers to organize specific courses.

Box 19. COPEME's Approach to Training

COPEME uses both internal and external resources to organize training courses. Network staff are intimately involved in assessing member demand and working with experts to design training services. When designing and delivering a course on risk management for Peruvian MFIs, for example, the staff:

- identified member needs
- met with technical experts, the supervisory authorities and MFIs to design and contextualize the course to Peruvian conditions
- hired a technical service provider (TSP) to deliver the course
- conducted a course evaluation

COPEME evaluates all courses to ensure quality training. It then retains TSPs that receive good evaluations in its directory of qualified national and international service providers. The network finds it efficient to outsource training because the process allows it to offer a wide range of cost-effective trainings to a variety of MFIs.

Whether delivering training as a broker or direct provider, a network and its staff are usually directly involved in organizing logistics, including finding venues, marketing courses, selecting participants, handling financial transactions and preparing training materials (see Box 20).

Box 20. AEMFI develops training services

Training is one of the principal activities of the Association of Ethiopian Microfinance Institutions (AEMFI), the national network of Ethiopia. The network offers training courses on such topics as accounting, business planning, Microfin software, branch management, impact assessment and risk management. AEMFI serves as a broker for donor-sponsored trainers and collects a fee for organizing training courses. Its training officer is responsible for:

- assessing the training needs of member MFIs
- developing training modules
- identifying local and expatriate experts to conduct trainings
- documenting the training process
- evaluating training programs and conducting follow-up activities
- establishing a formula to share the cost of training activities with MFI members
- establishing criteria to select training participants

As AEMFI's capacity and credibility has grown over the years, the number of training courses has increased steadily, from 3 in 2000 to 15 in 2003. During those four years, the network organized a total of 29 training courses. In addition to its member organizations, AEMFI courses are open to government institutions, academic institutions, consultants, audit firms and nongovernmental organizations (NGOs).

Fee-based Training

Many networks view training as an income-generating activity; however, few are able to profit from their training activities. Most only cover part of the actual cost of training courses. To date, most networks have offered training that is heavily subsidized by donors. These subsidies have enabled networks to offer training to members at no cost, very little cost or at a cost that only covers the expense of the venue (i.e., not the cost of trainer or network staff time). As noted by Chen and Rasmussen, "a combination of cost control, quality services and appropriate fees can generate profits, but the initial financial outlay is often much greater than what is required…"[44]

When revisiting its original training model, MFC recognized that market analysis was essential to determine whether a sufficient number of paying customers existed for network training courses. It subsequently established its training arm as a private company to ensure that training activities generated income and the training unit could adapt to market changes. In Ecuador, RFR carried out a survey to analyze the ability of its members to pay for training, the results of which showed that 85 percent of network members were willing to pay for capacity-building services and that 72 had a budget specifically for capacity building.

Challenges

SUPPLY-DRIVEN TRAINING. Given the amount of funding that donors make available to the microfinance sector, many networks have delivered training courses in a very supply-driven manner. A number of networks, for example, have partnered with international organizations (e.g., CGAP, UNDP, SEEP and USAID) to deliver existing training courses without first proactively assessing the specific training needs of their members. Moreover, many of the training materials prepared by international organizations are not adapted to the local context, which limits their impact. Most networks that operate under this supply-side model feel pressured to deliver services to their members, but lack the financial resources to do so on their own.

44. Chen and Rasmussen, "Emerging Issues," 2005, 6.

COMPETITION (OR LACK THEREOF) FROM OTHER SERVICE PROVIDERS. In countries that have thriving markets of technical service providers, microfinance networks that provide direct training services can find it difficult to do on a profitable basis. In addition, certain networks accept service providers as members and have to be especially careful not to compete with them.

In countries where very few technical providers offer services to MFIs, networks that step in to fill the gap usually do not analyze their role in developing the service provider market. Networks in these environments often provide fully subsidized training courses and may think they are stimulating demand on the part of an immature microfinance sector. However, an unintended consequence of subsidized training courses is that they prevent the development of competitors. Other networks risk losing their original missions as membership associations and transforming into full-fledged commercial technical service providers.

ASSESSING THE QUALITY AND IMPACT OF TRAINING. While in the best circumstances, networks undertake the prerequisites for training, such as a member needs assessment and the adaptation of training materials, most falter in the delivery of follow-up services. Such post-training activities include evaluating the quality of the training and assessing its impact on network members, which requires the network to monitor how members implement what they have learned and offer them follow-up technical assistance when needed. In the majority of instances, lack of follow-up can be wholly attributed to insufficient human and financial resources. Yet a network risks its credibility if no significant improvements in MFI performance (or returns) result from significant network investments in training.

LOCAL CAPACITY TO DELIVER TRAINING. Due to the lack of local trainers, many networks rely on international experts to deliver training. This reliance inhibits networks from offering training in a regular and sustainable manner, leaving them subject to the high cost and limited availability of international trainers.

Table 12. Training Strategies

Challenges	Recommended Strategies
Establish a training unit	• Complete a feasibility study that focuses on member demand for training, as well as the financial performance of both members and the network; evaluate all other options for training, analyze potential risks • Hire a training director with budgetary responsibility for a training program • Develop goals and objectives for the training unit and set annual performance targets • Conduct regular member surveys to determine the demand for training in different subjects
Offer training services	• Use existing training materials wherever possible to avoid the cost and time of developing untested materials [45] • Adapt and customize training material to the local context to maximize its impact on local MFIs • Ensure adult learning techniques are employed in training delivery • Consider partnering with other networks to offer advanced managerial courses to executive MFI staff • Tap senior staff from member MFIs to provide initial training sessions, but consider the practice solely a short-term solution to training provision • Prepare for high turnover among MFI trainers. Although the staff of member MFIs can bring personal experience to training courses, their schedules can be difficult to manage. Prepare to slowly phase them out as regular training staff • Consider brokering donor-funded training that uses international consultants • Build lateral learning and information sharing into training activities, such as arranging exchanges between member MFIs, perhaps in conjunction with courses on specific topics • Assess the quality and impact of training through evaluations and follow-up activities to measure operational changes at the MFI level

45. This symbol indicates that there is a useful reference in annex 4.

PART 3

Strategies for Improving Network Performance

11. Strategies for Strengthening Networks at Different Stages of Development

This section offers strategies and practical approaches that networks can use to improve their performance in each of the six areas of network effectiveness, depending on their stage of development. The various challenges are specifically defined, so that networks can quickly identify the problems they face. The interventions offered in this section are, moreover, intended as suggestions, not required actions.

It should be noted that research on microfinance networks and associations is only in the early stages and that the growth of individual networks is rarely a linear process. The material in this chapter has thus been organized in an intentionally fluid manner, so that networks may investigate individual areas of effectiveness according to the stage of development that they have achieved in each area.

SEEP defines the four stages of network development as *nascent, emerging, expanding* and *mature* (see descriptions below). Because research on networks is relatively recent, and few networks have yet reached the mature stage, the strategies presented in the subsequent sections are for networks in the first three stages of development only *(nascent, emerging,* and *expanding).* It is hoped that future editions of this guide will provide strategies for networks in the *mature* stage of development. However, to provide a point of reference, at the end of the "Strategies" section, the guide provides examples from *mature* financial services associations in the United States.

The four stages of network development:

- *nascent:* networks in the earliest stage of development and just beginning to develop an institutional structure. At this stage, a network should develop a mission, begin to build an institution and forge initial linkages with MFIs and international microfinance organizations.
- *emerging:* networks that have a basic institutional structure in place and are beginning to develop operational strategies. Specifically, a network at this stage develops strategies to implement strong and accountable governance, translate its mission into concrete activities, strengthen its institutional capacity and facilitate national and international linkages.
- *expanding:* networks that have a solid institutional structure and a track record of achievement. At this stage, a network may expand both its membership and governance structure to include new stakeholders in the sector. It also concentrates on cementing efficient procedures and systems, as well as offering services that meet member demand. The fundamentals of network excellence are in place and the network's achievements are recognized by key stakeholders in the sector (see MFC case study in annex 4).
- *mature:* vibrant, responsive networks that are performing at a high level in each of the six areas of network effectiveness. In a mature market, such a network may need to fundamentally revisit its mission and reorganize its operations and services to remain relevant

Each stage of development entails different challenges in the six areas of effectiveness. This makes it especially important that nascent networks develop long-term business plans as a way of anticipating the changes that growth will bring, and that networks at subsequent stages review and revise these plans on a regular basis.

Nascent Networks

Table 13. Governance Strategies

Challenge	Recommended Strategies
Identify and attract appropriate membership	• Establish minimum, clearly understandable membership criteria that require some level of participation in the network
Ensure all members understand the network mission	• Refer to the network's mission in all marketing materials
Build a network that can affect public policy	• Establish an open network membership and attract a large number of members
Build a balanced Board of Directors	• Identify skills and work experience that would be useful on the Board and seek out members that fit these criteria • For networks with diverse members (e.g., MFIs, commercial banks, credit unions), consider creating Board seats for representatives of each group
Meet the needs of diverse members while ensuring fairness and equality	• Explicitly recognize and openly discuss disparities in member size to avoid the perception of special treatment • Ensure all member are equal partners, regardless of size or other differences, and have an equal vote in the General Assembly
Build a strong and effective Board	• Ensure that the Board has an internal self-assessment mechanism
Develop a democratic Board and Board leadership	• Develop customized governing documents (by-laws and/or a constitution) that specifically address the representative nature of network • Implement policies that ensure democratic Board representation, such as staggered elections to ensure Board continuity and term limits for board officers

Table 14. Operational Strategies

Challenge	Recommended Strategies
Determine institutional structure	• Prior to becoming a formal institution, invest resources in members to establish credibility • In its early stages, rely on members to house the network, provide administrative support, and serve as a conduit for funds
Develop a strategic plan	• Conduct a baseline assessment of the network, using a tool such as the NCAT (see annex 2) to identify the network's stage of development • Forecast where the network wants to be in the medium term
Develop an annual work plan	• Create an annual operating plan that details network activities and associated resources (both human and financial) for approval by network members[46]
Improve operational management	• Use the annual operating plan to guide network activities and resource allocation
Establish appropriate systems and procedures	• At the early stages of network development, do not over-bureaucratize network operations with detailed systems and procedures. Rather, establish a simple operational manual that documents core administrative processes
Developing annual reporting systems	• Ensure the official annual report is published in high-quality format so that it also doubles as a marketing tool

46. See MFC case study in annex 3.

Table 15. Financial Sustainability Strategies

Challenge	Recommended Strategies
Build good relationships with donors	• Carry out low-cost, high-visibility activities (such as disseminating general institutional information on members) to gain external credibility
Develop a plan for financial viability 🛠	• Rely on significant member financial and in-kind contributions • Consider a sliding-scale member dues structure (such as setting dues as a percentage of a member's outstanding loan portfolio) • Develop effective marketing techniques to attract funding. These techniques should ensure that network activities are highly visible and perceived as having an impact on the industry
Develop demand-driven, fee-based services	• Identify services that can largely be paid for by members or other direct users • Begin to charges fees for network services, even if such fees are nominal, to condition member MFIs to pay for services
Maintain budget control	• Develop a detailed yearly operating budget

Table 16. Human Resources Strategies

Challenges	Recommended Strategies
Develop a staffing strategy	• During the early stages of network development, designate a steering committee composed of representatives from member institutions to manage operations • Consider hiring a part-time staff member to coordinate network activities in its early stages • Encourage member organizations to allow staff to contribute a percentage of their time to network activities

Table 17. External Relations Strategies

Challenges	Recommended Strategies
Build a good public reputation	• Meet regularly with government officials, donor representatives and influential MFIs • Focus on delivering quality services, even if this means taking on a limited number of activities and doing them well • Participate on industry task forces that address key issues in microfinance
Become the representative of the microfinance sector	• Be seen as *the* source for information on the industry by, at a minimum, collecting and consolidating general institutional information about all network members
Develop international visibility	• Disseminate information about members and national microfinance industry to key international knowledge centers (such as popular international microfinance websites and listservs)

Table 18. Service Delivery Strategies—General

Challenges	Recommended strategies
Determine the right mix of services	• Carry out member needs assessments to develop demand- driven services 🛠 • Determine a mix of services based on member demand and network capacity
Determine service delivery strategies	• Rely on members to carry out low cost activities during the network start-up phase • Focus on delivering quality services, even if this means taking on a limited number of activities and doing them well
Assess member satisfaction with services	• Systematically assess member satisfaction with network services using surveys🛠, focus groups and other tools

Table 19. Policy Advocacy Strategies

Challenges	Recommended Strategies
Develop a policy advocacy strategy	• Conduct policy analysis, set goals, identify target audience and allies, develop a key message, identify messengers, and evaluate the effectiveness of the advocacy activity
Determine policy positions through a consultative process	• Establish consensus documents on policy issues [47] • Educate MFIs on the policy consequences of existing and proposed government programs and policies
Use Board and member skills and contacts in policy work	• Recruit Board members who have either worked in government or have already established extensive relationships with key government agencies.
Cultivate relationships with policy-makers	• Maintain contact with officials from such government bodies as the Ministry of Finance, Central Bank and presidential administration by establishing personal relationships and attending formal meetings • Keep abreast of institutional changes or promotions result in the turnover of key government positions

Table 20. Performance Monitoring Strategies

Challenges	Recommended Strategies
Develop performance monitoring as a key network service	• Ensure that performance monitoring is a good fit for the network's mission and objectives • Ensure that the network's Board, members and staff are committed to undertaking performance monitoring
Carry out incremental performance monitoring activities	• Establish a process to collect member information in a regular, timely manner • Initiate basic performance monitoring by collecting general institutional data on all members (e.g., name, address, areas of operation, lending methodologies)
Build a robust performance monitoring system	• Start collecting basic institutional data using a simple spreadsheet tool
Develop partnerships	• Partner with international technical service providers for advice on how to develop performance monitoring as a service

Table 21. Knowledge Management Strategies

Challenges	Recommended Strategies
Develop a knowledge management strategy	• Determine the principal types of information that the network will generate and disseminate
Disseminate international best practices	• Follow electronic discussions on the Internet • Join international working groups in microfinance (e.g., those of SEEP) • Attend major conferences and workshops on microfinance and disseminate relevant information to network members
Market the network and its members	• Host regular international meetings and invite respected international participants • Write a regular newsletter

47. See Tool #5, "Decision Methods for Policy Advocacy," in annex 5.

Table 22. Training Strategies

Challenges	Recommended Strategies
Establish a training program	• Complete a feasibility study that focuses on demand for training among network members, as well as their and the network's own financial performance • Evaluate all other options for training; analyze risks
Determine whether network will serve as direct provider, broker or facilitator	• In thriving markets of technical service providers, serve as a broker • Where there are very few technical providers offering services to MFIs, serve as a direct provider but facilitate local capacity building by offering fee-based training
Offer training services	• Tap senior staff from member MFIs to provide initial training sessions, but consider their participation a short-term solution to training delivery

Emerging Networks

Table 23. Governance Strategies

Challenges	Recommended Strategies
Identify and attract appropriate membership	• Establish minimum, clearly understandable membership criteria that require some level of participation in the network • Adopt a code of conduct to which members should adhere
Ensure all members understand the network mission	• Create a strategic plan that illustrates how all network activities will contribute to its mission • Refer to the network's mission in all marketing materials
Build a network that can affect public policy	• Plan growth to ensure that the network is as representative of the microfinance sector as possible (i.e., members should include commercial banks as well as the growing number of transformed and merged MFIs)
Build a balanced Board of Directors	• Identify skills and work experience that would be useful on the Board and seek out members that fit these criteria • For networks with diverse members (e.g., MFIs, commercial banks, credit unions), consider creating Board seats for representatives of each group
Decide whether or not to expand the network	• Link the issue of expansion to the network's mission, particularly its defined targets
Manage network growth	• Ensure that the network is as representative of the microfinance sector as possible • Plan for growth and increase capacity as membership increases by identifying the changing human resources and technical competency needs
Meet the needs of diverse members while ensuring fairness and equality	• Explicitly recognize and openly discuss disparities in member size to avoid the perception of special treatment • Ensures that all members are equal partners, regardless of size or other differences, and have an equal vote in the General Assembly • Ensure that both smaller and larger members have sufficient representation on the Board, either via working groups or guaranteed seats on the Board
Build a strong and effective Board	• Include Board development in the Board's annual plan, allowing the body to systematically evaluate its needs and build up areas of relative weakness through training and exercises • Ensure that the Board has an internal self-assessment mechanism
Develop a democratic Board and Board leadership	• Develop customized governing documents (by-laws and/or a constitution) that specifically address the representative nature of network • Implement policies that ensure democratic Board representation, such as staggered elections and term limits

Table 24. Operational Strategies

Challenges	Recommended Strategies
Determine institutional structure	• Prior to becoming a formal institution, invest resources in member services to establish credibility • In the early stages, rely on members to house the network, provide administrative support and serve as a conduit for funds • Establish the network as a formal institution only when needed to effectively carry out activities
Develop a strategic plan	• Conduct a baseline assessment of the network, using a tool such as the NCAT (see annex 2) to identify the network's stage of development • Forecast where the network wants to be in the medium term • Develop the network's strategic and/or business plan based on the results of the baseline capacity assessment • Carry out a formal strategic planning exercise that includes the Board, member MFIs, staff and key stakeholders • Discuss strategic plan with its members; have General Assembly adopt the final version as a core network document • Review the strategic plan on an annual basis and update as necessary
Develop an annual work plan	• Create an annual operating plan that details network activities and associated resources (both human and financial) for approval by network members • Develop criteria for taking on new activities
Develop a system for network self-monitoring	• Identify key issues in governance, operations, financial viability, human resources, service delivery and external relations that need to be monitored • Develop network performance indicators and annual performance targets • Measure progress against targets set in annual business plan
Make meeting member needs a staff priority	• Include member consultation as a task in the job descriptions of network staff • Encourage working groups to ensure member input into network decisions[48]
Improve operational management	• Use the annual operating plan to guide network activities and resource allocation • Establish a project management process for every activity that addresses member involvement, resource acquisition, timelines and milestones, and monitoring and evaluation[49]
Establish appropriate systems and procedures	• At the early stages of network development do not over-bureaucratize network operations with detailed systems and procedures. Rather, establish a simple operational manual that documents core administrative processes
Develop annual reporting systems	• Identify all reports required annually and develop a system to collect and store information needed to ease the report writing process • Ensure the network's official annual report is published in high-quality format so that it also doubles as a marketing tool

