Network Development Services
Technical NOTE
No. 3
THE SEEP NETWORK
March 2006

Effective Donor Strategies to Support Microfinance Associations

Introduction

Abstract

This technical note provides donor agencies with key information necessary to effectively support microfinance associations (MFAs).[1] By explaining the role of MFAs and the value-added services they provide to microfinance institutions (MFIs) and the microfinance industry as a whole, this technical note answers the key questions donor agencies may ask when considering support to MFAs.

This technical note provides donor agencies with key information necessary to effectively support microfinance associations (MFAs). By explaining the role of MFAs and the value-added services they provide to microfinance institutions (MFIs) and the microfinance industry as a whole, this technical note answers the three key questions donor agencies may ask when considering support to MFAs:

1- What are MFAs?

2- Why should donors support MFAs?

3- How should donors support MFAs?

In addition, the technical note provides donor agencies with a checklist for evaluating MFAs, as well as a step-by-step process of how to fund an MFA .

What are Microfinance Associations (MFAs)?

MFA Characteristics

Microfinance associations are essentially trade associations for retail microfinance providers in a country or region. MFAs enhance the professional level of MFIs, defend their interests, and give the sector guidance as it becomes firmly integrated into a country or region's financial sector. To do so, MFAs: develop consensus on and advocate for policies to promote an enabling environment for microfinance, promote MFI performance standards, organize training courses and facilitate information dissemination and exchange for the entire microfinance industry.

Approximately 50 MFAs are known to be active in at least sixty countries, the members of which collectively serve more than 16 million end-clients.[2] MFAs are relatively new actors to the microfinance industry, with an average age of five years. The global community of microfinance associations is diverse. MFAs differ in terms of the size of their membership, their range of activities, and their level of formality.[3]

1. The SEEP Network often uses the term 'network' as synonymous with 'MFA.'

2. Statistics from the 2005 SEEP *Global Directory of Regional and Country-Level Microfinance Networks.*

3. Chen and Rasmussen, "Emerging Issues," 2005, 1.

MFA Membership

Most national MFAs draw their core membership from the MFIs within their countries. The membership of regional MFAs comprises either national MFAs or MFIs operating within a set geographic area. Their members typically have diverse target clienteles, use diverse methodologies and operate independently of one another.

Some MFAs have an 'open membership' policy which allows for all types of retail providers of microfinance including NGOs, credit unions and commercial banks. Others have more limited membership and represent specific sub-sectors (such as only microfinance NGOs or credit unions) within the microfinance industry. In some countries, this translates into more than one MFA.

In addition, some MFAs include non-MFIs within their membership. Members can also include organizations or individuals actively involved in the industry through research, training, communication, technical assistance, and policy work. Typically, MFAs represent civil society and do not permit donors or government representatives to participate as members.

While MFAs tend to share similar characteristics, they are also as unique as the industries they serve. Box 1 illustrates the differences between three MFAs.

Box 1. Examples of Microfinance Associations

Association of Ethiopian Microfinance Institutions (AEMFI)

AEMFI was established in 1999 and registered as an NGO to create an institutional structure for the newly created microfinance industry. AEMFI limits its membership to registered MFIs, of which there are only 20. Its small member base notwithstanding, AEMFI has six staff members and carries out an extensive information campaign on behalf of the nascent industry and is actively engaged in policy advocacy with the government to develop the microfinance industry. Its budget for 2003 was $419,186, of which donors supplied 84%.

Microfinance Center for Eastern Europe and the NIS (MFC)

The MFC was established as a Polish foundation in 1997, serving the entire region of Eastern Europe. It has an open membership policy and its 94 members, including NGO MFIs, banks, affiliate networks and at least one donor, are located in 26 countries. MFC provides training and consulting through a separate, for-profit, training company. Other services include microfinance mapping, performance monitoring and holding policy fora. Its budget for 2003 was $984,700, of which donors contributed approximately 50%.

