WWB FOCUS NOTE

Women's World Banking

Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line

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Introduction

Historically, the demand for microfinance services has been attributed to the inability and unwillingness of the formal financial sector to serve the needs of low-income clients. In recent years, however, the microfinance industry has evolved to include microfinance institutions (MFIs) operating under a wide range of legal structures, including a growing number of RFIs (regulated financial institutions) in addition to traditional NGOs. This paper will provide an overview of the process by which MFIs convert from NGOs into RFIs, also called transformation or formalization, and will examine the impact of the transformation process upon a control group of approximately 25 MFIs that Women's World Banking has been tracking since 2002.[1]

The study originates from WWB's concern that the influx of private capital into the microfinance industry may be causing "mission drift," whereby the poverty-alleviation focus of transformed MFIs is diluted in the face of increased pressure to generate profits. Our analysis focuses on both the financial and non-financial trends—including client and portfolio growth, average loan sizes, profitability, savings mobilization and shareholding structure—that emerged when a select set of transformed MFIs were compared against a similar set of non-transformed, NGO MFIs. The conclusions of these database findings reaffirm the prevailing notion that microfinance transformations tend to catalyze growth in MFI outreach and product offerings.

Many MFIs have attracted capital from international investors who seek "double bottom line"—social as well as financial—returns. Consistent with WWB's focus on the financial needs of low-income women entrepreneurs and their families, this paper will highlight trends affecting outreach to women clients in transformed institutions—in particular, the significant decline in the percentage of women clients served by formalized MFIs after transformation. WWB hopes that this publication will provoke discussion in the microfinance industry about ways to avert this trend so that future MFI transformations will enhance, rather than curtail, outreach to women clients. The final section of the paper will present interviews

with MFI practitioners on the topic of transformation, and will describe innovative strategies that Women's World Banking and our network members are undertaking to ensure that women clients receive high-quality financial services from formalized as well as NGO microfinance providers.

Why Do MFIs Transform?

Microfinance is often recognized as a unique merger of public sector interests and private sector principles. Although initially associated with philanthropic organizations and fueled primarily by grant capital, the microfinance industry has prospered in recent years by proving a business case for microfinance. Most MFIs were founded as non-profit organizations with an explicit social mission to provide financial services to "unbanked" populations—predominantly women—that previously had been excluded from the formal financial sector. In the 1980s and early 1990s, many MFIs achieved notable successes in reducing the costs associated with lending to this clientele, and some institutions evolved to have balance sheets that looked more like those of a commercial bank than a traditional non-profit organization. It is now widely acknowledged that the provision of small loans to low-income entrepreneurs can constitute the core of a sustainable enterprise with the potential to generate significant profits and drive exponential growth.

Key Terms

Transformation—*the process by which an NGO MFI converts into a "formalized" or regulated financial institution (RFI). Usually requires fresh capital from outside investors, regulatory approval by local banking authorities and improved governance and internal controls. The transformation process typically allows an MFI to mobilize client deposits and offer additional non-credit products.*

Formalization—*synonymous with transformation.*

Commercialization—*a broad term used to refer to the application of market-based business principles to microfinance. Usually associated with an MFI's progression away from donor or subsidized funding toward commercial borrowing of debt and equity. Transformation is one method of commercialization.*

The question of whether to transform from an NGO to an RFI is one of the most important decisions that an MFI management team and board will undertake. Because the transformation process impacts nearly every aspect of an organization—including governance, capital structure, product offering and regulatory oversight—this decision should never be taken lightly, and the opportunities afforded by transformation must be carefully weighed against the tangible and intangible costs of the process. Frequently, the decision to transform is motivated by three goals: first, NGO MFI leaders hope that as an RFI the institution will benefit from improved and increased access to funding from commercial sources. Second, NGO MFIs seek to offer non-credit products, especially savings, to their clients. Finally, NGO MFI leaders understand that the transformation process will result in an improved management and governance structure that requires a greater degree of transparency but will yield greater organizational sustainability. These three factors are outlined briefly below.

Increased access to funding from commercial sources. Many NGO MFIs find that the single largest constraint to growth is the inability to access sufficient funding. Historically, NGO MFIs were highly reliant on subsidized or apex funding sources because of the limited commercial funds that were available domestically. This scenario improves significantly after transformation, as RFIs appear to be more "credit-worthy" in the eyes of local and international investors, and thus gain access to new and more extensive sources of funding. Furthermore, local and international capital markets investors—increasingly an important source of funding for MFIs—also favor the governance, risk management and regulatory oversight features associated with RFIs.

Product diversification, particularly deposit mobilization. Formalization almost always results in greater product diversification as it improves an MFI's ability to offer a broader range of services, particularly savings products. Although many MFIs require compulsory savings as part of their loan program, in most countries MFI NGOs do not have legal authority to mobilize voluntary deposits. As such, NGO MFIs cannot harness the potential of these deposits by on-lending to borrowers in the form of new client loans. MFIs that mobilize savings are less vulnerable to negative market conditions—whereby the cost of borrowing externally might increase significantly, or liquidity dries up—because they are able to draw upon their client savings for on-lending to new clients. Transformation also increases the potential for other non-credit products to be offered, including insurance, remittances, transfers, and institutional deposits.