48. See RFR case study in annex 3.

49. See ALAFIA case study in annex 3.

Table 25. Financial Sustainability Strategies

Challenges	Recommended Strategies
Build good relationships with donors	• Seek 2–3 long-term donors willing to help the network build institutional capacity and fund its business plan, rather than individual activities • Ensure that donor funds support only activities in the business plan • Collaborate with donors to develop realistic performance-based funding agreements
Plan to generate sufficient revenues	• Ensure at least three revenue streams, such as (i) membership dues, (ii) fees from services, and (iii) earnings from the sale of publications • Create a multiyear business plan with projections for future years which is revised on an annual basis • Ensure new activities have sufficient funding prior to their launch
Develop a plan for financial viability	• Rely on significant member financial and in-kind contributions • Consider a sliding-scale member dues structure (such as setting dues as a percentage of a member's outstanding loan portfolio) • Develop effective marketing techniques to attract funding. These techniques should ensure that network activities are highly visible and perceived as having an impact on the industry
Develop demand-driven, fee-based services	• Identify services that can largely be paid for by members or other direct users • Begin to charges fees for network services, even if such fees are nominal, to condition member MFIs to pay for services
Maintain budget control	• Have each operating unit make a monthly budget presentation that compares operating budget to the annual budget plan • Appoint a Board-level finance committee to follow the network's finances • Develop a detailed yearly operating budget • Ensure all funds identified in the operating budget are in the network's bank account before carrying out corresponding activities

Table 26. Human Resources Strategies

Challenges	Recommended Strategies
Develop a staffing strategy	• For each staff position, conduct a cost-benefit analysis of permanent staff versus limited-term consultant • Consider hiring someone to do fundraising on a part- or full-time basis • Maintain as lean and efficient a secretariat as possible while ensuring a manageable workload for staff
Build a professional network staff	• Create job descriptions based on strategic and operating plans • Give each candidate employee a thorough briefing on the network's mission, members, activities, finances and employee benefits • Implement an extendable probationary period for new staff • Describe the network's recruitment process in the human resources policy manual • Prioritize the promotion of existing staff, but be realistic about their capacity and professional development needs
Retain quality staff	• Keep the human resources policy manual up to date and available to all staff • Ensure that staff salaries are competitive with those of other, similar organizations • Manage staff with transparency • Establish staff incentives programs linked to continued employment, such as linking educational benefits to specific time commitments to the network
Make staff management transparent	• Provide a detailed orientation for new staff members, including an explanation of network policies and procedures • Establish individual performance goals for staff members, based on the network's annual plan • Evaluate staff performance against performance goals to ensure progress is made on network goals
Strategically develop staff capacity	• Reward exceptional performance with professional development opportunities • Cross-train staff in key skills, such as proposal writing
Establish staff performance appraisal system	• Develop staff performance targets linked to business plan objectives • Establish a six-month probationary period for new staff • Appraise and incentivize new staff at the end of the probationary period • Conduct annual staff performance appraisals, including staff self-appraisals
Encourage succession planning	• Develop the leadership skills of the Executive Director and managers • Leverage the network's position as a national and international microfinance actor to provide staff with opportunities to engage with other microfinance actors[50]

50. See MFC case study in annex 3.

Table 27. External Relations Strategies

Challenges	Recommended Strategies
Build a good public reputation	• Meet regularly with government officials, donor representatives and influential MFIs • Identify internal (Board, member MFIs, staff) and external spokespersons (key allies) to promote the work of the network • Focus on delivering quality services, even if this means taking on a limited number of activities and doing them well • Participate on industry task forces that address key issues in microfinance
Become the representative of the microfinance sector	• Hold an annual conference • Be seen as *the* source for information on the industry by, at a minimum, collecting and consolidating general institutional information about all members • Maintain a media presence through newspaper articles, television interviews and press kits for network events
Develop international visibility	• Participate in regional and international networks • Develop partnerships with networks in other regions • Attend and present local experiences at international conferences • Invite international experts to the annual network conference • Disseminate information about members and national microfinance industry to key international knowledge centers (such as popular international microfinance websites and listservs)

Table 28. Service Delivery Strategies—General

Challenge	Recommended strategies
Determine the right mix of services	• Carry out member needs assessments to develop demand-driven services 🛠 • Determine a mix of services based on member demand and network capacity • Identify areas in which the network has a unique advantage in the market and does not compete with its members or duplicate services provided by other market entities • Determine which services are “private goods” and which are “public goods”
Demonstrate the value of membership by identifying clear member benefits	• Develop and clearly communicate to members the advantages of membership versus non-membership
Determine service delivery strategies	• When the limitations of member-provided services become apparent, transition to professional service delivery, but maintain lateral learning mechanisms for members • Seek out cost-effective strategies for service delivery, including brokering, outsourcing or partnerships that generate income for the network
Assess member satisfaction with services	• Systematically assess overall member satisfaction with services using surveys 🛠, focus groups and other tools • Collect evaluations at the end of every training session • Analyze all training evaluations to determine overall member and important recommendations • Implement policy or service improvements on the basis of member feedback

Table 29. Policy Advocacy Strategies

Challenges	Recommended strategies
Develop a policy advocacy strategy	• Conduct policy analysis, set goals, identify target audience and allies, develop a key message, identify messengers, and evaluate the effectiveness of the advocacy activity 🛠 • Consider expanding network membership or forming coalitions with other organizations to enhance the institution's voice in policy discussions
Determine policy positions through a consultative process	• Establish consensus documents on policy issues 🛠[51] • Educate MFIs on the policy consequences of existing and proposed government programs and policies • Balance long-term policy needs against the immediate policy needs of members • Balance member interests with the interests of other relevant stakeholders, such as donors • Include all key actors (members, donors and government officials) in an open inclusive dialogue and keep them regularly informed of developments • Ensure donors support the network's policy position on a given issue or set of issues before actively lobbying the government
Use Board and member skills and contacts in policy work	• Create a task force to lead policy issues that the network seeks to address • Recruit Board members who have either worked in government or have already established extensive relationships with key government agencies.
Cultivate relationships with policy-makers	• Maintain contact with officials from government bodies (e.g., Ministry of Finance, Central Bank, presidential administration) on a regular basis by developing personal relationships and attending formal meetings • Keep abreast of institutional changes or promotions resulting in the turnover of key government positions
Develop the network's power and influence	• Build a coalition with other interested parties (e.g., similar associations, NGOs, consumer-protection organizations, commercial banks, cooperatives) on specific issues of shared concern to increase network influence vis-à-vis the government • Cultivate relationships with legislators and staff in key government agencies that oversee the financial sector • Use the media to publicize the position of the network and its past advocacy achievements to garner public support • Make common cause with organizations with which the network may not normally associate, but are also affected by the legal and regulatory environment (e.g., consumer lenders)

51. See Tool #5, "Decision Methods for Policy Advocacy," in annex 5.

Table 30. Performance Monitoring Strategies

Challenges	Recommended strategies
Develop performance monitoring as a key network service	• Ensure that performance monitoring is a good fit for the network's mission and objectives • Ensure that the network's Board, members and staff are committed to undertaking performance monitoring • Integrate performance monitoring into the network's strategic and/or business planning process
Build MFI buy-in and motivation to participate in performance monitoring activities	• Link information submission to a specific benefit (e.g., receipt of analytical reports with recommendations on how to improve performance, printing the organization's name on official documents or awarding an annual prize for best information) • Raise member awareness of the importance of transparency for building industry credibility and attracting investor support • Engage MFIs in a process of creating nationally recognized definitions for microfinance terms and performance ratios based on international standards • Engage MFIs in a participatory process to reach consensus on the performance indicators that the network will track
Build member capacity to produce high-quality data	• Review the information that the network currently gathers from members • Provide training to member MFIs to increase their capacity to produce accurate financial statements and implement systems to collect performance data
Carry out incremental performance monitoring activities	• Establish a process to collect member data in a regular, timely manner; begin by requiring members to submit financial statements each year • Develop a timetable for MFI members to submit performance information • Initiate basic performance monitoring by collecting general institutional data on all members (e.g., name, address, areas of operation, lending methodologies) • Start to collect good-quality basic outreach and volume data on at least 5 MFIs (e.g., number of savers, number of borrowers, outstanding microfinance portfolio, average loan size) • Extend data collection to include all microfinance providers in the market, including MFIs, large banks, and NGOs—both members and non-members
Identify and develop network and staff capacity to conduct performance monitoring	• Identify and train network staff to collect performance monitoring information
Build a robust performance monitoring system	• Begin collecting basic institutional data using a simple spreadsheet tool • Transition to a spreadsheet that imports data directly to avoid human error in data transfers
Develop partnerships	• Partner with international technical service providers for advice on how to develop performance monitoring as a service and how to assess the completeness and accuracy of member data

Table 31. Knowledge Management Strategies

Challenges	Recommended strategies
Develop a knowledge management strategy	• Determine the principal types of information that the network will generate and disseminate • Maintain a computerized database of contacts • Add new contacts to the database after each meeting, training, or other event. Tag each contact to receive only the information that they have requested
Disseminate international best practices	• Follow electronic discussions on the Internet • Organize a best-practices seminars where local MFIs can share knowledge and implementation strategies; periodically invite international experts to address members • Join international working groups in microfinance (e.g., those of SEEP) • Attend major conferences and workshops on microfinance and disseminate relevant information to network members • Address language constraints of best-practice material by translating materials into local languages and organizing regional events that mirror high-profile international conferences • Manage the plethora of information available from international knowledge centers by sending targeted information to members
Market the network and its members	• Host regular international meetings and invite respected international participants • Write a regular newsletter • Host a website where network members can post their accomplishments

Table 32. Training Strategies

Challenges	Recommended strategies
Establish a training unit	• Complete a feasibility study that focuses on demand for training among network members, as well as their and the network's own financial performance, • Evaluate all other options for training; analyze risks • Hire a training director with budgetary responsibility for a training program • Conduct regular member surveys to determine demand for training in different subjects • Establish goals and objectives for the training unit, including annual performance targets
Determine whether network will serve as direct provider, broker or facilitator	• In thriving markets of technical service providers, serve as a broker • Where very few technical providers offer services to MFIs, serve as a direct provider in markets, but also facilitate local capacity by offering fee-based training • Monitor the potential for network mission drift should the network appear to be transforming into a full-fledged technical service provider
Offer training services	• Use existing training materials wherever possible to avoid the cost and time of developing untested materials • Adapt and customize training materials to the local context to maximize its impact • Ensure adult learning techniques are employed in training delivery • Consider partnering with other networks to offer advanced managerial courses to executive MFI staff • Prepare for high turnover in MFI trainers. Although MFI member staff can bring experience to training, their schedules can be difficult to manage. Prepare to slowly phase them out as regular training staff • Consider offering training that is funded by donors and delivered by international consultants • Build lateral learning and experience sharing into trainings, such as arranging exchanges between member MFIs, perhaps in conjunction with courses on specific topics • Assess the quality and impact of training through evaluations and measuring changes at the MFI level

Expanding Networks

Table 33. Governance Strategies

Challenge	Recommended Strategies
Identify and attract appropriate membership	• Establish minimum, clearly understandable membership criteria that require some level of participation in the network • Adopt a code of conduct to which members should adhere • Consider establishing financial performance standards and a performance monitoring mechanism[52]
Ensure all members understand the network mission	• Create a strategic plan that illustrates how all network activities will contribute to its mission • Refer to the network's mission in all marketing materials
Build a network that can affect public policy	• Establish an open network membership and attract a large number of members • Plan growth to ensure that the network is as representative of the microfinance sector as possible (i.e., members should include commercial banks as well as the growing number of transformed and merged MFIs)
Build a balanced Board of Directors	• Identify skills and work experience that would be useful on the Board and seek out members that fit these criteria • For networks with diverse members (e.g., MFIs, commercial banks, credit unions), consider creating Board seats for representatives of each group • Create reserved Board positions to represent additional membership segments • Create appointed Board positions to increase network capacity in key areas, such as policy advocacy and fundraising (e.g., bring on a former member of parliament to guide policy advocacy work)[53]
Decide whether or not to expand the network	• Link the issue of expansion to the network's mission, particularly its defined targets • Build consensus among members on the need to expand • Address the implications of expansion, including the need to amend its mission and activity profile, hire additional staff, etc.
Manage network growth	• Recognize the increased interest in microfinance among commercial banks and the growing number of transformations and mergers of traditional MFIs • Plan for growth and increase network capacity as membership increases by identifying changing human resource and technical competency needs • Consider consolidation with other existing networks • Consider making all key stakeholders in the sector network members by establishing new member categories (e.g., associate member or honorary member). However, such members should not have the same rights and/or benefits as regular members
Meet the needs of diverse members while ensuring fairness and equality	• Explicitly recognize and openly discuss disparities in member size to avoid the perception of special treatment • Ensures that all member are equal partners, regardless of size or other differences, and have an equal vote in the General Assembly • Ensure that both smaller and larger members have sufficient representation on the Board, either via working groups or guaranteed seats on the Board • Develop a pricing policy to attract a diverse membership • Elect or appoint Board directors who can reach out to a diverse membership

52. See ALAFIA case study in annex 3.

53. See MFC case study in annex 3.

Table 33. Governance Strategies (cont'd)

Challenge	Recommended Strategies
Build a strong and effective Board	• Include Board development in the Board's annual plan, allowing the body to systematically evaluate its needs and build up areas of relative weakness through training and exercises • Ensure that the Board has an internal self-assessment mechanism • Elect a special member committee to assess and report on the Board's performance on an annual basis[54]
Develop a democratic Board and Board leadership	• Develop customized governing documents (by-laws and/or a constitution) that specifically address the representative nature of network • Implement policies that ensure democratic Board representation, such as staggered elections and term limits

Table 34. Operational Strategies

Challenges	Recommended Strategies
Develop a strategic plan	• Carry out a formal strategic planning exercise that includes the Board, member MFIs, staff and key stakeholders • Discuss strategic plan with network members; have General Assembly adopt the final version as a core network document • Review the strategic plan on an annual basis and update as necessary
Develop an annual work plan	• Create an annual operating plan that details network activities and associated resources (both human and financial) for approval by network members[55] • Develop criteria for taking on new activities
Develop a system for network self-monitoring	• Identify key issues in governance, operations, financial viability, human resources, service delivery and external relations that need to be monitored • Develop network performance indicators and annual performance targets • Measure progress against targets in annual business plan
Make meeting member a staff priority	• Include member consultation as a task in the job descriptions of network staff • Encourage working groups to ensure member input into network decisions[56] • For networks with diverse members, appoint a liaison for each distinct group of members
Improve operational management	• Use the annual operating plan to guide network activities and resource allocation • Establish a project management process for every activity that addresses member involvement, resource acquisition, timelines and milestones, and monitoring and evaluation[57]
Establish appropriate systems and procedures	• As the network activities and staff expand, regularly update the operational manual with more detailed guidance on administrative processes
Develop annual reporting systems	• Identify all reports required annually and develop a system to collect and store information needed to ease the report writing process • Ensure official annual report is published in high-quality format so that it also doubles as a marketing tool

54. See ALAFIA case study in annex 3.

55. See MFC case study in annex 3.

56. See RFR case study in annex 3.

57. See ALAFIA case study in annex 3.

Table 35. Financial Sustainability Strategies

Challenges	Recommended Strategies
Build good relationships with donors	• Seek 2–3 long-term donors willing to help the network build institutional capacity and fund its business plan, rather than individual activities • Ensure that donor funds support only activities in the business plan • Collaborate with donors to develop realistic performance-based funding agreements
Plan to generate sufficient revenues	• Ensure at least three revenue streams, such as (i) membership dues, (ii) fees from services, and (iii) earnings from the sale of publications • Create a multi-year business plan with projections for future years which is revised on an annual basis • Ensure new activities have sufficient funding prior to their launch
Develop a plan for financial viability 🛠	• Rely on significant member financial and in-kind contributions • Consider a sliding-scale member dues structure (such as setting dues as a percentage of a member's outstanding loan portfolio) • Develop effective marketing techniques to attract funding. These techniques should ensure that network activities are highly visible and perceived as having an impact on the industry • Diversify funding sources to include new donors, such as foundations, partnerships with the private sector, and endowment funds • Plan cover the cost of core operations with self-generated revenue
Develop demand-driven, fee-based services	• Identify services that can largely be paid for by members or other direct users • Finance programs that are unable to cover their costs through a combination of service fees, donor funding and cross-subsidization by more profitable services
Maintain budget control	• Have each operating unit make a monthly budget presentation that compares operating budget to the annual budget plan • Appoint a Board-level finance committee to follow the network's finances • Develop a detailed yearly operating budget • Ensure all funds identified in the operating budget are in the network's bank account before carrying out corresponding activities

Table 36. Human Resources Strategies

Challenge	Recommended Strategies
Develop a staffing strategy	• For each staff position, conduct a cost-benefit analysis of permanent staff versus limited-term consultant • Consider hiring someone to do fundraising on a part- or full-time basis • Maintain as lean and efficient a secretariat as possible while ensuring a manageable workload for staff
Build a professional network staff	• Give each candidate employee a thorough briefing on the network's mission, members, activities, finances and employee benefits • Implement an extendable probationary period for new staff • Describe the network's recruitment process in the human resources policy manual • Prioritize the promotion of existing staff, but be realistic about their capacity and professional development needs
Retain quality staff	• Keep the human resources policy manual up to date and available to all staff • Ensure that staff salaries are competitive with those of other, similar organizations • Manage staff with transparency • Establish staff incentives programs linked to continued employment, such as linking educational benefits to specific time commitments to the network • Consider developing a flexible time/compensation time policy to acknowledge the demanding schedule of network staff • Carry out a staff satisfaction survey to demonstrate value of staff inputs
Make staff management transparent	• Provide a detailed orientation for new staff members, including an explanation of network policies and procedures • Work with staff to develop career path plans by creating the potential for staff members to be promoted and establishing criteria for promotion • Establish individual performance goals for staff members, based on the network's annual plan • Evaluate staff performance against performance goals to ensure progress is made on network goals
Strategically develop staff capacity	• Conduct a skills inventory to identify existing skills as well as the skills that the network will require in the future • Establish a professional development plan for each staff member to encourage development of these specific skills; include fulfillment of this plan in performance goals and annual appraisals • Reward exceptional performance with professional development opportunities • Cross-train staff in key skills, such as proposal writing • Support staff to pursue their professional development objectives through tuition reimbursement, time off for courses, etc.
Establish staff performance appraisal system	• Develop staff performance targets linked to business plan objectives • Establish a six-month probationary period for new staff • Appraise and incentivize new staff at the end of the probationary period • Conduct annual staff performance appraisals, including staff self-appraisals • Consider employing the 360-degree participatory appraisal format
Encourage succession planning	• Delegate key Executive Director responsibilities to senior staff to ensure that network would function optimally in the event of his or her absence • Development the leadership skills of the Executive Director and managers • Leverage the network's position as a national and international microfinance actor to provide staff with opportunities to engage with other microfinance actors[58]