Microfinance Council of the Philippines, Inc. (MCPI)

MCPI was established in 1997 as a USAID-funded project to develop microfinance standards. In 1999 it registered as a non-profit, non-stock company to continue its work as an MFA. Its 32 members include MFIs and allied service institutions. MCPI is one of several MFAs in the Philippines and in 2004 it merged with PHILNET, a MFA focused on Grameen replicators in the Philippines. In addition to its flagship efforts to develop microfinance standards, MCPI's four staff members also provide information on the microfinance industry in the Philippines and engage in policy advocacy on behalf of MFIs. Its 2004 budget was $143, 272, of which donors contributed 91%.

Why should donors support MFAs?

MFAs are Important for Building Healthy Microfinance Industries

Recent trends show that donor agencies with microfinance programs are increasingly investing their financial resources into sector-wide approaches and placing an emphasis on policy dialogue.[4] It is important for donor agencies committed to strengthening the microfinance industry through a financial systems approach to understand the importance of providing support to critical meso-level institutions such as microfinance associations. The core services provided by MFAs offer sector-wide benefits through:

* Improvements in the policy and regulatory environment for financial services providers;
* Expanded markets for training, technical assistance, and auditing service providers;
* New market opportunities for commercial financial services providers; and
* Information on the national microfinance industry.

4. CGAP: "Elements of Donor Effectiveness in Microfinance: Policy Implications"; April 2004. p. 4 .

MFAs have a positive impact on the entire microfinance sector because their services benefit both their member MFIs (such as training and technical assistance services) as well as the overall microfinance industry (such as serving as the industry voice and representative). The sections below provide more specific examples of the key roles played by MFAs and demonstrate why MFA services are in alignment with current donor support mechanisms for microfinance.

Promoter of Standards

MFAs develop and promote MFI performance standards and codes of conduct to build the credibility of the microfinance sector. Increased credibility builds the public's confidence in the ability of MFIs to provide financial services to poor people. Due to the high degree of risk of being associated with unscrupulous actors, MFIs are strongly motivated to belong to a body, such as an MFA, that sets high standards for the industry.

Advocate

In many countries MFIs join MFAs for representation, especially in activities relating to the development of a legal and regulatory framework for the microfinance industry. MFAs play a critical role in providing a forum for MFIs to reach consensus positions on policy issues, as well as serving as a vehicle for bringing these positions to the appropriate authorities.

Technical Service Provider/ Market Facilitator

MFAs provide MFIs with the technical support services (such as training and technical assistance) to improve MFI capacity for scaling up. In addition, MFAs also facilitate the development of local technical service providers by offering training of trainers, outsourcing their activities to local providers and facilitating the development of key industry support institutions such as credit bureaus.

Information hub

MFAs, like all industry associations, are seen as the source of information on microfinance activities within a country or region---an important aspect of developing a sound microfinance industry. MFAs research and disseminate industry information and microfinance best practices through a variety of fora, such as websites, publications, newsletters and annual conferences.

The Role of MFAs in Different Microfinance Markets

The services offered by a microfinance association reflect the stage of development of the market within which it operates. In countries where the microfinance industry is in the early stages of development, MFAs are primarily focused on advocacy activities and building the capacity of their members. In more mature microfinance industries, MFAs assume a market facilitator role and take on more value-added activities such as credit bureau creation, market research and the development of codes of conduct. To determine an appropriate mix of services, MFAs assess demands from member MFIs and determine if other groups might better provide the service. MFAs also focus on cost and the potential for generating revenue for their services.

Box 2 (next page) highlights some characteristics that may be found in markets of varying levels of development and the possible role for MFAs within each market.[5]

How should donors support MFAs?

Donor Support to Key MFA Services

Policy Advocacy

Because of the emphasis donor agencies place on policy dialogue as a key strategy for strengthening the microfinance sector, donors should view MFAs as logical allies. This is due to the major role that MFAs play in policy advocacy activities. Engaging donors in their advocacy activities illustrates the importance of an inclusive process for reaching consensus on policy positions. MFAs should be encouraged to develop a policy advocacy strategy that is highly attuned to the needs of its member MFIs, while at the same time encouraging inputs from all key stakeholders.