58. See MFC case study in annex 3.

Table 37. External Relations Strategies

Challenges	Recommended strategies
Build a good public reputation	• Meet regularly with government officials, donor representatives and influential MFIs • Consider expanding the network's membership or forming coalitions with other organizations to enhance the institutions' voice in policy discussions • Identify internal (Board, members, staff) and external spokespersons (key allies) to promote the work of the network • Focus on delivering quality services, even if this means taking on a limited number of activities and doing them well • Participate on industry task forces that address key issues in microfinance • Consider appointing a Board member for the express purpose of building relationships with appropriate government officials involved in microfinance policies • Use professional expertise of Board, members and staff to deepen relationships with public- and private-sector institutions
Become the representative of the microfinance sector	• Hold an annual conference • Be seen as *the* source for information on the industry by, at a minimum, collecting and consolidating general institutional information about all members • Maintain a media presence through newspaper articles, television interviews and press kits for network events
Develop international visibility	• Participate in regional and international networks • Develop partnerships with networks in other regions • Attend and present local experiences at international conferences • Invite international experts to the annual network conference • Disseminate information about members and national microfinance industry to key international knowledge centers (such as popular international microfinance websites and listservs) • Only maintain strategic contacts that can offer tangible inputs towards achieving the network's goals and objectives

Table 38. Service Delivery Strategies—General

Challenges	Recommended strategies
Determine the right mix of services	• Carry out member needs assessments to develop demand driven services • Determine a mix of services based on member demand and network capacity • Identify areas in which the network has a unique advantage in the market and does not compete with its members or duplicate services provided by other market entities • Determine which services are "private goods" which are "public goods"
Demonstrate the value of membership by identifying clear member benefits	• Develop and clearly communicate to members the advantages of membership versus non-membership • Communicate the importance of providing certain services to non-members as a way of supporting overall industry development • Encourage members to recruit non-members
Determine service delivery strategies	• When the limitations of member-provided services become apparent, transition to professional service delivery, but maintain lateral learning mechanisms for members • Seek out efficient, cost-effective strategies for service delivery, including brokering, outsourcing or partnerships that generate income for the network
Assess member satisfaction with services	• Systematically assess overall member satisfaction with services using surveys, focus groups and other tools • Collect evaluations at the end of every training session • Analyze all training evaluations to determine overall member satisfaction and important recommendations • Implement policy or service improvements on the basis of member feedback

Table 39. Policy Advocacy Strategies

Challenges	Recommended strategies
Develop a policy advocacy strategy	• Conduct policy analysis, set goals, identify target audience and allies, develop a key message, identify messengers, and evaluate the effectiveness of the advocacy activity 🛠 • Consider expanding the network's membership or forming coalitions with other organizations to enhance the institution's voice in policy discussions
Determine policy positions through a consultative process	• Establish consensus documents on policy issues 🛠[59] • Educate MFIs on the policy consequences of existing and proposed government programs and policies • Balance long-term policy needs against the immediate policy needs of members • Balance member interests with the interests of other relevant stakeholders such as donors • Include all key actors (members, donors, and government officials) in an open inclusive dialogue and keep them regularly informed of developments • Ensure donor support of the network's policy position on a given issue or set of issues before actively lobbying the government
Use Board and member skills and contacts in policy work	• Create a task force to lead policy issues that the network seeks to address • Recruit Board members who have either worked in government or have already established extensive relationships with key government agencies
Cultivate relationships with policy-makers	• Maintain contact with officials from government bodies (e.g., Ministry of Finance, Central Bank, presidential administration) on a regular basis by developing personal relationships and attending formal meetings • Keep abreast of institutional changes or promotions result in the turnover of key government positions
Develop the network's power and influence	• Build a coalition with other interested parties (e.g., similar associations, NGOs, consumer-protection organizations, commercial banks, cooperatives) on specific issues of shared concern to increase network influence vis-à-vis the government • Cultivate relationships with legislators and staff in key government agencies that oversee the financial sector • Use the media to publicize the position of the network and its past advocacy achievements to garner public support • Make common cause with organizations with which the network may not normally associate, but which are also affected by the legal and regulatory environment (e.g., consumer lenders)

59. See Tool #5, "Decision Methods for Policy Advocacy," in annex 5.

Table 40. Performance Monitoring Strategies

Challenges	Recommended strategies
Developing performance monitoring as a key network service	• Ensure that performance monitoring is a good fit for the network's mission and objectives • Ensure that the network's Board, members and staff are committed to undertaking performance monitoring as a key service • Integrate performance monitoring into the network's strategic and/or business planning process • Raise financial resources specifically for performance monitoring activities • Understand the labor-intensive nature of performance monitoring • Assess MFI needs for a performance monitoring system and their ability to produce accurate financial statements
Build MFI buy-in and motivation to participate in performance monitoring	• Link information submission to a specific benefit (e.g., receipts of analytical reports with recommendations on how to improve performance, printing an organization name on an official document or an annual prize for the best information) • Develop methods to integrate performance monitoring with existing MFI reporting requirements so as not to overburden members with information demands • Raise member awareness of the importance of transparency for building industry credibility and attracting investor support • Engage MFIs in a process of creating nationally recognized definitions for microfinance terms and performance ratios based on international standards • Engage MFIs in a participatory process to reach consensus on the indicators that the network will track
Build member capacity to produce high-quality information	• Review the information that the network currently gathers from members • Provide training to member MFIs to increase their capacity to produce accurate financial statements and implement systems to collect performance data
Carry out incremental performance monitoring activities	• Extend performance monitoring to collect performance indicators from all microfinance providers in the market, including MFIs, large banks, and NGOs—both members and non-members • Publish network member data on the network website or websites of organizations that track MFI performance worldwide
Identify and develop network and staff capacity to conduct performance monitoring	• Hire a full-time financial analyst to oversee performance monitoring activities; ensure that the analyst has a background in accounting, financial analysis and information systems • Cross-train staff so that data can continue to be collected in the absence of the dedicated staff member • Ensure that the analyst effectively communicates with member MFIs and provides positive encouragement and assistance in getting members to regularly submit financial data
Build a robust performance monitoring system	• Carry out, with the assistance of performance monitoring experts, an assessment to develop a computerized system for data gathering • Install a computerized performance monitoring system • Once the database contains a significant amount of MFI data, schedule advanced training for network staff to create benchmarks
Develop partnerships	• Pool resources with other stakeholders that have an interest in industry information and collect information from all microfinance providers in the country and/or region, whether or not they are network members • Work with other stakeholders to regularly publish such data • Partner with international technical service providers for advice on how to develop a performance monitoring service and how to assess the completeness and accuracy of member data

Table 41. Knowledge Management Strategies

Challenges	Recommended strategies
Develop a knowledge management strategy	• Consider hiring a knowledge management officer
Disseminate international best practices	• Follow electronic discussions on the Internet • Organize best-practices seminars where local MFIs can share knowledge and implementation strategies; periodically invite international experts to address members • Join international working groups in microfinance (e.g., those of SEEP) • Attend major conferences and workshops on microfinance and disseminate relevant information to network members • Undertake research with other country- and regional-level networks to define best practices in emerging services (e.g., money transfers, savings) • Address language constraints by translating best-practice material into local languages and organizing regional events that mirror high-profile international conferences • Manage the plethora of information available from international knowledge centers by sending targeted information to members
Market the network and its members	• Host regular international meetings to which respected international participants are invited • Write a regular newsletter • Host a website where network members can post their accomplishments • Commission research into local issues in microfinance and publish the results • Conduct research on international issues in microfinance in partnership with other leading networks and publish the results

Table 42. Training Strategies

Challenges	Recommended Strategies
Establish a training unit	• Complete a feasibility study that focuses on the demand for training among network members, as well as their and the network's own financial performance • Evaluate all other options for training; analyze risks • Hire a training director with budgetary responsibility for a training program • Conduct regular member surveys to determine demand for training in different subjects • Establish goals and objectives of training unit and set annual performance targets
Determine whether the network will serve as direct provider, broker or facilitator	• In thriving markets of technical service providers, serve as a broker • Where very few technical providers offer services to MFIs, serve as a direct provider in markets, but facilitate local capacity building by offering fee-based training • Monitor the potential for network mission drift if network appears to be transforming into a full-fledged technical service provider
Offer training services	• Use existing training materials wherever possible to avoid the cost and time of developing untested materials • Adapt and customize training materials to the local context to maximize their impact • Ensure adult learning techniques are employed in training delivery • Consider partnering with other networks to offer advanced managerial courses to executive MFI staff • Tap senior staff from member MFIs to provide initial training sessions, but view their participation as a short-term solution to training delivery needs • Prepare for high turnover in MFI trainers. Although the staff of MFI members can bring experience to training, their schedules can be difficult to manage. Prepare to slowly phase them out as regular training staff • Consider offering training that is funded by donors and delivered by international consultants • Build lateral learning and experience sharing into trainings, such as arranging exchanges between member MFIs, perhaps in conjunction with courses on specific topics • Assess the quality and impact of training through evaluations and by measuring changes at the MFI level

Examples from Financial Services Associations in the United States

Associations representing financial services providers have existed as long as there has been regulation of financial services—well over 100 years in some places. These associations face some of the same challenges that microfinance networks face in developing countries. They all exist to serve the industry they represent, which can be so narrowly defined that financial service providers often belong to multiple networks. A bank in the United States, for example, may belong to the American Bankers Association, Consumer Bankers Association, Mortgage Bankers Association and multiple state bankers associations. There are also associations for Community Banks, Credit Unions and Microfinance Institutions. It seems likely, therefore, that with the integration of microfinance into a country's financial landscape and the continuing evolution of laws and regulations that govern microfinance, there will be an increased focus on microfinance associations across the globe.

All associations provide some common services for their members including advocacy, publications, conferences that expose members to industry best and promising practices and education opportunities through their own in-house training centers or in partnership with other educational institutions. Many associations have also established separate, for-profit companies to offer commercial services tailored to their members' needs. These commercial services (such as insurance, office products, financial services and support functions) are either offered directly by the association or by other companies through the association, which makes a small fee on each transaction.

Most mature associations have instituted a stratified dues structure based on a flat rate fee plus a pro-rated amount based on volume or transactions. Some are also building endowments by allowing their members to pay many years' dues as a lump sum to help capitalize the fund.[60] Mature associations rely heavily on conference fees to supplement dues. Conference fees are often many times higher than the minimum annual dues. Another revenue producing avenue for most mature associations is advertising in regular publications that go to all members, or special publications for conferences. Sponsorship opportunities are also available and bring in additional revenue.

Unlike the members of most mature financial services associations, members of microfinance networks are generally not profitable, or barely profitable. For this reason, networks will continue to rely on grants from like-minded donors, for the foreseeable future. It remains to be seen if microfinance networks will become less dependent on grants as their members become more capable of paying for their services.

60. For example, the New York Bankers Association charges flat annual dues of $2,000 but regular members may elect to make a one-time contribution to its New Century Fund of $40,000 (which represents 20 years of annual dues).

Annexes

Annex 1. Description of SEEP Network Capacity Assessment Tool

The Network Capacity Assessment Tool (NCAT) developed by the Small Enterprise Education and Promotion (SEEP) Network is designed to perform organizational assessments of lateral learning networks and associations devoted to microenterprise development (MED). Such networks and associations may be regional, national or local. These organizations are member-driven and consist of members with diverse target clientele and methodologies and operate independently of one another. They come together to improve microfinance practice, share information and enhance the policy and funding environment of the sector. For ease of use, the NCAT uses the term network to refer to both networks and associations.

Networks must be effective in six key areas: governance, operations, financial sustainability, human resources, external relations and service delivery. The NCAT provides a framework for scoring each area according to performance standards developed by SEEP. The scoring system maintains a bias toward mature institutions, which receive higher ratings. Scores are not intended to indicate how "good" a network is, but rather, its level of maturity. Thus young networks (even very good ones) will likely have low scores. This does not necessarily indicate a poorly performing network; many standards indicate continuity over time that a young institution, or one that has undergone significant recent change, may not yet demonstrate.

The performance indicators used in the NCAT are derived from the experiences of microenterprise networks around the globe and of SEEP itself. Once an NCAT rating report is completed, a network can identify its organizational strengths and weaknesses and schedule appropriate interventions to strengthen its overall capacity. The report then becomes a baseline against which future performance can be measured.

Annex 2. Network Snapshots

Association of Ethiopian Micro Finance Institutions (AEMFI)

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www.aemfiethiopia.org
Dr. Wolday Amha, Executive Director

Summary
GEOGRAPHIC COVERAGE: Ethiopia

MEMBERSHIP (2003): 20 MFIs

STAGE OF DEVELOPMENT: Expanding

ESTABLISHMENT: The Association of Ethiopian Microfinance Institutions (AEMFI) was legally registered as a nonprofit, nongovernmental organization in 1999.

MISSION: AEMFI's mission is to serve as a national industry forum and network for microfinance institutions that provide microfinance services to economically and socially disadvantaged Ethiopians. AEMFI helps to increase the efficiency and effectiveness of existing MFIs and facilitate the establishment of new ones.

STRATEGIC OBJECTIVES:
- help build multifaceted capacity of MFIs in Ethiopia, mainly through training
- study the status, problems, and prospects of existing MFIs and assess the feasibility of forming new ones
- help improve the national policy and regulatory environment in favor of the microfinance industry and its beneficiaries
- help MFIs pool loan and equity funds from domestic and foreign sources
- help formulate and disseminate resolutions and best practices related to the microfinance industry
- help appraise and improve the performance of MFIs by serving as the industry's self-monitoring and database forum
- facilitate collaboration, experience-sharing, and information exchange among MFIs in Ethiopia and the rest of the world
- provide microfinance-related information resources for use by policymakers, donors, lenders, continental and international networks, researchers, microfinance beneficiaries, and the general public
- advocate for the microfinance industry in Ethiopia through media and publication
- stimulate exceptional contributions from individuals and organizations to the microfinance industry by creating incentive systems

SERVICES:
- research/information management
- capacity building
- performance monitoring/benchmarking
- policy advocacy
- bi-annual conference

STAFF: 6 – Executive Director, Program Officer, Performance Monitoring Officer, Training Officer, Secretary, Accountant

FINANCIAL INFORMATION (2003):
Total funding: US$419,186
Donor funding: 84 percent
Main Donors: Irish Aid, Norwegian People's Aid, RUFIP
Self-generated income: 16 percent
Sources of self-generated income: annual dues, fees for services, publications

Association of Microfinance Institutions of Uganda (AMFIU)

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Kampala, Uganda
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256.41.254.420 (fax)
amfiu@infocom.co.ug
David Baguma, Executive Director

Summary
GEOGRAPHIC COVERAGE: Uganda

MEMBERSHIP: 114
MFIs: 97
Associates/Affiliates: 17

STAGE OF DEVELOPMENT: Expanding

ESTABLISHMENT: Informally established in 1996 and legally registered in 1999.

MISSION: To enhance sustainable delivery of microfinance services by MFIs in Uganda.

STRATEGIC OBJECTIVES:
- enhance the sustainable delivery of financial services by all microfinance institutions in Uganda by taking the following actions:
  - coordinating capacity building initiatives
  - providing lobbying and advocacy services
  - collecting, analyzing, and disseminating information
  - monitoring MFIs' performance
  - developing strategies for consumer education and protection

SERVICES:
- policy advocacy
- performance monitoring
- information management

STAFF: 7 – Executive Director, Program Manager, Accountant/Administrator, Information Officer, Consumer Affairs Specialist, Database Manager, Assistant Database Manager

FINANCIAL INFORMATION (2004):
Total Funding: US$400,608
Donor Funding: 97.4 percent
Main donors: Hivos, Cordaid, Suffice, SNV (Netherlands Development Organization)
Self-generated Income: 2.62 percent
Sources of self-generated income: membership fees (US$1,272 annual subscription dues, segmented by type of membership and category of MFI)

Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa (COPEME)

CONTACT INFORMATION

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www.copeme.org.pe
Jack Burga, General Manager

Summary

GEOGRAPHIC COVERAGE: Peru

MEMBERSHIP (2002):
Total number of members: 59
MFIs: 44
Business service providers: 15

STAGE OF DEVELOPMENT: Expanding (SEEP estimate)*

ESTABLISHMENT: Informally established in 1990 and legally registered as an association in 1994.

MISSION: To serve as the representative body of the private organizations that serve micro and small enterprises and to influence public policies in the sector.

STRATEGIC OBJECTIVES: Provide business development services and technical assistance in microfinance to institutionally strengthen its members, using sustainable approaches. With these key objectives, COPEME works in the following three areas:
- business development services
- microfinance services
- general institutional development

SERVICES:
- policy advocacy
- performance monitoring
- training
- funding/financial intermediation/liquidity management information dissemination
- credit bureau
- institutional audits

STAFF: 6 – Director, Director of Microfinance Programs, Assistant Director of Microfinance Programs, Director of Business Development Services Programs, Administrator

FINANCIAL INFORMATION (2001)
Total funding: US$956,576
Donor funding: 81 percent
Main Donors: USAID, Ford Foundation
Self-generated income: 19 percent
Sources of self-generated income: service fees, member dues (US$600/year)

* Indicates that SEEP has not conducted a formal network assessment.

Consortium ALAFIA

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www.alafiamicrofin.org
Mr. Mathieu Soglonou, Director

Summary
GEOGRAPHIC COVERAGE: Benin

MEMBERSHIP: Total Number of Members: 29 MFIs

STAGE OF DEVELOPMENT: Expanding (SEEP estimate)*

ESTABLISHMENT: Originally organized by Catholic Relief Services (CRS) as a joint network for Togo and Benin in 1997, ALAFIA split into two separate networks in 2000, with the Consortium ALAFIA legally registered in Benin in March 2000.

MISSION: To contribute to the professionalization of the microfinance sector and to defend the interests of its members.

STRATEGIC OBJECTIVES:
- promote microfinance through lobbying and policy advocacy to key stakeholders.
- increase the impact of microfinance institutions on the reduction of poverty.
- strengthen relationships between ALAFIA member institutions.
- document member performance and growth.
- strengthen ALAFIA's organizational capacity.

SERVICES:
- training
- policy advocacy
- information management
- performance monitoring

STAFF: 4 – Executive Director, Administration and Finance Officer, Operations Manager, Assistant

FINANCIAL INFORMATION (2003-04):
Total budget: US$360,000
Donor funding: 60 percent
Main donors: PADSP (Private Sector Development Support Project), USAID
Self-generated income: 40 percent
Sources of self-generated income: membership dues (US$200 joining fee; US$100 annual fee, plus 0.1 percent of the current loan portfolio), training fees

* Indicates that SEEP has not conducted a formal network assessment.

Microenterprise Alliance (MEA)

CONTACT INFORMATION

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info@mea.org.za
www.mea.org.za
Judy Blom, Acting General Manager

Summary

GEOGRAPHIC COVERAGE: Republic of South Africa

MEMBERSHIP: Total number of members: 56
MFIs: 39
BDS providers: 12
Both: 5

STAGE OF DEVELOPMENT: Emerging (SEEP estimate)*

ESTABLISHMENT: Began in 1993 as an informal association of MFIs, banks and BDS providers that came together to persuade the South African government to accept self-regulation of the microfinance industry. Formally constituted in April 1994 and registered in 2000 as a Section 21 (not-for-profit) company.

MISSION: To enhance the capacity, efficiency, and effectiveness of microenterprise development agencies.

STRATEGIC OBJECTIVES:
- conduct effective policy analysis and dialogue for a friendly and conducive environment in which practitioners in microenterprise can operate
- increase access to information from local and international sources to encourage a culture of learning so that clients can learn from mistakes and successes
- encourage effective networking among stakeholders in enterprise development to
- achieve mutual support, relationships, and alliances among members
- continuously support members through capacity building initiatives designed to help them contribute more effectively to poverty reduction

SERVICES:
- policy advocacy (e.g., microcredit and gender)
- performance monitoring
- information management
- special programs: HIV/AIDS and Gender Equity toolkits for SMEs
- information dissemination

STAFF: 6 — General Manager, Knowledge Management Coordinator, Membership Services Coordinator (MF/BDS), Networking & Communications Officer, Finance/Administration Officer, Receptionist

FINANCIAL INFORMATION (2004):
Total Budget: US$306,326
Donor Funding: 84 percent
Main donors: Ford Foundation, SIDA, HIVOS
Self-generated income: 16 percent
Sources of self-generated income: membership dues (US$650/year), user fees and interest income

* Indicates that SEEP has not conducted a formal network assessment.

Microfinance Center of Central and Eastern Europe and the Newly Independent States (MFC)

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microfinance@mfc.org.pl
Grzegorz Galusek, Executive Director

Summary
GEOGRAPHIC COVERAGE: Central and Eastern Europe, the Balkans, Central Asia, Caucasus, Russia/Ukraine

MEMBERSHIP (2004): 84
MFIs: 71
microfinance associations: 6
technical service providers: 7

STAGE OF DEVELOPMENT: Expanding (SEEP estimate)*

ESTABLISHMENT: Established in 1997 by three institutions that sought to create a center for microfinance in Eastern Europe and the NIS, following their attendance of the first Microcredit Summit. MFC was officially registered as a Polish foundation in December 1997. It then established a wholly owned training and consulting company.

MISSION: To promote the development of a strong, sustainable microfinance sector to increase access to financial services for low-income people, particularly microentrepreneurs, by providing high quality training, consulting, research, mutual learning, and legal/policy development services.

STRATEGIC OBJECTIVES
The MFC strives to become a regional market facilitator, promoting a diversity of approaches and innovation, and responding to immediate and longer-term needs of industry stakeholders.

SERVICES:
- capacity building: training and consulting
- performance monitoring: mapping and benchmarking
- policy advocacy: forums and teleconferencing
- information dissemination
- annual meeting

STAFF: 13 – Executive Director, Assistant Director/Head of Research, Training and Consulting Director, Training Coordinator, Trainers (3), Researchers (2), Microfinance Policy Program Coordinator, Information Coordinator, Regional Coordinator, Accountant

FINANCIAL INFORMATION (2003):
Total Budget: US$984,700
Donor funding: 52 percent
Main donors: Ford Foundation, CGAP, Open Society Institute, USAID
Self-generated income: 48 percent
Sources of self-generated Income: annual membership dues (US$350), training fees

* Indicates that SEEP has not conducted a formal network assessment.

Microfinance Council of the Philippines, Inc. (MCPI)

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secretariat@microfinancecouncil.org
website: www.microfinancecouncil.org
Edgardo Garcia, Executive Director

Summary
GEOGRAPHIC COVERAGE: The Philippines

MEMBERSHIP: 32 members
MFIs: 25
other: 7

STAGE OF DEVELOPMENT: Emerging

ESTABLISHMENT: Informally established in 1997 as the Philippine Coalition for Microfinance Standards, a USAID-funded project that brought together leading microfinance practitioners, government agencies and others to develop microfinance standards. After the project ended in 1999, the core group decided to register as the Microfinance Council of the Philippines, Inc., a non-profit, non-stock company.

MISSION: To be a national network of microfinance practitioners and allied service institutions committed to the reduction of poverty in the Philippines through equitable access to financial and non-financial services. To build the capacity of members to serve poor households in a sustainable, innovative and client-responsive manner. To pursue the highest global standards of excellence in governance; stewardship; and service towards staff, clients, families and poor communities.

STRATEGIC OBJECTIVES:
- help members serve significant numbers of poor households with financial and non-financial services
- promote the adoption of poverty assessment tools and social performance monitoring systems
- promote the adoption of and adherence to international performance standards
- advocate for a policy environment that is conducive to the growth and development of a market-oriented microfinance sector
- help build members' capacity for innovation that enhances the development of client-responsive products, services and social development programs
- promote market-oriented microfinance products and services
- initiate the conduct of international and national forums for best practice microfinance
- mobilize resources and to network with government, donors, funding agencies, investors, and financial markets in order to enhance the development of the microfinance sector

CURRENT NETWORK SERVICES:
- capacity building: technical services
- information dissemination
- performance monitoring and benchmarking
- policy advocacy

STAFF: 4 – Executive Director; Research and Information Officer; Member Relations Assistant; Administration and Training Assistant

FINANCIAL INFORMATION (2004):
Total budget: US$143,272
Donor funding: 66 percent
Main donors: Cordaid, ICCO
Special one-time donation: 25 percent
Self-generated income: 9 percent
Sources of self-generated income: member joining fee (US$200), annual dues (US$100)

Red de Instituciones de Microfinanzas de Guatemala (REDIMIF)

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www.redimif.org
Gabriela De Leon, Executive Director

Summary
GEOGRAPHIC COVERAGE: Guatemala

MEMBERSHIP: 21 MFIs

STAGE OF DEVELOPMENT: Emerging

ESTABLISHMENT: REDIMIF was formed in 1999 by 20 MFIs. The principal impulse behind the formation of the network was to function as a collective voice for the microfinance industry to lobby against prohibitive government legislation. It was legally formed as a civil association on March 31, 2001.

MISSION: To strengthen and improve its member institutions by providing them with financial and technical products and services.

STRATEGIC OBJECTIVES:
- strengthen REDIMIF as a self-sustaining entity specializing in the sector's development
- represent members' interests to governmental authorities to influence public, fiscal, monetary, and credit polices that may affect the microfinance sector
- consolidate technological and institutional strengthening of members
- expand products, financial services, and market coverage of the members through financial intermediation with national and international investors
- lead strategic alliances with other networks, agencies, and organizations committed to strengthening the microfinance industry and its impact on the economic and social development of the country

SERVICES:
- policy advocacy
- performance monitoring
- training
- information management
- credit bureau (REDIMIF owns 25 percent)

STAFF: 3 – Executive Director, Accountant, Assistant/Receptionist

FINANCIAL INFORMATION (2004):
Total budget: US$380,000
Donor funding: 70 percent
Main donors: Ford Foundation, Inter-American Development Bank, Multilateral Investment Fund, REDCAMIF
Self-Generated Income: 30 percent
Sources of self-generated income: service fees (10-25 percent cost of service), member dues (US$65/month)

Red Financiera Rural (RFR)

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Javier Vaca, Executive Director

Summary
GEOGRAPHIC COVERAGE: Ecuador

MEMBERSHIP (2004): 44 members
banks: 3
NGOs: 22
savings & credit cooperatives: 17
government agencies: 2

STAGE OF DEVELOPMENT: Emerging

ESTABLISHMENT: Created in March 1999 by an informal group of NGOs that called itself the Alternative Financial System Group. During 1999 and 2000, the group met on a monthly basis. Each meeting revolved around three themes: norms, credit methodology, and training. RFR was legally registered on September 29, 2000, as a not-for-profit corporation, in order to begin implementing programs.

MISSION: To integrate organizations focused on facilitating and broadening access to financial services in the rural and marginal urban sectors of Ecuador. RFR aims to strengthen these organizations, represent their interests, promote appropriate policies, and stimulate the social and economic development of Ecuador.

STRATEGIC OBJECTIVES:
- strengthen member institutions
- encourage innovation among members
- ensure the viability of all network activities
- represent the microfinance sector in Ecuador
- promote appropriate microfinance policies
- strengthen linkages between members
- deepen and broaden outreach of rural financial services.

SERVICES:
- policy advocacy
- performance monitoring
- capacity building
- annual conference
- linking to funding
- information management

STAFF: 7 – Executive Director, Training Officer, Self-Regulation Officers (2), Institutional Relationship Officer, Finance Officer, Administrator

FINANCIAL INFORMATION (2004):
Total Budget: US$269,637
Donor Funding: 57 percent
Main Donors: HIVOS, International Institute of Communication and Development (IICD), Inter-American Development Bank, Proyecto SALTO, Swisscontact
Self-generated income: 43 percent
Sources of self-generated income: membership dues (US$1,300)

Annex 3. Network Case Studies

Case Study #1.	**Microfinance Center of Central and Eastern Europe and the Newly Independent States**
Case Study #2.	**Consortium ALAFIA**
Case Study #3.	**Red Financiera Rural (RFR)**

Case Study #1. Microfinance Centre of Central and Eastern Europe and the Newly Independent States (MFC)

I. Governance

Membership

> MFC not only serves practitioners, but also collaborates with donors, investors and other support organizations, including academics and consultants. It has a unique position. It is close to the field by virtue of its practitioner-oriented services, but at the same time, thanks to its relationships with global and regional industry stakeholders, it can monitor the current state of the industry, identify barriers and opportunities, and initiate innovation efforts, as well as document such efforts [so as] to contribute this knowledge to wider industry learning.[61]

The membership criteria of MFC are very broad: the regional network is open to any organization that supports microfinance. Its 84 members are located in 26 different countries and include NGO MFIs, banks, international networks and at least one donor. MFC's role is to provide services, such as training and market research, as well as facilitate stakeholder engagement in larger policy issues that affect microfinance. In both roles, the network offers services to members and non-members alike. One reason for MFC's broad audience is its dual status as a foundation and a training company. Unlike microfinance associations (MFAs) created specifically to serve members, MFC appears to attract members who join to support its work, rather than to receive benefits (excepting members who join to receive substantial discounts on training courses).

MFC membership has grown from 24 in 1998 to 94 today. By all accounts, the network is the regional leader in both training and representation of the microfinance sector. MFC covers a wide geographic area (Central and Eastern Europe, the Balkans, Central Asia, the Caucasus, and Russia and Ukraine), including some countries new to microfinance, in post-conflict situations or with transitional economies.

Although it lacks a specific growth target and a clear sense of the potential size of the market, MFC believes that the sector is still young and growing. It is thus actively seeking to expand its membership. The profile of its membership is evolving, however, as dynamic microfinance banks and downscaling commercial banks are now beginning to compete with traditional MFIs in the region. The region is known for its ability to learn quickly from others and implement "ready-made" microfinance solutions. This has been demonstrated by successful efforts in implementing best practices, allowing many institutions to achieve operational self-sufficiency in a relatively short time.

Network growth may slow in the future due to loss of established members rather than failure to attract new members. Mature members may begin to feel that they have benefited as much as they can from network membership, and choose to take advantage of network services as non-members. The MFC Board is aware of this, and has begun steps towards a new membership package with more value for all types of members.

MFC uses a variety of methods to assess the needs of the microfinance sector. At its annual meeting, participants are asked to provide suggestions for future conference workshops; during training courses, participants are asked which training courses would most interest them in the future; at policy forums, MFC's Executive Director assesses issues that will affect the sector in the future; and in its research work with individual members, MFC staff analyze MFI needs. Only the latter service is targeted specifically at members, as only member MFIs partner with MFC to do research work. In general, MFC is more interested in assessing overall sectoral needs than the specific needs of its members. This focus on the larger sector enables MFC to identify issues that will have the most impact on the sector and to focus its work on these issues. The network claims that this is the role that its members want it to play.

61. Quote of Katarzyna Pawlak, Deputy Director of MFC.

MFC Member Institutions

AgroInvest Foundation

Albanian Saving and Credit Union

Alter Modus

Asian Credit Fund

Association of Credit Unions of Azerbaijan (AKIA)

Association pour le droit a l'initiative économique (ADIE)

BESA Foundation

Catholic Relief Services (CRS) Croatia, MikroPlus Program

Central Asia Micro Finance Alliance (CAMFA)

CHF International, Bosnia and Herzegovina Office

CHF Romania

Constanta Foundation

Counterpart Meta Center

CREDO Association for Entrepreneurship and Development

Development Fund Supporting Farmership and Entrepreneurship

Economic Development Center (CDE)

European Microfinance Network (EMN)

FINCA Armenia

FINCA International, Inc. Tajikistan

FINCA Kosovo

FINCA Microcredit Company, Closed Joint Stock Company (FMCC)

FINCA Tomsk

FINCA Uzbekistan

For the Future Foundation

FORA Fund for Support of Micro Entrepreneurship

Foundation for the Development of Polish Agriculture (FDPA)

HOPE-Ukraine

Horizonti CRS-Microfinance

The Hungarian Foundation for Enterprise Promotion

ICMC-DEMOS Savings and Loan Cooperative

Inicjatywa Mikro Sp. Z o.o.

The Integra Foundation

International Association of Investors in the Social Economy (INAISE)

Kazakhstan Loan Fund

Kosovo Enterprise Program (KEP)

Kyrgyz Agricultural Finance Corporation (KAFC)

Local Initiatives Department-Foundation for Sustainable Development

LOKmicro Mikrokreditna Organizacija Sarajevo

MCO Mikra

Mercy Corps International-Agency for Finance in Kosovo

Mercy Corps Kyrgyzstan

Mercy Corps-Microfinance Program

BARAKOT

Microcredit Agency Bai Tushum Financial Foundation

Microcredit Organization "MIKROFIN," Banja Luka

Microcredit Organization "SUNRISE" (Micro- Sunrise)

Micro-Development Fund

Microenterprise Development Fund Kamurj (MDF Kamurj)

Micro-entrepreneurs Development Support Center (MDTM)

Micro-Finance Development Fund MicroFinS-NGO

Mikro "REZ-FOND"

Mikrofond EAD

Millennium Development Partners

MKO BosVita

MKO EKI B&H

Moldova Microfinance Alliance

Mountain Areas Finance Fund (MAFF)

Moznosti Partner Agency Opportunity International

Nachala Cooperative

National Association of Business Women of Tajikistan

NOA Savings and Loan Cooperative

Okiocredit

Opportunity Bank Montenegro

Opportunity International—Eastern Europe

Opportunity Microcredit Romania (OMRO)

Partner Mikrokreditna Organizacija

Partneri Shqiptar ne Mikrokredi (PSHM)

Prizma

Regional Advisory and Information Center (RAIC), Presov

Romanian-American Enterprise Fund

Rural Development Foundation

The Russian Women's Microfinance Network

SEF International Universal Credit Organisation Ltd.

Shorebank Advisory Services

Social Fund for Development of Internally Displaced Persons (SFDI)

UMCOR / AREGAK, Microcredit Program

UNDP-Job Opportunities Through Business Support-JOBS Project

United Methodist Committee for Relief (UMCOR)-Kosovo

Women's World Banking

World Vision AzerCredit L.L.C.

World Vision Georgia, MED Program

Georgia's Entrepreneurs' Fund (GEF)

XacBank

Zene za zene International / Women For Women International

Governance Bodies

MFC is registered as a foundation under Polish law and its founders—Fundasz Micro (Poland), ADIE (Association pour le Droit a l'Initiative Economique, France) and Opportunity International (USA)—have a strong governance role in the institution. Because Polish law prohibits foundations from making a profit, MFC created a separate, wholly owned company to manage the network's training services on a profit-making basis. The Executive Director of MFC is also the president of the training company.

Both the foundation and the training company share a vision of enhancing the overall microfinance sector, not just assisting network members. The governance of MFC originally relied heavily on Fundasz Micro, which also provided the network a physical location. However, after working with SEEP and becoming acquainted with its governance structure, a new governance model was adopted in 2000 that gave member representatives a majority on the Board of Directors. The foundation now functions as an association, although there is no General Assembly of members. Rather, member representatives are elected to the Board at the network's annual conference.

BOARD: The seven-member Board of Directors consists of four MFC members who are elected at the annual meeting for renewable three-year terms, plus three directors appointed by the Board. The latter three seats were originally held by the founders and had an unlimited term, as is customary among foundations in many countries. However, as the MFC founders have resigned, they have been replaced by appointees. Currently, only one of the three original founders remains on the Board. The Board meets four times a year, twice before and twice after the annual meeting. MFC pays for all of costs of director participation in these meetings, but does not compensate them for their time.

Over the past ten years, the Board has changed how it works with management. In its early years, the Board was energetic and focused on day-to-day operations. As the Board developed and certain strong personalities departed, however, the Board developed a more passive style, which can be attributed both to more passive Board members, as well as the time it takes new members to understand MFC's governance. New board members were initially hesitant to put their views forward forcefully. In 2004, SEEP was engaged to help MFC Board members better define their roles. Since that time, the Board has become actively engaged. A new chairperson, in her second term as a Board member, has challenged other Board members to become more involved with the network and has infused the Board with a sense of purpose. Her leadership has resulted in increased director engagement and successful fundraising, a task that had eluded previous Boards.

SECRETARIAT: The Executive Director is widely praised for his oversight of MFC, especially by its staff, who appreciate his team approach to management and transparency. Other stakeholders concur that the Executive Director has proven himself in his role, having overseen the growth and expansion of the network for the past six years. His focus in 2004–2005 has been the development of a new strategic plan, in addition to fundraising and MFC conferences.

The leadership of the Executive Director proved crucial to the strategic planning process. A year after a consulting firm was hired to help MFC, the consultants had not come up with a workable strategy and the Executive

Director took over the process himself. The plan was subsequently elaborated and has now been approved. Next year, the Executive Director plans to begin an overhaul of the network's business model to ensure that it remains responsive to the changing microfinance market in the region.

II. Operations

MFC has a large staff by MFA standards: 13 full-time staff members (see "Human Resources" section on the next page). The network has four major operating units: training and consulting, networking, research, and policy.