Donor agencies can best pursue their vision for policy change by supporting MFAs to develop comprehensive policy advocacy strategies that will include inclusive activities, such as:

* Hiring legal expertise to provide sound policy advice,
* Organizing awareness building workshops for policy makers and MFIs alike,
* Facilitating policy dialogue roundtables to discuss the pros and cons of proposed policies and their implications on the growth of the microfinance industry over the long term.

If donors are interested in promoting a specific policy or vision for microfinance, it is best discussed with the MFA's member MFIs to allow them to weigh in on the benefits and possible disadvantages to the donor position. Most importantly, donors should ensure that their support to MFAs allows them to retain their independence as associations serving the interests of microfinance institutions.

5. The characteristics of these stages and, indeed, the idea of there being stages to market development are for illustrative purposes only. Markets and the MFIs and MFAs that operate within them are unique and tend to develop in response to very local pressures. It is important to assess each market individually.

Box 2. Stages 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.

Possible Role for MFA:

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; Awareness-building activities to educate policymakers 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, MFIs less dependent on donors.

Possible Role for MFA:

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; 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.

Possible Role for MFA:

As MFIs become more specialized and commercial in nature, they will they 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; Financial intermediation activities (linkages to wholesale loan funds/capital markets).

Technical Service Provision

In countries where very few technical providers offer services to MFIs, MFAs often step in to fill the gap by providing direct services or brokering services. As direct technical service providers, MFAs use staff and members to provide training and technical assistance to MFIs. Networks that broker training services identify technical service providers for member MFIs.

Donors interested in building the capacity of MFIs can support MFAs as well as stimulate the growth of the local microfinance services markets by encouraging them to bid on proposals to build the capacity of MFIs. More specifically, donors can:

* Provide support to MFAs to carry out activities that build the capacity of MFI staff as well as of local technical service providers such as scholarship programs and training of trainers activities.
* Invest in the development of fee-based training and technical assistance activities that enable MFAs to offer affordable and profitable train ing courses to their member MFIs. This will also stimulate new entrants into the technical service provider market.
* Provide financial support to assist MFIs in paying for technical services offered by MFAs.

The Most Important Support to MFAs

Supporting the institutional sustainability of MFAs

When donors decide to fund an MFA, they should be sure to support the development of its external credibility and its internal capacity. Credibility comes with the recognition of an MFA's importance by its members and a wide range of stakeholders, including policy makers, donors, and the financial services industry.

To gain credibility, an MFA must have the internal organizational capacity to deliver services. The capacity of an MFA is measured with regard to its overall organizational effectiveness in governance, operations, financial viability, human resources, and service delivery. These standards of MFA effectiveness, which are described in Annex 1, can be used to develop performance targets that encourage MFA growth and development (see Annex 3 for a list of suggested MFA performance indicators).

Donors can best serve MFAs by supporting the development, implementation and sustainability of key services outlined in their business plans as opposed to funding individual, one-off projects. Business plan funding entails a more thorough understanding of, and support for, an MFA's long-term institutional sustainability. Ensuring that the activities to be financed fall within the MFA's business plan, or better yet financing a portion of the business plan, contributes to the overall development of the MFA. Donors should be cautious about only providing funding to individual projects. If not linked to the business plan, these may distract the MFA from meeting its mission and objectives.

Supporting MFA Financial Viability

One of the primary concerns of an MFA is its ability to achieve financial viability. Covering the costs of core services and providing them over the long run depends on an MFA's ability to attract and maintain appropriate levels of financial resources. For this reason, MFAs count on both donor funding and self-generated revenue as the key components of their financial viability strategies.

At present, MFIs in many countries struggle to achieve profitability and as a result have few resources to support MFAs. For these reasons, MFAs look to donors to provide financial support to cover activities to which a price cannot easily be affixed, such as advocacy, awareness building and information dissemination as well as the development of sustainable, demand-driven fee-based services.

Supporting activities at different stages of MFA development

MFAs can be placed in one of four stages of institutional development: nascent, emerging, expanding, or mature. Normally, MFAs develop some areas more quickly than others, depending upon specific internal and external factors such as staff capacity, donor funding, maturity of the sector and government policies.

Donors can better understand an MFA's current stage of development by referring to its organizational assessment or evaluation reports. These reports tend to identify the MFA's strengths and weaknesses as well as its institutional strengthening needs. Those areas where assessments show the MFA is lagging are where a donor may want to focus its support. Donors should expect to see advancement on the continuum of development from nascent to mature in areas of MFA effectiveness, although this progression can take years. The matrix in Annex 2 provides examples of the typical MFA activities at each stage of development.

The sections below provide specific tools to that guide donors in deciding whether to provide financial support to MFAs. The first tool is a checklist to rapidly evaluate MFAs as potential partners and the second is a step-by-step process of how to fund an MFA.

Tool #1: Donor Checklist for Evaluating MFAs

Excerpt from The SEEP Network technical note "Recommendations on Donor Guidelines to Support Microfinance Associations."

1. When assessing the role of an MFA within the industry, donors should look at the MFA's current (or planned) capacity to perform the following actions:

- Provides services based on member-driven demand and interests.
- Represents and advocates for the collective interests of members to policy makers.
- Promotes transparency in the sector by serving as the information clearinghouse on the country/region's microfinance sector.
- Sets standards by promoting performance monitoring and benchmarking among its members.
- Provides a forum for information dissemination on national, regional, and international best practices and standards.
- Builds industry capacity by serving as a hub to ensure members and other stakeholders have access to adequate training, technical assistance, and other needed services.
- Operates with the goal of a long-term existence.

2. When assessing the membership of MFAs, donors should look for the following general membership characteristics:

- MFIs and sub-national MFAs form the core membership of national MFAs.
- Tiered membership categories accommodate a diverse membership body while maintaining the MFA's focus on its core members.
- Membership criteria based on the mission and goals of the MFA and its role in the microfinance sector.
- MFAs that develop service delivery strategies that focus on members' common interests.

3. Donors should provide support to MFAs that operate in the following ways:

- Provide services that benefit the microfinance industry and reflect stated mission and goals.
- Start with a small number of services and provide them successfully before offering expanded services.
- Determine their mix of services based on demand from MFI members and capacity to deliver.
- Avoid duplicating services provided by other market entities or exercise caution when providing services in a competitive market.
- Do not engage in competition with members who are technical service providers.
- Seek out efficient and effective strategies for service delivery, including outsourcing or partnerships.

4. For donors to assist MFAs to achieve financial viability, they should encourage and support the following activities:

- MFA business or strategic planning activities include strategies to achieve financial viability.
- MFA identification of demand-driven services that, over time, can be paid for largely by members or other direct users of the services.
- Core services are financed from members' contributions and voluntary participation.
- Funding and revenue plans are in proportion with the MFA's stage of development.
- Strategies diversify funding sources.
- Strategies for long-term institutional support by donor agencies are in place.

Tool #2: A Step by Step Process for Funding MFAs

Review Background Information

Step 1: Review the MFA's Planning Documents

MFAs should have planning documents including a Strategic Plan, Business Plan and Operational Plan. These plans may go by different names and may be contained in one or multiple documents. The essential components that donors should ensure exist are:

a. The Goal: What the MFA is trying to achieve in the long term
b. The Objectives: What the MFA is trying to achieve in the short term
c. The Members: Who the MFA serves, both members and other stakeholders. How does the MFA assess member needs and satisfaction?
d. The Activities: What the MFA is doing or plans to do
e. Sources of Funds: How it will pay for the activities
f. Uses of Funds: How funds will be spent to finance activities and meet objectives

Step 2: Review Activities Not Included in Business Plan

After the initial planning period, MFAs may add activities not included in their planning documents as new needs emerge or as opportunities arise. It is important that donors evaluate whether these additional activities are straining MFA resources, including staff and funds.