A three-person management team guides MFC operations: the Executive Director, the Deputy Director and the Training and Consulting Director. Over the past year, this team has focused on crafting a new strategic plan for the network. They are now in a position to manage staff according to the strategic plan, a practice not followed in the past.

The new plan focuses the network on identifying and helping develop promising innovations in microfinance services and delivery methods. By implementing an "Innovation Scaling Up" model (ISM), the network will improve its existing operational systems—already quite strong by MFA standards—and help move innovations rapidly into the market. MFC will use its in-depth knowledge of the regional microfinance industry to involve relevant institutions in different phases of the innovation development process (see Box 13 on page 44 for details on the model). This will also enable MFC to develop associated technical assistance packages, offered at low cost to members.

Regarding training, professionals have taken on more and more of the training function. Currently, they facilitate over half of all MFC training sessions. In the past, the majority of MFC trainers were executive directors or other high-level employees of network members specifically trained and certified as trainers. However, scheduling the time of these busy managers was problematic and did not compliment the increasingly professional and commercial orientation of MFC's training and consulting business.

III. Financial Viability

Budgeting

Fees from training, the annual network conference and membership fees cover about 50 percent of MFC expenses; the remaining 50 percent are covered by grant and project revenue. The network seeks to minimize its reliance on donors to fund core operations. Its strategy is to increasingly cover these costs by (1) increasing the profitability of revenue-generating activities; (2) including provisions for core operational costs in proposals for project-based funding; and (3) reducing overhead costs by increasing efficiency and productivity.

MFC is very disciplined in planning for the financial viability of each of its four operating units, which are treated as profit and cost centers. Whether the source of funds is self-generated income or project grants, each unit is expected to meet a portion of its own costs, plus contribute to the network's fixed core costs, according to a pre-established plan. As a profit-making unit, the training company is expected not only to cover its own costs, but also to pay 37 percent of the fixed costs of MFC (the foundation).

Self-Generated Funds

MEMBERSHIP FEES: Members each pay US$350 in annual dues. This amount was not determined on the basis of network costs. Rather, it represents what most members feel comfortable paying. Some larger members could afford to pay higher dues, but MFC does not rely on membership dues as a major source of revenue and prefers to keep members happy by keeping fees reasonable.

FEES FOR SERVICES: As noted, the for-profit training and consulting business of MFC covers 37 percent of core network costs. The new strategic plan takes this model one step further and extends viability planning to all MFC services. Some principal goals for financial viability are to make training services, consulting services and the MFC annual conference completely self-sustaining.

FUNDING: In 2005, MFC had four major donors: The Ford Foundation, the Consultative Group to Assist the Poor (CGAP), the U.S. Agency for International Development (USAID) and the Open Society Institute, each of which is currently funding 2- to 3-year grants. MFC also receives project-based funding from 15–20 smaller donors. The latter funds allow the network to continue to provide "public goods" to the sector (the product of "non-revenue generating activities"), such as action research and conventional research, policy activities, and networking and coordination initiatives.

IV. Human Resources

Staff

The 13 MFC staff include an executive director, an assistant director/head of research, a training and consulting director, a training coordinator, 3 trainers, 2 researchers, a microfinance policy program coordinator, an information coordinator, a regional coordinator and an accountant.

It is clear that MFC staff members love their jobs and feel management does a good job in supporting them. Most are aware that they could work elsewhere for comparable or better salaries, but choose to stay both for the agreeable workplace environment and for the opportunities offered by an internationally recognized regional institution.

Internal promotions occur whenever possible; two members of the management team were promoted to their present positions.

Training

Staff training is minimal, which both staff and management see as a weakness. However, no funds to date have been allocated to train staff. This is partly a result of limited funds, but more attributable to the heavy work burdens and time constraints of staff members.

Turnover

Turnover has been high, particularly in the training unit, where the heavy burden posed by travel and the intensity of training has caused some staff to seek new positions. For other trainers, exposure to MFIs has led to job offers with them.

V. External Relations

Publicity

MFC is aware that it has not had a clear marketing strategy, and that different perceptions of the network have spread by word of mouth. It is now working on developing a brand and has developed a brochure to advertise its services.

MFC has been able to maintain its strategic relationships by developing specialists within its organization (such as trainers and researchers) who can relate to MFIs on a professional level, allowing the network to cultivate deeper relationships. The network maintains relationships by means of a sophisticated, continuously updated database. The database tags each contact to receive the specific information that they require. For example, MFIs may receive regular benchmarking and research information, while government agencies may receive information only on policy issues.

Government Relations

MFC's relationships with governments are generally limited to facilitating policy workshops. In this capacity, MFC has worked with government bodies from Armenia, Kazakhstan, Azerbaijan, Serbia and Tajikistan (see policy advocacy section below).

Donor Relations

The Executive Director has primary responsibility for donor relations and has been successful in keeping donors informed and engaged. Partly this is a result of the network database, which ensures that donors are kept informed in an appropriate way, but his personal attention is also responsible for good donor relations. MFC has benefited from donor support in unexpected ways. For example, its first CGAP grant for training imposed cost recovery as a condition; this led to the decision to run the training and consulting unit as a business.

Other

MFC has developed strong external relations with key international microfinance actors and supporters. As a regional association, its contacts tend to be international rather than national in scope. Thus, its strongest external relationships are with The MIX Market, MicroSave Africa, and CGAP. MFC has had or is developing other strategic alliances, including with USAID and the Russian Microfinance Center among others.

The MIX provides MFC with software for MFI performance data collection and analysis; in turn, MFC conducts performance analysis for the region. The data analyst, who works closely with MIX staff, primarily maintains this relationship. With MicroSave Africa, MFC conducts research and market analysis. The relationship allows MicroSave Africa to access the Eastern European and NIS market, while MFC gains experience in market analysis and product development—skills that it can then offer as training or consulting services to MFIs. The research director is responsible for maintaining this relationship.

CGAP originally sub-contracted MFC to deliver its trainings. The funding aspect of their relationship has now ended; the two organizations now work more as partners to advance microfinance in the region.

IV. Services

Policy Advocacy

Although it covers a vast geographic area and 26 countries, MFC has devoted considerable attention to the issue of policy reform. Every two to three years it hosts a regional policy forum for top policy makers to exchange ideas and practices about improving the enabling environment for microfinance in countries across the region. The network is also beginning to provide videoconferencing services to policy makers, allowing them to interact with colleagues and international experts. MFC has also developed a diagnostic tool to assess countries' regulatory frameworks.

As with all policy work, it is hard to measure MFC's specific contribution to improved policies for microfinance. However, its policy forum contributed to helping policy makers in Armenia, Kazakhstan and Azerbaijan move from a position unsupportive of microfinance legislation (for fear of creating an enabling environment for unscrupulous practices) to one of supporting such legislation (Armenia), including tax relief for MFIs (Azerbaijan). MFC has also been involved in policy work in Serbia and Tajikistan.

It should be noted that although MFC is very engaged in policy issues, it focuses these activities strictly on policy makers and not MFIs, except in countries where (as in Serbia) MFIs request its involvement. Policy forums, videoconferencing and regulatory diagnostics are conducted separately from other services for MFIs, to the extent that some incoming board members have had to adjust their expectations of the role of MFC when they began to understand the extent of the network's policy work.

Performance Monitoring

MFC provides two performance monitoring services. One is a mapping service, in which MFC collects and publishes basic, unverified, voluntarily submitted performance information from approximately 120 member and non-member MFIs in the region.

The second service is *MicroBanking Bulletin* reporting and analysis. As part of this service, MFC collects data from 49 more mature MFIs in the region, assesses the quality of the information, analyzes it, sends an individualized report to the submitting institution and submits its analysis and data to the MBB. The network performs this service under contract with the MBB, which provides the monitoring software and part of the salary of the MFC analyst. However, it is not a requirement of membership to provide this information, nor is there a performance standard for membership in MFC.

Members clearly see the mapping exercise as a free service of MFC, but MBB reporting is seen more as an MBB service. MFC hopes to somehow combine the two services in the future.

Information Management

The highlight of MFC's information management is its annual conference. This meeting hosts up to 400 individuals and is an opportunity for everyone in microfinance in the region to learn from each other and a host of international experts.

Capacity Building

Training is the primary capacity building service offered by MFC, an area in which it has clearly had the most success. MFC is known among all stakeholders in the region for its excellent training program. Many members were drawn to MFC specifically to take advantage of training discounts for members.

The MFC training program began in 1998, when CGAP established a training hub for Eastern and Central Europe at the network. From 1998 to 1999, CGAP trained six trainers and evaluated their performance. In order to ensure that its trainers had adequate experience, MFC hired MFI directors as trainers on a contract basis. In 2000, the network hired its first training director and in 2002, it hired regional training directors for the NIS and the Balkans. In 2003, the cost of regional training centers became too high and MFC restructured the training unit as a centralized model. MFC is moving away from using MFI directors as trainers, due to scheduling difficulties. In 2005, full-time MFC staff trainers performed 55 percent of all training assignments.

Training courses are offered either as part of MFC's annual training program, which runs about 12 courses a year, or as in-house trainings for individual MFIs. Anyone can sign up for the annual program, which remains popular. In-house training courses are becoming more widespread, however; the network now conducts about 30 each year. These courses are not only adapted to the individual institution, but are more economical for an MFI, at about half the cost per participant of annual program courses. The average course size is about 25 participants, however, so an institution must be quite large to make in-house training economical. Such trainings are also popular with associations.

Although existing MFC training courses remain popular, it believes that the market for basic training will shrink over the next five years (this is already happening in the Balkans). Therefore, MFC is developing both its individual consulting business and a CAMEL rating service. The network hopes to keep its training and consulting unit viable by targeting services at more advanced institutions and networks.

Despite its success, MFC remains concerned about microfinance training that is subsidized by donors or other parties. Because its training and consulting unit is a business that must make a profit, it cannot compete with local subsidized training courses. Success has also brought its share of competition, including the adaptation of MFC training materials by other trainers.

Case Study #2. Consortium ALAFIA

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I. Governance

Membership

ALAFIA is a member-focused network whose members actively participate in the organization. Since Benin has many small MFIs, ALAFIA's members represent only about 20 percent of all MFIs in the country, but over 90 percent of MFI clients.

Network membership is open to any microfinance institution willing to adhere to ALAFIA's member responsibilities and code of conduct. All members must also comply with legal regulations, such as the BCEAO-determined prudential ratio and usury rate. The application process consists of sending ALAFIA a request to join, a copy of an MFI's authorization from the government's Microfinance Unit, a list of MFI leaders, an activity report for the previous two years and an action plan for the upcoming two years.

The network places a high priority on professionalizing the microfinance sector and on its reputation in the sector. The network code of conduct is well thought out, representing a good mix of general best practices with measurable responsibilities. Most are manageable even for smaller MFIs, respecting the varying needs of network members.

Although most members are comparatively large in a countrywide context, members vary considerably by financial size. For example, ALAFIA's largest member (FECECAM) had 82,526 active borrowers and 501,698 active savers for a gross loan portfolio of US$42.69 million. By comparison, the smallest member (the Research and Action Group for Social Well-Being, or GRABS) had just 155 active borrowers and 434 savers for a gross loan portfolio of US$6,080.[62] Many MFIs operating in Benin are small informal institutions that are not legally registered, and thus unable to become members of ALAFIA.

ALAFIA appears to balance the needs of all its members regardless of size. Although their needs are very different, both large and small members feel that the network is attentive to their needs. Relations within the General Assembly are democratic, and collaboration between member MFIs is common. Good mechanisms are in place to measure member needs and satisfaction. The Board employs marketing strategies to encourage member participation, such as sending out yearly brochures with the training schedule. Periodic evaluation missions are also used to identify member needs and difficulties regarding network services.

ALAFIA also sends out an annual questionnaire on its training services, which asks members if their training needs are being met and if they have additional needs. The network then adjusts its training program accordingly each year. Only after extensive member surveys and consensus building are new network services or activities added. Another unique aspect of ALAFIA's focus on members is that each year a team of two members performs an evaluation of the network's Board of Directors to ensure that it meets member expectations. While overall evaluations (e.g., an annual network satisfaction survey) are not used, more specific instruments yield important information and input from members. The result is a generally high level of member satisfaction.

62. MIX Market data from www.mixmarket.org.

ALAFIA's members also value their membership in an organization that is helping professionalize the sector through research and providing them the opportunity to learn from one another. In general, members feel that ALAFIA does a large amount of good-quality work relative to available funding.

ALAFIA Member Institutions

2CM

ADIL (Association pour le Développement des Initiatives Locales)

APRETECTRA (Association des Personnes Rénovatrices des Technologies Traditionnelles)

AssEF (Association d'Entraide des Femmes)

BECM

Caisse Codes

CBDIBA (Centre Béninois pour le Développement des Initiatives à la Base)

CERABE

CERIDAA (Centre d'Etudes et de Recherches des Initiatives pour le Développement Agricole et Artisanal)

CFAD

CMMB (Caisse du Mouvement Mutualiste Béninois)

Convergence 2000

FECECAM (Federations des Caisses d'Epargne et de Credit Agricole Mutuel)

FENACREP

FINADEV

GEMAB

GRABS

GRAPAD

IAMD (L'Institut Africain d'Application des Méthodes de Développement)

Initiative Développement

Maritime Microfinance

MDB (Mutelle pour le Développement à la Base)

PADME (Association pour la Promotion et l'Appui au Développement des Micro-Enterprises)

PAPME (Agence pour la Promotion et Appui aux Petites et Moyennes Enterprises)

Sia N'Son

Vital Finance

Governance Bodies

GENERAL ASSEMBLY: The General Assembly is composed of ALAFIA's 29 member institutions and meets once per year. Members elect the Board of Directors, as well as members of two other bodies: the Monitoring Committee and the Code of Ethics Committee. At its annual meetings, the General Assembly votes to approve reports from the Board and the two committees. If new issues arise during the year that require immediate action, the General Assembly has the right to call an extraordinary session.

BOARD OF DIRECTORS: ALAFIA's Board of Directors oversees the implementation of General Assembly decisions. It is responsible for recruiting the Executive Director, reviewing the budget and work plan every quarter, and evaluating the Executive Director each year. It is also responsible for representing the network to governmental actors and partners, although in practice the Executive Director conducts most such communication.

The Board is composed of seven heads of member MFIs and has five positions: President, Secretary General, Deputy Secretary General, Training Advisor, Organizational Advisor and Financial Advisor. ALAFIA's by-laws prevent a director from being elected to the same position twice. The current Board has a good mix of skills, as well as experience in both donor and MFI environments.

The Board of Directors presents an activity report to the General Assembly at the annual meeting, which is revised with input from the network members. ALAFIA informs members about its finances annually at the General Assembly meeting and provides periodic updates in its bulletin, *ALAFIA-INFO*.

MFI representation on the Board is skewed towards larger MFIs, but the entire spectrum of member size is represented. For example, PAPME (11,000 active borrowers as of 2003) and GRABS (just 155 clients as of 2002) are both Board members. ALAFIA is planning to ensure that its next Board is even more representative of member diversity.

The Monitoring Committee is composed of two members who meet twice per year and report to the General Assembly on Board activities. The Code of Ethics Committee is charged with ensuring that all members adhere to the network Code of Conduct. The committee has the authority to address disagreements between members, as well as possible unethical member behavior. It is composed of five members, four of whom represent member MFIs, while the fifth is part of Care, a donor to the network. The committee meets twice each year and submits a report to the General Assembly at the annual meeting. Code sanctions have never been imposed, as ALAFIA believes in using the standards as guidelines, rather than strictly imposed rules. Nevertheless, some Board members feel that the Ethics Committee is not yet as strong as is should be.

SECRETARIAT: The Executive Director of ALAFIA is a strong communicator with a dynamic personality and good marketing skills. He has headed the network since its official registration in 2000. His five-year term has three years left, during which he is working to ensure that ALAFIA has enough funding to continue its work. To this end, creating an endowment fund and a credit bureau are his top priorities.

The executive director has a strong vision for ALAFIA: to make the network a credible, viable, sustainable institution that offers quality services to its members. He seeks to create conditions where members are well governed and capable of meeting the demand for microfinance in Benin. His immediate goals for ALAFIA include stabilizing the satisfactory performance levels of its members, reducing client risk, increasing private financing of the network and increasing member involvement in network financing.

II. Operations

ALAFIA's operations are based on activities identified in its business plan. This plan, developed with the help of an outside consultant and approved by the General Assembly, runs through the end of 2005. A full-time project consultant is responsible for seeing that strategic targets in key areas, including policy advocacy, training and performance monitoring, are fulfilled. The network is regularly evaluated by members, but only infrequently by third parties.

III. Human Resources

Staff

The staff of ALAFIA includes four permanent employees (Executive Director, Administration and Finance Manager, Operations Manager and Assistant), and four temporary project consultants who serve for terms of up to five years in the areas of performance monitoring, policy advocacy, training and credit bureau specialists.

Training

Staff training is sourced both internally and externally and is tailored to position requirements. However, all staff receive training on the challenges inherent in running a microfinance association, as well as in proposal writing. All except the newest employees report having received training specific to their programs. Staff members are also allowed to attend workshops at any time.

Turnover

ALAFIA has not had any human resources problems to date, for which it credits a very selective hiring process. Staff members have large but manageable workloads and while staff members have individual priorities, there is considerable collaboration and team effort among them. ALAFIA held a workshop for staff in 2004 on how to organize work to improve productivity. Although some employees are less well paid than staff of certain MFI counterparts, staff members note that payment is at least prompt. ALAFIA also offers annual bonuses, with the size of the bonus determined partly by staff input.

IV. Financial Viability

Budgeting

ALAFIA's total funding in 2004 was US$360,000. The Board reviews and approves the budget every quarter, ensuring proper management of funds. Financial viability is a priority of the Executive Director, staff, Board and network members. After five years of official existence, 40 percent of ALAFIA's funds are self-generated and the network has relatively diverse funding sources. The Government of Benin's Private Sector Development Support Project (PADSP) was a large donor to ALAFIA in the past and still funds up to 90 percent of its operational costs. The Board considers self-sufficiency an important, but not realistic in the near future. Board members have visited Madagascar and Côte d'Ivoire to learn how networks in those countries ensure financial viability.

Self-Generated Funds

MEMBERSHIP FEES: The network has not designated a specific percentage goal for self-generated funds, although most stakeholders would like to see the proportion increase. Currently, members pay approximately US$200 to join and approximately US$100 in annual fees, plus 0.1 percent of their current loan portfolios. If necessary, ALAFIA occasionally asks members for additional funds to cover costs; this was last done in 2001. To improve the current percentage of member-generated funds, the Board decided to raise member fees in April 2005. The General Assembly is scheduled to vote on a sliding-scale system in 2005, requiring larger members to pay significantly higher fees.

FEES FOR SERVICES: Payment for services is a complex issue in ALAFIA. Services such as training are fee-based, but ALAFIA members are charged only about 60 percent of the fees charged to non-member MFIs and only 19 percent of fees charged to outsiders. Taken as a whole, training is a net income generator and covers 125 percent of its costs. Services such as policy advocacy are expensive, long-term activities to which members do not directly contribute. Larger members such as FECECAM appreciate ALAFIA's low-cost services, but would be willing to pay more for them. Medium-sized and small members such as MDB value ALAFIA's efforts to become more self-sufficient, but feel that membership and recurring fees are relatively expensive. Members unable to pay the full cost of network services greatly benefit from the low-cost trainings.

Donors would also like to see more member-generated income from services. In response, ALAFIA is planning to launch a fee-based credit bureau, and is undertaking the creation of an endowment fund to ensure a more permanent source of income.

FUNDRAISING: ALAFIA has been successful at attracting funding from a large number of sources. Present and past donors include the African Development Foundation, Africare, Care International, Catholic Relief Services, Women's World Banking, the West African Central Bank (BCEAO), the Government of Benin, USAID, Swiss Cooperation, UNDP, and the World Bank. Initially, ALAFIA accepted any financing it could obtain, including extremely short-term arrangements. It now looks for three- to five-year grants. As a result, donor relations have improved greatly.

The Executive Director is responsible for submitting proposals to potential donors, spending 45 percent of his time raising funds. In his experience, it is often difficult to convince donors to support ALAFIA, as they often do not understand what a microfinance association is or what it does. Recently, he traveled abroad to educate donors, targeting the Scandinavian states as well as Kuwait and other Gulf states.

In addition to increased member contributions, potential funding sources over the next five years include a project with Swiss Cooperation, funding from the Millennium Challenge Account, USAID, the IFC, and a partnership with PRODEM in Bolivia with World Bank funds. Although ALAFIA and its member MFIs may receive funding from the same donors, ALAFIA tries not to compete with its members. In fact, the network helps members find support by disseminating funding information. For example, the 2005 training brochure lists 15 donors that could help members pay for training.

Some stakeholders are concerned about ALAFIA's autonomy, given its dependence on donor funding. Most donor grants and loans underwrite specific projects, making ALAFIA susceptible to following donors' wants rather than members' needs.

V. External Relations

Publicity

ALAFIA enjoys a strong reputation in Benin, Africa and worldwide. Inside Benin, ALAFIA is present at all microfinance events, hosts an annual national microfinance summit, and is well-known by the government. In Africa, ALAFIA is a member of AFMIN, the Africa Microfinance Network. It has an "open-door" policy on sharing its expertise; AFMIN has chosen ALAFIA to share its performance-monitoring experience.

ALAFIA maintains its external relations partly through *ALAFIA-INFO*, a quarterly bulletin, as well as a monthly information letter and website. ALAFIA is quite media-savvy; it was recently the focus of a television documentary shown in Benin.

Government Relations

Contacts with the government of Benin are positive but limited. The Microfinance Unit (*Cellule de microfinance*) of the Ministry of Finance and Economy, has worked with ALAFIA since 1998 and sees the relationship as mutually beneficial; both parties want MFIs in the country to be sustainable and professional. ALAFIA is quite active in policy advocacy, particularly regarding the PARMEC law. (See "Policy Advocacy" on page 120.)

Donor Relations

PADSP (the Private Sector Development Support Project), a major donor, has enhanced ALAFIA's reputation as a technical service provider. It requires ALAFIA to offer at least one training workshop with 20 participants every four months, organize an annual national summit on microfinance, develop a plan for a training center, and work with the government's Microfinance Unit.

Donor funding has given ALAFIA a greater voice on relevant committees. For example, Care International, along with USAID, is in the second year of supporting a three-year project to build ALAFIA's institutional capacity by means of strategic plan development, MIS development, and the improvement of ALAFIA's training and policy advocacy services. ALAFIA is on Care's consultative committee, and is also a member of a steering committee with Care and DANIDA, the Danish Agency for Development Assistance. Some donors, such as Care, have stated that they found it more effective and cost-efficient to work through ALAFIA rather than with individual MFIs.

Other

ALAFIA has formed relationships with technical service providers and other international partners, including SEEP, the Institute of Development Studies, PlaNet Finance, and the ILO International Training Center in Turin.

VI. Services

Capacity Building

Capacity building is ALAFIA's most valued member service. The network makes available a large body of training courses that it has developed through a cyclical process of member input and feedback. The 23 course topics offered to date include financial management, client management and marketing, MFI governance, risk management, technical assistance, and new product development. To ensure strong human resources at the MFI level, ALAFIA is starting to insist that all of its members develop training plans.

Currently, training fees are highly subsidized by ALAFIA, which charges approximately US$90–300 per workshop for members, US$150-400 for non-member MFIs, and US$500–800 for other attendees. Smaller MFIs rely more heavily on ALAFIA subsidies than do other participants. Given the substantial need for capacity building among members, ALAFIA is likely to continue to offer subsidized training.

In 2002, ALAFIA organized 9 training workshops, growing to 20 in 2004. The 2005 program includes 14 different workshops, most three to five days long. The network has a pool of about 40 trainers, including outside consultants and member staff. Trainers are certified by CAPAF, an MFI capacity-building project in Francophone Africa.[63]

ALAFIA is already a regional leader in training. Networks in Mali and Niger have, for example, purchased its new course on MFI governance. The network is also one of nine network partners of CAPAF, offering CAPAF courses such as MFI accounting; interest rates and delinquency; financial analysis; development plans and financial projections; financial statement production; MIS; risk management; and new product development. As of March 2005, ALAFIA had trained 741 participants in CAPAF workshops alone.

The network also develops its own training topics by visiting members and sending out questionnaires to gauge member satisfaction with trainings and identify unmet needs. ALAFIA then studies the existing body of training and sees what is readily available from CAPAF or elsewhere, or where it might have a comparative advantage in developing its own workshop. Staff hold meetings with members, then talk to other stakeholders to determine who can best develop the new training content. (See Figure 2.)

Sometimes, ALAFIA uses existing material (in this case, from CAPAF) and adapts it to its own context. In other cases, ALAFIA hires a training facilitator, who then develops new course material and sends it out to be edited as necessary. A trainer must score 4 out of 5 on participant evaluations, or repeat the course.

At present, ALAFIA is planning to extend its training program through a regional microfinance training center. The network executed a feasibility study for the center in 2003 and an architectural plan in 2004. The new center could be the natural stepping-stone for ALAFIA to become a resource for microfinance providers throughout UEMOA, the Francophone West African Economic and Monetary Union.

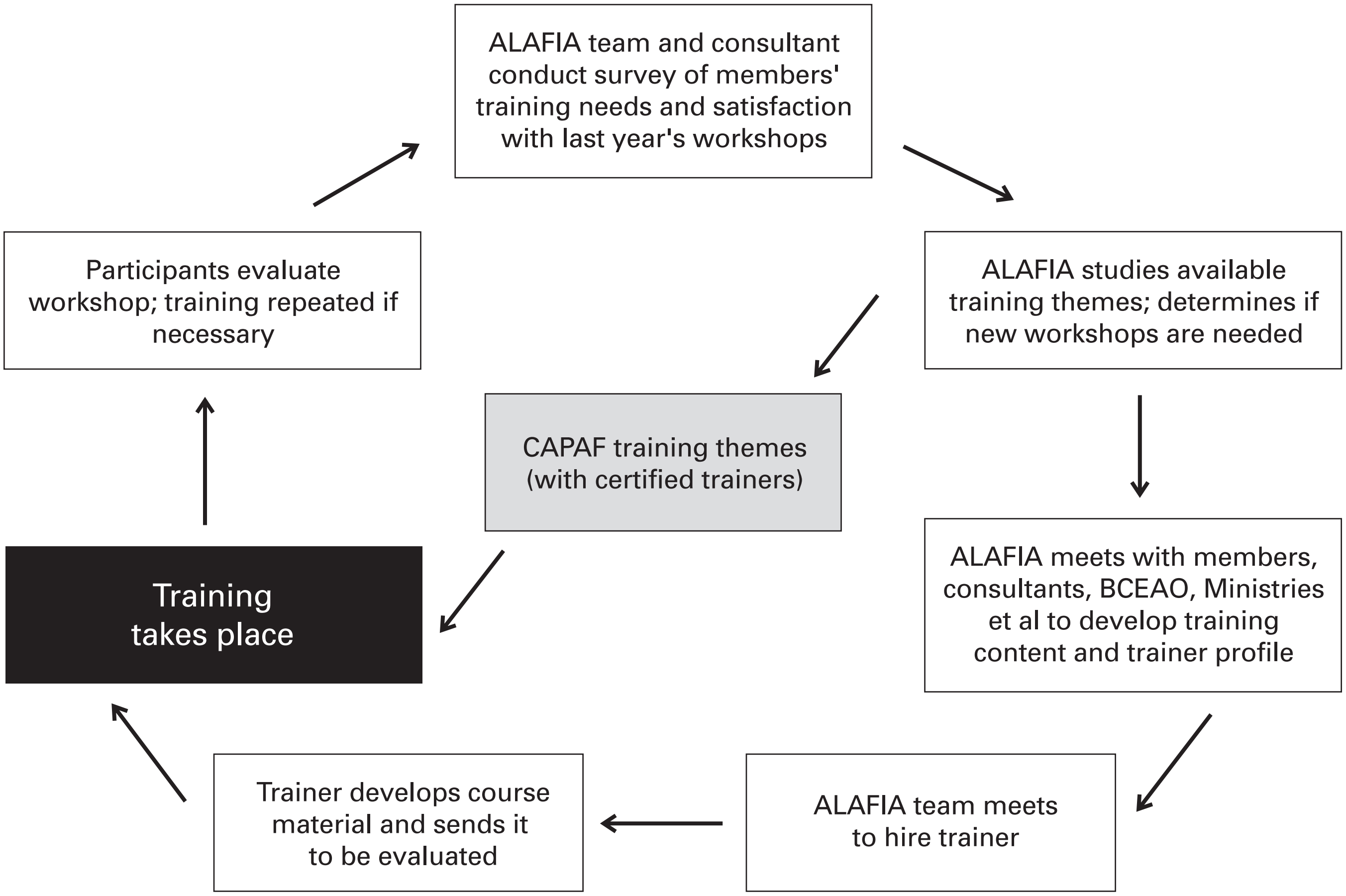
Policy Advocacy

ALAFIA plays both a local and regional role in policy advocacy. Along with seven other francophone African countries, Benin is a member of UEMOA. The BCEAO (the regional Central Bank for West Africa) is the monetary authority for these countries, who share a common currency. Several BCEAO laws directly affect microfinance; ALAFIA focuses in particular on two laws. The first is the usury interest rate law, which sets the maximum interest rate for MFIs at 27 percent (raised from the original 18 percent stipulated in 1993, which met considerable opposition from the microfinance industry).

The second is the PARMEC law, applicable throughout the UEMOA zone and enacted in Benin in 1997. Under this law, credit cooperatives (*mutuelles)* are the only microfinance provider that can be fully licensed. Other

63. CAPAF is jointly sponsored by CGAP and the French Ministry of Foreign Affairs.

Figure 2. ALAFIA's training needs identification model



types of microfinance providers, including MFIs, must conclude a special agreement (*convention-cadre*) with their respective Ministry of Finance. These agreements are valid for five years and can be renewed. However, each MFI negotiates its own individual agreement, leading to widespread inconsistency. A 1999 addendum to the PARMEC law states that all credit-only microfinance providers must sign a special agreement. Yet the large number of MFIs in Benin—estimated at 600 in 2003—means that the government Microfinance Unit is unable to enforce either the registration of all MFIs or the existing applicable regulation.

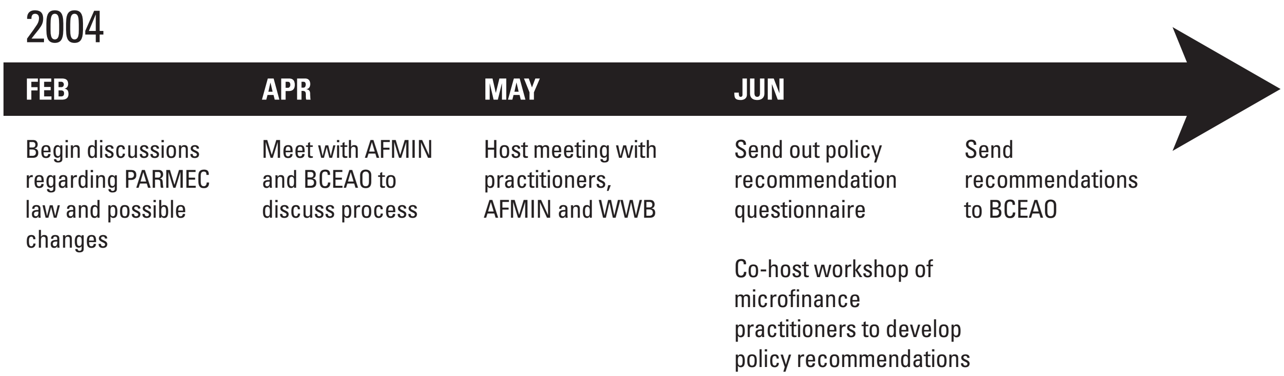
At the national level, ALAFIA is working to encourage best practices among MFIs, the state and donors. It has had some success in garnering state cooperation in microfinance. For example, Benin's Poverty Reduction Strategy Paper of 2002 states that the government should promote microfinance, improve MFI regulation, and create a support fund for MFIs. ALAFIA also hopes to reduce government direct lending in the sector and recently developed a national microcredit policy.

ALAFIA has taken significant steps towards addressing the regional policy environment. The network built consensus among its own members and throughout the region on policy recommendations for the BCEAO via extensive meetings and questionnaires. Its goal is to obtain entirely new legislation to replace the PARMEC law. ALAFIA would like the BCEAO to expand the definition of allowed MFIs to include financial services other than credit, curb the power of large credit-union associations, and do away with the *convention-cadre* structure. As a result, it succeeded in building consensus and multiple partnerships, including with other networks in the region, AFMIN and Women's World Banking. These efforts required months of planning but have resulted in appropriate and acceptable policy recommendations for all stakeholders. The recommendations were submitted to the BCEAO and a response was expected in summer 2005. ALAFIA is currently in discussions with the BCEAO to address laws regulating collateral.

ALAFIA uses its training program and other events to educate members on existing laws and how to comply with them. Training workshops in 2004, for example, presented information on such themes as the PARMEC law and the BCEAO; producing financial statements in the UEMOA zone; the usury interest rate law; and lobbying and policy development. A workshop slated for 2005 will address the laws regarding collateral. ALAFIA's two annual national summits on microfinance have addressed similar topics, including the legislative environment and the role of the state in microfinance.

Finally, the network has developed a policy advocacy strategy, and a full-time staff member is currently employed to handle policy advocacy and communication matters.

Figure 3. ALAFIA's policy advocacy process



Information Management

Members frequently mention information exchange as one of the most useful benefits of ALAFIA membership, and donors agree. The network's primary means of information dissemination is through its website, www.alafia-microfin.org, a monthly information letter and a quarterly bulletin, *ALAFIA-INFO.* It is, however, difficult to ensure that MFIs have access to this information. Certain ALAFIA members are not used to paying for documents, but the network cannot offer all publications for free. Furthermore, not all members or member staff have Internet access, making it difficult to use online documents. Thus, the "information barrier" remains a significant challenge.

Performance Monitoring

Performance monitoring in the UEMOA zone began in 1995, when the BCEAO identified voluntary performance indicators for the microfinance industry. Unfortunately, the indicators were developed without sufficient input from microfinance practitioners and are thus not always useful or applicable. In 2002, ALAFIA teamed with Mali's network, APIM/Mali, to identify appropriate indicators for the entire UEMOA zone. This culminated in a workshop in June 2002 to develop a list of indicators.

ALAFIA's General Assembly formally adopted the indicators in December 2002 and the network then developed a performance monitoring database. Its 2002 report included data from 13 of 26 members. The 2003 report included data on 19. Also in 2003, ALAFIA offered members a support program in performance monitoring. It then held a workshop in 2004 to inform members about the performance indicators and the monitoring process; it also updated the performance monitoring database three times that year. In March 2005, ALAFIA held a conference and presented its monitoring reports to AFMIN; networks in Côte d'Ivoire, Togo and Niger soon followed ALAFIA's example and began efforts to monitor member performance.

For more details on the ALAFIA monitoring system, see Box 17 on page 66 of this guide.

Case Study #3. Red Financiera Rural (RFR)

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I. Governance

Membership

The membership of RFR is representative of the diversity of institutions operating in Ecuador's microfinance sector. Of its 35 members, 20 are NGOs, 12 are savings and credit cooperatives and 3 are banks. The goal of the network is to present a consolidated image of the microfinance sector, despite differences among member institutions. In addition to type and portfolio size, RFR members differ by size and social orientation. RFR must manage the weight and influence of large member organizations with the apathy of certain smaller members. It must also balance the interests of members who focus on a development agenda versus institutions with a more bottom-line approach.

The diversity of its members has challenged RFR to adequately meet their needs while developing a fully inclusive and equitable network. Its solution has been to develop informal sub-groups. For example, microfinance NGOs in Ecuador tend to experience common problems, such as running a microfinance program in a multi-sectoral institution. As a result, a group of member NGOs formed an informal sub-group to define their vision and future, as well as how RFR could best meet their needs. The sub-group meets monthly and makes recommendations to the Board of Directors. RFR also re-organized its Board to better represent its membership (see below).

RFR ensures that its activities reflect member needs by carrying out an annual needs survey. The results of this survey are presented to all members at the General Assembly meetings, held twice a year, where potential changes to RFR activities are vetoed or ratified. The network has also conducted member satisfaction surveys, as well as an organization assessment using the SEEP Network Capacity Assessment Tool. RFR prioritizes member needs that affect the majority of members and evaluates its success based on member approval at General Assembly meetings. RFR does not, however, feel that it can successfully attend to all expressed needs of its members, especially regarding policy advocacy. Where it cannot meet particular needs, RFR plans to facilitate strategic alliances with other institutions that can.

Governance Bodies

GENERAL ASSEMBLY: Although RFR is registered as a corporation, the organization's supreme governing body is the General Assembly, representing all members. The Assembly meets twice a year and is responsible for electing the Board of Directors, approving annual activity reports and hearing future work plan presentations. The General Assembly makes all decisions on network strategy and approves the annual work plan. Members of different institutional types also meet in sub-groups at these meetings. Most members consistently attend General Assembly meetings, although some are constrained by distance.