Step 3: Review Assessment Reports

If the MFA has been assessed using the SEEP Network Capacity Assessment Tool, or another comprehensive assessment tool, the donor will be able to determine where the MFA needs assistance in building its own capacity. Donors should then assist the MFA to address the areas of weakness.

Step 4: Examine Changes in the Board of Directors

Changes in the board of directors could signal changes in the MFA's approach or plans. The changes may serve to strengthen the MFA, weaken it or may be neutral, but should be investigated.

Step 5: Examine Changes in Staff

MFA staff are key in maintaining contact with members and providing services. Committed, long-term staff build an MFA's credibility. As an MFA matures, its human resource policies will need to evolve. Changes in staff can signal internal pressures that threaten the MFA and should be examined.

Step 6: Examine Changes in Funding

MFAs can be subject to the vagaries of donors. Changes in funding can lead to reduction of staff and other setbacks not necessarily related to the MFA's management or capacity. Before funding an MFA, donors should enquire as to what precipitated any change in funding or funding outlook. The donor may need to contribute, directly or indirectly, in helping the MFA bridge the gap in funding to ensure the MFA can fulfill its objectives.

Develop A Financial Assistance Package

Step 7: Finance Business Plan

MFAs that have a planning document have generally been through a democratic process whereby members indicate the goal and objectives of the MFA as well as the activities in which they would like to see the MFA engage. The most appropriate role for donors is to support the MFA in meeting its objectives through financial support to the business plan. Ideally, the donor determines the percentage of the total business plan expense not covered by self-generated income that it would like to support, and provides that amount to the MFA in tranches per the milestones set out in the performance contract (see below).

If the donor is unable to provide general support to MFA to fulfill the business plan, it should support specific activities in the business plan.

Donors should refrain from asking MFAs to engage in activities that are not in their business plan, unless the MFA membership sees the value of the proposed activities and agrees to adjust its business plan accordingly.

Case in point: After carrying out a highly participatory planning process to develop their business plan, AMFIU-Uganda shared its business plan to donors who coordinated on financing different components of the plan.

Step 8: Provide Longer-Term Funding

The primary objective of MFAs is to focus on meeting their members' needs and expectations. Donors should recognize that short-term funding requires the MFA to spend more time seeking additional funding, more time reporting to donors and less time focusing on its members. Therefore, donor support to MFAs should be at least 3 years and, as noted above, should ideally cover multiple activities or one major activity.

Case in point: Over the past 8 years, MEA-South Africa has had 3- to 5-year agreements from its three main donors. These long term grants have enabled MEA to secure its core costs to implement its five-year business plan.

Step 9: Establish a Performance Contract

Donors should always employ a performance contract when supporting MFAs. In this way, a donor's support can increase the MFA's credibility when it successfully performs to expectations. It also reinforces a performance orientation within the MFA itself. This performance contract should set measurable performance indicators and targets to be achieved with in a certain period of time (see Annex 3 for a list of suggested performance indicators for MFAs).

"Our training program had to be profitable because self-sufficiency was a condition to CGAP's support, and we had strict milestones that we had to meet." *-Grzegorz Galusek, Executive Director, MFC*

Step 10: Include Overhead in Grant

When an MFA engages in an activity, it must cover part of its central costs, such as rent, utilities and the secretariat staff. Therefore, donors should agree to pay the MFA a percentage of the grant amount as overhead.

Case in Point: REDIMIF-Guatemala's Special Projects are projects and programs of extended technical assistance that include training, technical assistance and software development, among others. REDIMIF facilitates the work of specialist consultants, and the donor contributes 10-15% overhead for management/administration costs.

Step 11: Coordinate with Other Donors

When multiple donors are supporting different parts of a business plan, it is helpful for those donors to take it upon themselves to meet and discuss progress and to ensure the MFA is not receiving conflicting signals from different donors, which can take up much of a MFA's time.