BOARD OF DIRECTORS: The Board of Directors is elected from the General Assembly itself; as such, all board members are also member representatives. The Board of ten directors includes three officers: a President, Vice President and Secretary. The General Assembly also elects four substitutes. Institutional sub-groups each elect two members to consult with the Board on their particular interests and concerns.

The Board sees its role as a facilitating ideas and discussions, providing insight, and mediating conflicts between institutions. RFR utilizes a staggered rotation strategy to ensure continuity and institutional memory on the body. Board members are generally MFI general managers or executive directors who have the capacity to make

RFR Member Institutions

Asociación Cristiana de Jóvenes	Coop. La Dolorosa	FINANCOOP
Asociación Solidaridad y Acción	Coop. La Merced	FINCA
Ayuda en Acción	Coop. Maquita Cushunchic	FODEMI
Banco Solidario	Coop. Mujeres Unidas	Fundación Alternativa
CACPE Ecuador	Coop. Mushuc Runa	Fundación Ecuatoriana de Desarrollo
Casa Campesina de Cayambe	Coop. Por Un Futuro Mejor	Fundación Esquel
Catholic Relief Services	Coop. Riobamba	Fundación Marco
CEPESIU	Coop. Sac Aiet	Fundación Repsol YPF
CISP	Coop. San José	FUNDAMIC
CODESARROLLO	Coop. San Miguel de Sigchos	INCCA
CONAMU	CREDIFE	INSOTEC
Coop. Accion Rural	ECLOF	Misión Alianza Noruega
Coop. Credito	ESPOIR	Sociedad Financiera Ecuatorial
Coop. Desarrollo y Economía	FACES	Swisscontact
Coop. Jardin Azuayo	FEPP	

critical decisions about the network's strategic direction. This helps RFR avoid delays caused by the need to consult with superiors. When urgent matters can't wait for an unscheduled board meeting, the president of the Board, the RFR Executive Director, and the operations team are authorized to make necessary decisions.

The President and Vice-president of the Board are highly respected leaders within the Ecuadorian microfinance sector. The President in particular is seen as an impartial leader committed to strengthening the rural and peri-urban microfinance and MED sectors.

Originally, the Board was only composed of banks and large NGOs. After small NGOs and cooperatives expressed discontent, however, the board was reorganized. Today, three directors represent the NGO sector, one represents banks, and one represents savings and credit cooperatives. This change produced a more balanced and representative board, although occasionally a representative of one sub-sector will overtake a discussion. The advent of the sub-groups has, moreover, permitted the Board to focus on specific issues that need its attention. Its present priorities are to develop a plan for policy advocacy; support studies on the needs and performance of Ecuadorian MFIs; and contribute to an appropriate adaptation of international standards for Ecuadorian MFIs.

SECRETARIAT: The RFR Secretariat is the tertiary governing body, led by the Executive Director. The two bodies have a healthy relationship. The Executive Director is not micro-managed, but supervised and advised regarding the development of network strategies and implementation plans. He usually provides the General Assembly with bi-annual progress reports on the work plan. He also provides the Board with reports on accomplishments in each programmatic area; the Board monitors the network work plan and recommends new strategies and challenges. The Executive Director has the ability to approve or reject activities, based on their effect on the industry or on RFR's members.

II. Operations

RFR is a member-driven network and thus seeks input on the development and implementation of its programs. Member participation in network operations is facilitated by five member working groups, developed in response to member interests. These groups meet once a month to provide guidance on RFR's principal activities in:

- credit bureau development
- project implementation
- publications and information dissemination
- capacity building and technical assistance delivery
- self-regulation

An RFR staff member and the groups share responsibility for implementation of planned activities.

III. Human Resources

Staff

During RFR's first year in existence, it was staffed solely by the Executive Director and an assistant. As more resources became available and activities became more clearly defined, network staff expanded. Between 2002 and 2005, RFR has experienced a significant growth in staff, resulting from member demand and new services. Current staff includes an Executive Director, a Training Officer, two Self-Regulation Officers, an Institutional Relationship Officer, a Finance Officer, and an Administrator.

Although the current management of RFR does not have significant experience in microfinance, each staff member possesses the core qualifications for his or her position. The present Executive Director actively participated in the development of RFR when he was the assistant executive director and finance manager of one of the network's founding institutions, FEPP/CoDesarrollo. He has since supervised the growth and direction of the network. Some characteristics that have contributed to his success are:

- an ability to identify the skill sets necessary for network success
- an ability to motivate young staff
- being open to new challenges
- participating in all sub-committee meetings
- closely monitoring the activities of each program area
- openness to the demands of different network members
- knowledge of the local and international microfinance industry

Staff are evaluated annually against their program's work plan. Additionally, every two weeks, RFR staff review one another's progress in carrying out work plan activities.

RFR's biggest human resource challenge is lack of microfinance experience among its young staff. The Board and Executive Director acknowledge that the relative youth of the current staff members has advantages and disadvantages. Their enthusiasm for the sector, flexibility and adaptability are beneficial. However, they lack professional experience and technical expertise in microfinance. Both leadership and staff recognize the need for more staff training in microfinance best practices.

Training

The staff at RFR were not microfinance experts when recruited and do not benefit from any professional training. However, the Executive Director allows them to attend conferences that could increase their knowledge of the industry.

IV. Financial Viability

Budgeting

Initially, RFR benefited from a grant that covered the wages of the Executive Director for a year, plus an office and necessary equipment and services. This support was extended as initial support for the network, so that it could identify projects and attract a sufficient number of members. Now, all RFR activities are designed to reach viability. Each program unit manages an annual budget and is financed by a combination of service fees and donor funding, which provide initial financial support to establish a program and develop products. Diminishing donor funds is the goal; presently, 40 percent of RFR's budget is covered by self-generated funds.

Self-Generated Funds

MEMBERSHIP FEES: Monthly member fees cover the operational costs of RFR's Executive Director, the two Institutional Relationship Managers, the Representation Manager and the Finance Officer. (These positions are viewed as critical to network viability.) Initially, members contributed a fixed annual amount to the network. Currently, however, member fees are segmented by type and size of institution (see Table 54).

Table 54. Member dues by type of institution

Level of member portfolio	Minimum monthly dues(US$)
< US$100,000	45
US$100,000 – US$500,000	75
US$500,000 – US$1	90
US$1 million – US$2.5 million	105
US$2,5 million – US$5 million	115
US$5 million – US$10 million	125
US$10 million – US$20 million	145
US$20 million – US$30 million	170
US$30 million – US$40 million	200
US$40 million –US$50 million	230
> US$50 million portfolio	270
Governmental agency	90
Non-financial NGO	90
Cooperative	120

FUNDRAISING: RFR needs to develop a longer-term viability plan, but has insufficient new projects to provide the basis for long-term plans. Furthermore, RFR has been frustrated by donors that have sought undue influence on its work. Current donors include HIVOS, International Institute of Communication and Development (IICD), Inter-American Development Bank, Proyecto SALTO financed by USAID, and Swisscontact. Additional sponsors underwrite specific activities, such as the annual conference.

V. External Relations

RFR has very strong external relations with key players in the microfinance industry, both inside and outside of Ecuador.

Government Relations

Although RFR has not been a significantly active player in policy advocacy to date, the network is presently developing a good relationship with the Ecuadorian Superintendency of Banks, the country's banking regulatory body. Senior officials at the Superintendency have expressed an interest and willingness to collaborate with RFR in the future.

Other

RFR has sought out mentorship from older, more experienced networks, such as COPEME in Peru. It also actively collaborates with other Latin American microfinance networks and recently joined the newly created Latin American Rural Microfinance Forum, a consortium of networks dedicated to improving rural finance in Latin America. Within Ecuador, RFR has a solid relationship with its Business Development Services (BDS) network counterpart, Foro de la Microempresa (FOME).

VI. Services

The network determines its services based on annual evaluations and interviews, as well as analysis of market growth. All RFR services are aligned with its strategic plan and contribute to achieving its mission. RFR believes that its role should evolve over time in response to member needs. The Board is currently discussing how this can best be accomplished.

Policy Advocacy

RFR has organized events on the role of the state in the development of microfinance in Ecuador, attended by representatives from the public sector, private sector and the international donor community. These events have sought to educate the public sector on appropriate policies on issues such as interest rates and developing a regulatory framework. RFR has also developed relationships with relevant government ministries, the central bank, state projects and representatives of Congress to keep abreast of possible threats to the develop of the microfinance sector.

The network is now in the process of developing a formal policy advocacy strategy, seeking to propose policies rather than simply react to often-irrelevant government decisions. The biggest challenge facing the network is to build an internal process for achieving consensus on policy issues among RFR members.

Performance Monitoring/Self-Regulation

Approximately 320 savings and credit cooperatives, and a similar number of microfinance NGOs, are not supervised by the Central Bank. Therefore, RFR has developed a process of self-regulation for them. Seven cooperatives and nine NGOs currently participate in the program. RFR's goal is to increase the credibility of the unregulated financial sector by achieving a transparent and fair financial services market in order to minimize risk and strengthen the institutional capacity of MFIs. The objectives of the program are to:

- sensitize MFIs to the important of measuring efficiency, effectiveness and ethics
- promote healthy, balanced development of the microfinance sector by applying prudential norms
- promote diversified services in areas not served by the formal financial sector
- create an environment that respects diversity and promotes cooperation
- develop policy proposals for the microfinance sector
- promote tools for use by government entities, based on analysis and negotiation

RFR members must comply with eligibility criteria, and sign a participation agreement for the program. RFR then carries out an institutional diagnostic on each MFI to identify current financial management practices, which results in a final report and a discussion with the MFI. The network offers members accounting and portfolio management training, including the development of a technical accounting guide and design of information system and forms on loan collections. An individual work plan is developed based on prudential and financial solvency norms. RFR then installs and provides training on its monitoring system, and members commit to submitting quarterly performance data to RFR. Information is then consolidated into a software program, so RFR can analyze the financial data and produce reports for each MFI. RFR also produces aggregate performance bulletins and benchmarks, identifies common areas of weakness, and organizes relevant capacity-building activities.

In addition to the self-regulation project, RFR collects general information on nearly all of its members. Through an agreement with the MIX, the network has created MIX Market profiles for nearly half of its members, and benchmarks for one eighth of them. However, RFR faces several challenges in performance monitoring, including:

- A lack of uniform accounting criteria
- Unmet training needs of MFI staff
- MFIs that do not submit information on time
- A lack of appropriate administrative software for MFIs
- Low MFI participation in the program
- Lack of resources to support member needs in this area

Training

RFR's capacity building program is in its initial stages, but has started off in the right direction. The Capacity-Building Manager first carried out a survey to gain an institutional understanding of network members and their training needs. The survey ascertained that 85 percent of members were willing to pay for capacity building services and that 72 percent had a budget specifically for these services.

RFR analyzes the existing training supply and provider performance when responding to member needs. In addition, it maintains contact with members (who evaluate its courses) and with other RFR programs to determine future training topics. The capacity building unit currently organizes short courses between 1 to 5 days on financial management topics; a specialized microfinance course based on the Boulder Training program, featuring Boulder professors who speak Spanish; and an Annual Microfinance Forum. The unit has also established a post-graduate course in Microfinance Administration with a local university.

RFR has sourced its trainings both from technical service providers within the network's membership, as well as with external providers. RFR staff have also created a "Microfinance Training System" called SIFOMICRO that features capacity-building activities designed to strengthen the technical capacity of MFI staff.

Service Delivery Challenges

RFR experienced difficult moments in the past year when members disagreed over whether the network should provide training services. A survey was conducted, and in the end, the majority of members thought that training was an essential network service.

Information Management

The major activity of RFR, which has increased its visibility, is its Annual Microfinance Forum. The forum brings together all key stakeholders in Ecuador's microfinance sector (donors, government entities and local MFIs, plus representatives from MFIs in other countries) each year to build awareness of the industry.

RFR has also established an Institutional Image and Institutional Relations Unit. Its strategy is to strategically position RFR at the national and international level using a website with links to member institutions, newsletters, and electronic newsletters. Its short-term goals are to:

- regularly disseminate information on network activities and achievements
- create a university internship program
- research microfinance topics in collaboration with the capacity building unit
- develop and distribute a microfinance magazine

Credit Bureau

One of RFR's recent challenges was to select a credit bureau with which to partner. The task was difficult because RFR was a shareholder in one such bureau, which international organizations supported. To make an impartial decision, RFR named a working group of the Board of Directors that verified relevant characteristics of three credit bureaus and presented a technical opinion to the network. RFR is currently promoting this bureau, which provides the lowest prices, to its members.

Annex 4. Resource Materials

Publications

Chen, Gregory and Stephen Rasmussen. 2005. “Emerging Issues for National Microfinance Associations.” Washington, DC: ShoreBank Advisory Services and Pakistan Microfinance Association.

Christen, Robert Peck, Timothy R. Lyman and Richard Rosenberg. 2003. *Microfinance Consensus Guidelines: Guiding Principles on Regulation and Supervision of Microfinance*. Washington, DC: CGAP.

Gross, Roland and Michael Brüntrup. 2003. “Microfinance Associations (MFA): Their Role in Developing the Microfinance Sector.” Eschborn, Germany: GTZ. (Includes case studies of six country-level microfinance networks in sub-Saharan Africa.)

Isern, Jennifer and Tamara Cook. 2004. “What is a Network? Diversity of Networks in Microfinance Today.” *CGAP Focus Note,* no. 26). Washington, DC: CGAP.

Liebler, Claudia and Marisa Ferri. *NGO Networks: Building Capacity in a Changing World*. 2004. Washington, DC: PACT.

McAllister, Patrick and Sharyn Tenn. 2004. “Achieving Financial Sustainability: Six Key Strategies for Microfinance Associations.” *Network Development Services Technical Note,* no. 1. Washington, DC: The SEEP Network.

Muntemba, Shimwaayi and Alexander Amuah. 2000. “Building Networks of Service-Providing Institutions.” *Studies in Rural and Micro Finance,* no. 10. Washington, DC: World Bank, Africa Region.

SEEP. 1998. “Building Lateral Learning Networks: Lessons from the SEEP Network.” Washington, DC: The SEEP Network.

———. 2004. *Global Directory of Regional and Country-Level Microfinance Networks*. Washington, DC: The SEEP Network.

———. 2005. “Recommendations on Donor Guidelines to Support Microfinance Associations.” *Network Development Services Technical Note,* no. 2. Washington, DC: The SEEP Network.

Web Resources

USAID’s Microlinks. http://www.microlinks.org

The Microfinance Information eXchange (MIX), Washington, DC. http://www.themix.org.

The SEEP Network, Washington, DC. http://www.seepnetwork.org.

- Network Development Services page: http://www.seepnetwork.org/section/programs_workinggroups/nds/
- Document library: http://www.seepnetwork.org/content/library
- Network Development Services workspace: http://workspace.seepnetwork.org
  (The workspace is for registered users only; please email seep@seepnetwork.org if you wish to sign on.)
- SEEP offers training in network governance, business planning, financial viability and other topics relevant to networks; please sign on to the Network Development Services workspace for further information.

Annex 5. Network Tools

1. Member Satisfaction Tool
2. New Activity Decision Flowchart
3. Example of a Network Code of Conduct
4. Checklist for Network Financial Viability Strategy
5. Decision Methods for Policy Advocacy
6. Overview of the Strategic Planning Process
7. Policy Advocacy Strategy Development Checklist
8. Network Performance Monitoring Checklist
9. Suggested Network Performance Indicators

Tool #1. SEEP Network Member Satisfaction Survey Template

[NETWORK] SERVICES AND ACTIVITIES

As a member of [Network], what is your organization's level of satisfaction with the activities organized and/or services provided by [Network]?

ACTIVITY/SERVICE	Very Satisfied	Somewhat satisfied	Somewhat satisfied	Somewhat dissatisfied	Dissatisfied
[NETWORK]'s Annual General Meeting					
[NETWORK]'s Training Courses					
[NETWORK]'s Workshops/Conferences					
[NETWORK]'s Policy Advocacy/Lobbying activities					
[NETWORK]'s Provision of Technical Assistance					
[NETWORK]'s publications (newsletters, practitioner tools)					
[NETWORK]'s research agenda					
[NETWORK]'s dissemination of microfinance best practices					
[NETWORK]'s performance monitoring and benchmarking activities					
[NETWORK]'s study tours/exchange visits					

[NETWORK] PERFORMANCE

Please rate [NETWORK]'s performance in the following areas using a rating system of: Excellent, Good, Fair, Poor, and Don't Know/Not Applicable. Mark "Don't Know/Not Applicable" if the particular question if you are not sure of your answer.

[NETWORK]'s Performance	Excellent	Good	Fair	Poor	Don't Know/ Not Applicable
[NETWORK]'s Utilization of Available Technology					
Quality and Responsiveness [NETWORK]'s Staff					
Leadership of [NETWORK] board					
[NETWORK]'s communication with members					
[NETWORK]'S proactiveness in the development of programs and services for members					
[NETWORK]'s ability to facilitate networking/information sharing between members					
[NETWORK]'s efforts to achieve its own financial viability					

BENEFITS OF MEMBERSHIP

For your organization, how important has [NETWORK], and interaction with the [NETWORK] members (facilitated by [NETWORK]), been in these areas:

KEY: 0 = of no importance; 1 = Minimal importance; 2 = Some importance; 3 = Considerable importance; 4 = Major importance

BENEFITS	0	1	2	3	4	Please provide comments if answer is "3" or "4"
Learning about best practices in microfinance best practices						
Strengthening your organization's outreach to the poor						
Improving your organization's financial performance						
Improving organization's service delivery capacity						
Encouraging sharing and collaboration between members						
Other. Specify:						

MEMBER PARTICIPATION

Please describe the level of organization's participation in [NETWORK]'s delivery of services and/or implementation of activities

YOUR ORGANIZATION'S PARTICIPATION	Contributor	User	Both	Don't Know/ Not Applicable
[NETWORK]'s Annual General Meeting				
[NETWORK]'s Training Courses				
[NETWORK]'s Workshops/ Conferences				
[NETWORK]'s Policy Advocacy/Lobbying activities				
[NETWORK]'s provision of technical Assistance				
[NETWORK]'s publications (newsletters, practitioner tools)				
[NETWORK]'s research agenda				
[NETWORK]'s dissemination of microfinance best practices				
[NETWORK]'s performance monitoring and benchmarking activities				
[NETWORK]'s study tours/exchange visits				

OVERALL LEVEL OF SATISFACTION

Please rate your organization's overall level of satisfaction with [NETWORK]

OVERALL LEVEL OF SATISFACTION	Excellent	Good	Fair	Poor	Don't Know/Not Applicable
Level of quality of services with respect to your investment as a dues-paying member					

PLEASE PROVIDE BRIEF COMMENTS TO THE FOLLOWING QUESTIONS

What [NETWORK] activities and/or services have been the most valuable for your organization? And why?

Please describe any changes within your organization as a result of its participation in [NETWORK].

In what areas do you feel [NETWORK]'s performance is weak or below expectations?

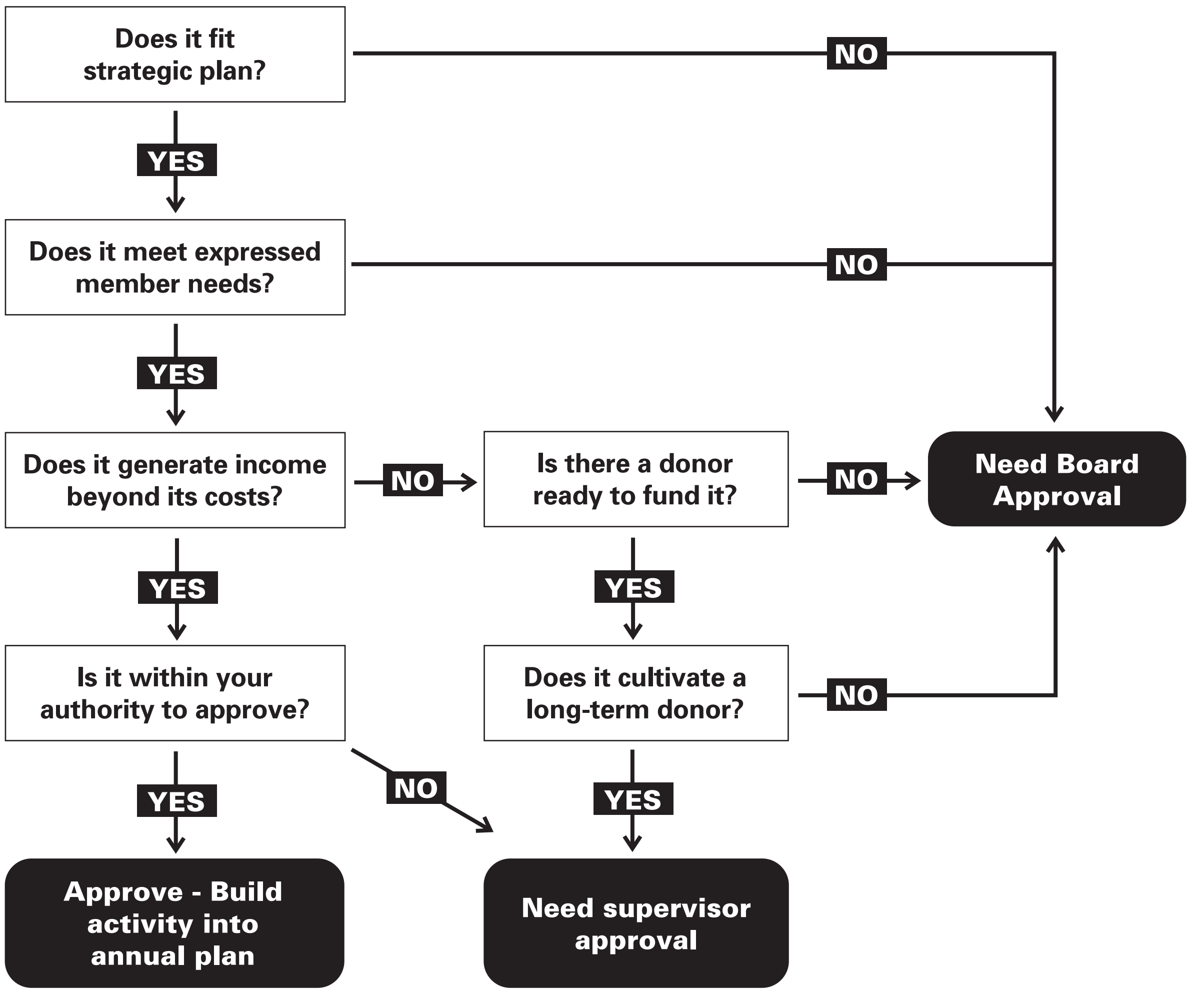
In what areas do you feel [NETWORK]'s performance is satisfactory or above expectations?

In what areas do you need [NETWORK]'s assistance?

Do you have any other comments, observations, suggestions?

THANK YOU VERY MUCH FOR YOUR VALUABLE TIME!

Tool #2. New Activity Decision Flowchart



Tool #3. Example of a Network Code of Conduct

The Micro Enterprise Alliance Code of Conduct

The Micro Enterprise Alliance is a membership organisation dedicated to building and maintaining SMME support services of the highest standards and developing a thriving micro enterprise sector in the mainstream of the South African economy. The Alliance strives to do this through enhancing the capacity of, and representing, micro enterprise development organisations.

Members of the Alliance strive to empower people through the provision of credit, training and other forms of support for micro enterprise. In dedicating themselves to the achievement of similar goals, Alliance members have agreed to abide by this Code of Conduct.

Members commit themselves to:

- Meet the needs of their clients in an efficient and prompt manner.
- Serve the long-term interests of their clients, even if this means sacrificing short-term returns for their institution.
- Educate the public and their clients on the needs, strengths and responsibilities of the sector.
- Operate their business with the highest degree of professional conduct, and respect fellow members of the Alliance with professional courtesy.
- Conduct themselves in a manner consistent with the good reputation of their fellow members and the Alliance.
- Constantly monitor the performance of their businesses and strive for ways of improving efficiency and ensuring better delivery of services.
- Work actively towards building sustainable institutions.
- Serve the ongoing learning needs of management and staff of their institutions in order to improve the sector.
- Responsibly manage development funds.
- Submit their institution's financial accounts for annual external audit, in the interests of responsibility and transparency.
- Abide by the guidelines set down by the Regulatory Council, where these guidelines are appropriate to their organisation's activities.
- Build public awareness and trust in the sector by encouraging the sector to meet the highest quality standards.
- Reassess the needs of the sector on a regular basis to ensure that needs are being met in the most efficient and relevant way.

Tool #4. Checklist for Network Financial Viability Strategy

Develop a Business Plan

- Base business plan on a thorough strategic plan
- Clearly state network's mission, goal and objectives
- Indicate the role of members in the network's strategic plan
- Include a detailed roadmap to financial viability, with projections and milestones
- Include at least 25 percent self-generated funds
- Approved by members
- Board level finance committee controls budget

Develop Demand-Driven, Fee Based Services

- Services fit within the network's strategy as articulated in the strategic plan
- Level of services is correlated to network's capacity: start with a small number of services before expanding
- Services are based on member demand
- Members are incorporated in service provision
- Sufficient fees are charged for services to cover cost of service plus some centralized costs
- Donor funded programs are charged an administration fee to cover core costs
- Services are offered only after budgetary impact is considered

Rely on Member Contributions

- Contributions are based on an appropriate membership structure – those who can pay more should pay more
- Member in-kind contributions are valued
- The General Assembly approves supplementary fees where possible

Seek Long-term Donor Support

- Long-term partners are cultivated
- Relationships are maintained with many donors for the future
- Transparency and performance are prioritized
- Donors are sought that will fund the business plan, rather than specific activities
- Donors are limited to 2-3 long term donors

Develop Effective Marketing Techniques

- Database of contacts ensures efficient marketing
- Members are highlighted in marketing materials
- Electronic marketing channels are used (e-mail and web)
- International best practices are referenced
- An annual event allows for extensive marketing

Diversify Sources of Funds

- Innovations in fundraising are valued
- Private sector partnerships are explored
- Internships are encouraged
- Partnerships explored with non-traditional partners such as universities, local government and others

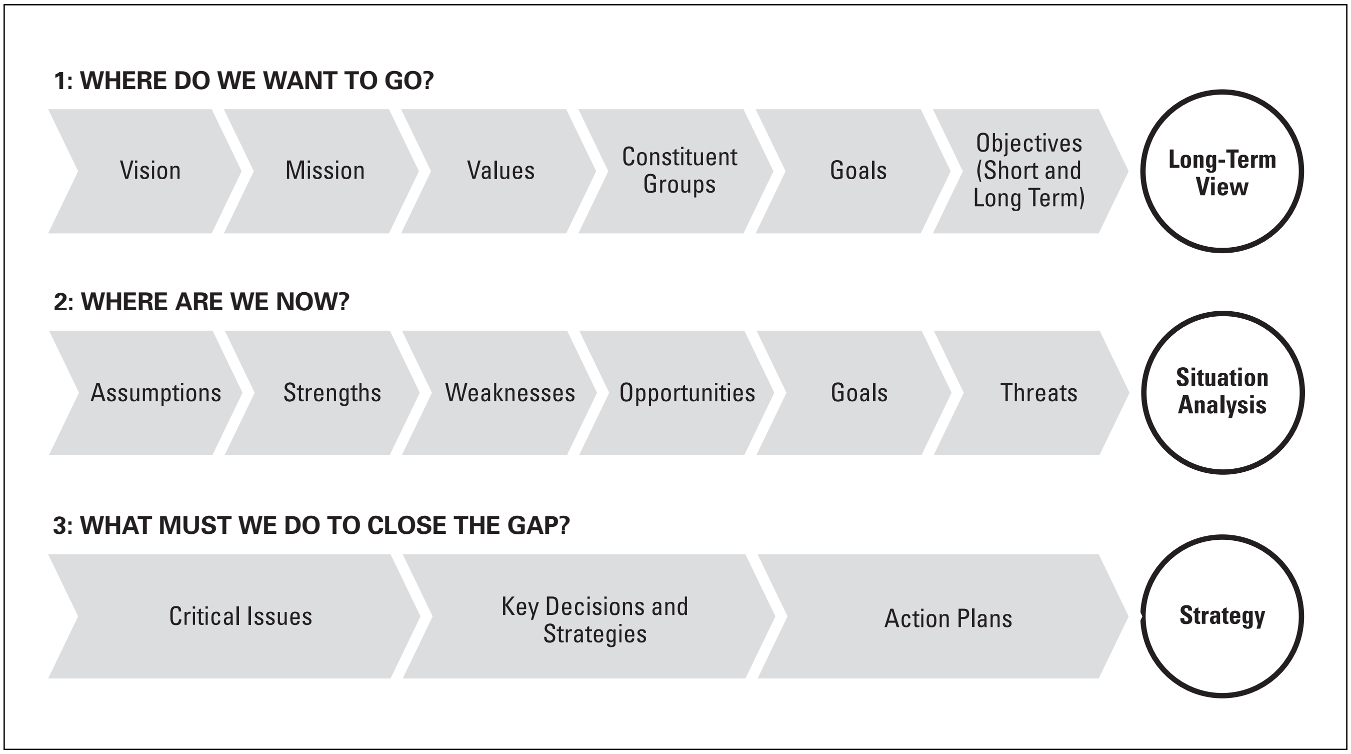
Tool #5. Decision Methods for Policy Advocacy

METHOD	Advantages	Disadvantages	When to Use
Individual: The leader of the group makes the decision.	• Speed • Simplicity • Clarity	• May waste group intelligence • Invites resistance • Lowers motivation for participation • Creates messes	• When one person's content expertise far exceeds others • When speed is of paramount concern • When group is conflicted and time is short • When a decision contrary to members' interests should be made
Consultative: The leader makes the decision after listening to all group members in a group meeting.	• Allows for input of others without taking undue time • Most cost and time effective of all decision methods • Guards against 'group-think' • Allows for quick action and high levels of action	• May cause resentment in those whose advice is spurned • Loses quality gain that comes from give and take and integration of different proposals	• When leader is highly expert • When leadership is clear and unquestioned • When leaders wants to take advantage of different ideas but does not want to invest time required to work though to consensus • When leader wants to retain control • When speed is critical
Consultative Consensus: The leader consults with other group members, seeking consensus yet still retaining control of the decision	• Avoids deadlock in decisions • Enables leader to lead, retaining sense of personal control, while still building consensus in group • Group members in some cases may be more likely to support implementation	• Time to attempt consensus • "Murkiness" of mixing two decision methods • Requires considerable skill if not to be perceived as manipulative	• When one person is either highly expert or has a high degree of responsibility for the implementation of the decision • When there is a desire to be collaborative and maintain a participative ethic • When facilitation skills are high in leader or available through neutral facilitator
Modified Consensus: The group members each agree upon a decision that all can support or at least live with.	• Supports a more democratic, participative culture • Forces dealing with all significant conflicting views and opinions in the group • People have belief that it fosters more commitment	• Time consuming to work through all concerns • Compromises necessary; often does not improve quality • Often tedious to work through the process • No hard data that MC produces more intelligent results	• When group agreement is considered critical • When a participative ethic is highly valued • When all group members are willing to invest the time • On critical decisions that require high levels of agreement • When those who will implement are in the group • When a neutral facilitator is not available
Absolute Consensus: All group members are in absolute agreement that the decision is superior to what exists in the status quo.	• Produces most intelligent decisions of highest quality • Support for decisions in unequivocal	• Groups fail to achieve decision 2 out of 3 times • May take a very long time; often emotionally difficult, stressful	• When the cost of making less than the most intelligent decision is exceptionally high • For strategic, safety or survival decisions • When the quality of the decision matters more than anything else • When enough time is available

Decision Methods for Policy Advocacy (cont'd)

METHOD	Advantages	Disadvantages	When to Use
Voting: Group members vote on alternative proposals and the alternative receiving the required number of votes becomes the group decision.	• Speed – when handled properly • Perceived fairness • Avoids impasses, deadlocks • Anyone can lead • May be only means possible when differences are irreconcilable • Can help build a consensus if used as a process tool	• Creates sides, factions; divides the group • Encourages debate rather than dialogue • Detracts from cohesion of group • Entrenches people rather than expanding group IQ	• When stakes are low; when almost any decision will work • When little discussion or debate is required and any choice will probably work • When consensus cannot be achieved and no leader is available as a fallback decision maker • When you want to 'poll' the group about several alternatives and then proceed with alternative selection

Tool #6. Overview of the Strategic Planning Process



Tool #7. Policy Advocacy Strategy Development Checklist

The core of policy advocacy is ***strategy***, an overall map that guides efforts.

1. Analysis

Advocacy starts with accurate information and in-depth understanding of the problem, the people involved, the policies, the implementation or non-implementation of those policies.

- What are the policies related to these problems and how are they implemented?
- What type of policy change is needed? (legislation, proclamation, regulation, legal decision, institutional practice or other)

2. Goals

- What are the short and long term goals?
- What are the content goals (policy change)
- What are the process goals (building relationships)?

3. Audience

- Identify the people and institutions you need to move. Include formal authority (legislators) and informal authority (media, key constituencies).
- Who are:
- the advocates?
- the opponents?
- the decision makers?
- the undecided?

4. Message

- Reaching different audiences requires crafting a set of messages that will be persuasive, tailored differently to different audiences.
- Two basic components-
    - Appeal to what is right
    - Appeal to audience's self interest.
- Keep message simple and easy to understand
- Use real life stories
- Use clear facts and numbers
- Encourage audience to take action
- Present a possible solution

5. Messengers

- The same message may have a different impact depending on who communicates it.
- Who are the most credible messengers?
- Use both "experts" and "authentic voices"

6. Delivery

- There is a wide variety of ways to deliver a message. Situations vary. Evaluate different options and apply them appropriately.
- Hosting conferences
- Meetings
- Circulating papers
- Form committees

7. Assessment

- A- Advantages
- C- Challenges
- T- Threats
- O- Opportunities
- N- Next steps

8. Evaluation

- Establish and measure intermediate and process indicators.
- Evaluate specific events and activities.
- Compare final results with indicators to measure change.
- Share results.

Key Points

To be useful the strategy planning process requires:

- Systematic and disciplined effort
- On-going action, reflection, and refinement
- Time
- Flexibility
- Ability to diagnose current situation despite uncertainty and incomplete information
- Willingness to learn by doing

Tool #8. Network Performance Monitoring Checklist

Prerequisites for Installing a Performance Monitoring System

Networks:	MFIs:
Performance monitoring and benchmarking services fit into the network's mission, goals and objectives. The network is already collecting performance and outreach data from its members. The network has an analyst to implement the performance monitoring and benchmarking process. The analyst has a background in accounting; financial analysis, information systems and computers. The network's computer systems meet the specifications required for the installation of performance monitoring system.	Member MFIs demonstrate commitment to participate actively and collaborate with transparent information. A significant number of members have the capacity to or are already producing financial reports. Members are willing to disclose financial information to the network and other member organizations. Members have the ability to provide minimal information: • breakdown of financial information for only microfinance activities • good portfolio-at-risk information. Members demonstrate commitment to improve their data reporting to be able to be included in the benchmarking exercise.

A Step by Step Process for Networks

1. Assessment of Member Capacity

- Assess MFIs' need for a performance monitoring system
- Assess MFIs' ability to produce accurate financial statements
- Provide training and TA to MFIs to increase capacity to produce accurate financial statements
- Review information network is currently gathering from its MFIs
- Assess the need to develop additional tools for data gathering

2. Assessment of Network Staffing Needs

- Identify staff who will be involved in the performance monitoring activities
- Train staff (if needed)

3. Preliminary Data Collection

- Collect high-quality financial information for at least five MFIs
- Establish a process to collect information in a timely manner from the remaining MFIs
- Send information to Technical Service Provider (i.e. SEEP, The MIX) for an assessment of the completeness of the data collected

4. Network Training

- Schedule an on-site training of the Performance Monitoring Toolkit
- Five-day on-site, hands-on training

5. Data Collection and Analysis

- Collect and enter data into the Database
- Produce reports and provide feedback to member MFIs

6. Advanced Training

- Schedule advanced five-day, on-site training to create benchmarks once the network database contains a significant amount of MFI data

Tool #9. Suggested Network Performance Indicators

- Ratio of different sources of funds. Look for increasing members' dues and fees for services.
- Number or percentage of MFI members who are up-to-date in their subscriptions and are paying for contributing to services.
- Increase in number of MFIs using MFA services.
- Percentage of members satisfied with the quality/costs of MFA services.
- Number of substantive linkages created between the MFA, key government agencies, donor institutions, and other stakeholders.
- Percentage of member MFIs that annually report institutional data to the MFA.
- Increase in cost recovery rates through membership dues and fees paid for training and services.
- Percentage of member MFIs that participate in MFA-facilitated activities.
- The overhead percentage (administration costs in relation to total costs).
- The donor dependency ratio (projected grant income in relation to total projected costs).

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