"The donors formed their own AEMFI donor committee-they organize themselves and meet monthly. It gives them an opportunity to coordinate their support. We are not even involved!" *-Dr. Wolday Amha, Executive Director, AEMFI-Ethiopia*

Step 12: Consider Creating or Contributing to an Endowment for Sustainability

As MFAs are reflective of the microfinance industry in the countries in which they operate, they will be reliant on non-member sources of financial support for the foreseeable future. Innovations in long term funding for MFAs need to be explored in order to ensure they can continue to focus on building the microfinance industry. One innovation is the creation of an endowment for the MFA. The endowment could be repaid loan funds from another microfinance project, or specifically dedicated funds for the endowment. In either case, income from the endowment would help the MFA meet some of its central costs in a long term, sustainable way.

Case in Point: As a result of a credit fund that COPEME-Peru efficiently managed, the Ford Foundation proposed to COPEME the establishment of an "endowment" where they contributed $500,000 US dollars, assuming COPEME would contribute an equal amount over the period of five years. At present the "endowment" is US$ 902,000 and is placed in American treasury notes, where it has generated interest income of US$ 45,000 last year. The General Assembly decides how much to use for capitalization of the endowment and how much to use to fund the annual budget.

Annex #1: Standards of MFA 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.

Annex #2: Key MFA Activities at Each Stage of Development

	Governance	Operations	Financial Viability	Human Resources	External Relations	Service Delivery	Credibility	Enabling Environment
Nascent	Hire Executive Director	Hold event such as a Microfinance Week	Projections of revenue and expenses	Salary survey to ensure MFA can attract candidates	Attend important meetings	Industry needs analysis	Receive funding for small project	Meet with other financial service associations
Emerging	Establish membership criteria	Establish working groups for areas of interest to members	Develop business plan	Develop HR manual	Donor tour to gain support for business plan	Create training curriculum	Publish paper on microfinance	Meet with policy makers
Expanding	Board development training	Establish new service for members	Fund 1/3 of business plan	Develop staff appraisal system and implement	Hold special event for regulators	Produce MBB-type report	Commission NCAT assessment, publish results	Propose legislations to improve enabling environment
Mature	Merge with other MFAs	Establish research unit	Establish endowment	Establish staff training fund	Establish PR unit	Spin off specialized units	Establish lobbying unit	Lead industry in changing law

Annex #3: Suggested MFA 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).

Annex #4: Recommended Resources on MFAs

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

Chen, Gregory and Stephen Rasmussen. 2005. "Emerging Issues for National Microfinance Associations." ShoreBank Advisory Services/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.

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

Gross, Roland and Michael Brüntrup. *Microfinance Associations (MFA): Their Role in Developing the Microfinance Sector*. 2003. Eschborn, Germany: GTZ. (includes case studies on 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." (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.

"Recommendations on Donor Guidelines to Support Microfinance Associations." 2005. (Network Development Services Technical Note No. 2) Washington, DC: The SEEP Network.

Web Resources

USAID MicroLINKS. http://www.microlinks.org.

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

The SEEP Network. http://www.seepnetwork.org .

* Network Development Services page: http://www.seepnetwork.org/section/programs_workinggroups/nds/
* Document library: http://www.seepnetwork.org/content/library
* The SEEP Network's Network Development Services workspace: http://workspace.seepnetwork.org. (The workspace is for registered users only; please email Jonathan Dolan, Program Associate, at dolan@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.

Principal Author

Sharyn Tenn, The SEEP Network

Co-Author

Patrick McAllister

Contact

For additional information or to order additional copies, contact The SEEP Network.
1825 Connecticut Avenue, NW
Washington, DC 20009–5721
Tel: 202.884.8808
Fax: 202.884.8479
E-mail: seep@seepnetwork.org
www.seepnetwork.org

Network Development Services Technical Notes

To view other titles from the Network Development Services Technical Note series, visit www.seepnetwork.org.

Network Development Services Program, Technical Note #3, Effective Donor Strategies to Support Microfinance Associations

Printed in the United States of America

Layout and Design: SEEP Network