Improved management, governance, efficiency and sustainability. The transformation process promotes an improved quality of management, governance, efficiency and sustainability for two reasons. First, in order to obtain a license, the formalizing MFI must meet the requirements of local banking authorities, including compliance with all of the appropriate management structures and board committees that are required by local regulations. In addition, a new ownership structure and new board of directors often leads to increased oversight, improved management and more durable operational structures which will ensure the long-term survivability of the institution. The infusion of new shareholder capital during the formalization process, and the institutional structures imposed by regulatory authorities, are often expected to remove constraints to achieving rapid growth, thus allowing the transformed MFI to pursue its social mission on a sustainable basis. Risk management functions are fortified as MFIs are required to dedicate more focus to portfolio classification and management, loan loss provisioning, internal controls, liquidity management, asset and liability matching and information technology systems. Transformation is also often the impetus for hiring new personnel with commercial banking skills, including specialized functions such as risk and market research managers, and finance team members with deeper technical skills than might be found at an NGO MFI.

WWB's Approach to Transformation

Assuming that local regulatory and legal frameworks are conducive, WWB's approach to MFI transformation is set forth in a series of principles encouraging our network members to become sustainable institutions that make a long-term impact on the economic participation of low-income entrepreneurs, particularly women, by offering a differentiated suite of credit and savings products within their local financial systems. WWB's principles for transforming MFIs include the following:

- *Pursue transformation only when it is the best strategy for the MFI and the local regulatory environment is conducive.*
- *Transform only when the institution is internally capable of undertaking this expensive and time-consuming procedure.*
- *Continue to focus predominantly on low-income clients (particularly women).*
- *Focus on mobilizing savings from a mix of clients, while maintaining priority for savings offered to low-income clients (particularly women).*

Approximately one-third of WWB network members currently are formalized financial institutions, with another third intending to transform within the next three years. In 2008, WWB established a separate Formalization Department to assist network members during this complex and lengthy process. The ultimate goal of the Formalization Department is to help transformed and transforming MFIs continue to serve low-income clients, especially women, and provide a broader range of financial services, including savings and additional credit products. WWB will also be launching an equity fund in 2008, so that WWB network members can access needed capital for their new legal structure requirements and secure the support of a like-minded investor dedicated to protecting the institution's social mission in the future. The WWB Microfinance Equity Investment Fund (WMEF) will give Women's World Banking an active voice on the boards of several network member MFIs to help ensure their continued focus on the provision of microfinance services to low-income women entrepreneurs.

The transformation process also necessitates that formalizing MFIs increase transparency through greater information disclosure with the outside world. RFIs tend to be subject to more stringent and frequent reporting requirements to regulatory authorities (such as the central bank) than do NGO MFIs. In addition, equity investors, who are the shareholders in an RFI, tend to expect more frequent communications from RFI management teams. For example, such investors might insist on quarterly financial statements rather than an annual report in order to more carefully track financial performance and asset or portfolio quality. It is also important to note that the process of transformation itself requires a significant amount of due diligence and information disclosure on the part of the MFI, during which time investors will carefully review the MFI's charter, governance structures, employment agreements, etc., in order to determine whether to make an investment. Finally, board members of RFIs generally request more information from the management team of the transformed institution because they have increased potential liability as a board member than they would have sitting on the board of an NGO MFI. The increased transparency that results from transformation opens the door for MFIs to become more integrated into formal financial systems by promoting good performance. Frequent and timely disclosure by RFIs allows managers, regulators and shareholders to identify areas for improvement which will attract additional interest and sources of funding for future growth.

Key Considerations for Transforming MFIs

- *The transformation process almost always involves an influx of new capital into the transformed RFI. This can result in the ceding of control by the founders to a new group of shareholders or board members.*
- *Increased reporting requirements and compliance with regulatory procedures, including financial reporting and the implementation of costly security measures, can necessitate investments in infrastructure and personnel which are often expensive and time-consuming to implement.*
- *By the same token, the need for improved systems and the addition of highly-skilled personnel to the staff can have a significant impact on a transforming MFI's human resource requirements and training demands.*
- *The transformation process typically results in a wider product offering for the RFI, which will require significant marketing and branding expertise as well as intensive market research.*

In today's rapidly growing microfinance industry there is an unmistakable trend towards transformation. Formalized MFIs now exist in almost every market in which microfinance services are being offered, and industry players are dedicating significant resources to assist MFIs with the transformation process. As we have discussed, MFIs transform in order to grow, to increase their outreach, and to improve their operations. WWB's research has shown that transformation—undertaken by institutions that are internally prepared for the process, under favorable local regulatory and legal conditions—can have highly beneficial effects on an MFI's sustainability as a provider of financial services to low-income entrepreneurs. WWB will thus support our network member institutions that choose to formalize by providing advice, technical assistance, and in certain cases, equity investments. At the same time, WWB will continue to embrace high performing, highly transparent MFIs without consideration of legal structure. It is important to note that transformation is not the only means to achieving high performance; several of WWB's NGO network members are among the highest performing MFIs in the industry.

Recognizing that transformation is neither a panacea nor an end in itself, WWB believes it is essential to study both the positive and potentially negative effects of formalization. We appreciate that there are some in the microfinance industry who equate transformation with "mission drift," and believe that an MFI's decision to transform into a formalized entity will require a shift away from the provision of small loans to low-income entrepreneurs. In an effort to assess the risk of mission drift among formalized MFIs, the next section of this paper is dedicated to a quantitative analysis of key financial and outreach indictors tracked in the WWB database. The paper's final section will present interviews with microfinance practitioners on the subject of transformation, in order to ground both the findings from the database analysis and the motivations for transformation outlined above. We hope that the analytical framework which follows will encourage others to continue examining qualitative and quantitative aspects of formalization in order to ensure that the needs of low-income entrepreneurs continue to be met by both regulated and non-regulated microfinance providers.

WWB's Technical Assistance to Transforming MFIs

- ***Awareness building:*** *WWB facilitates exchange visits between management teams of formalizing and formalized MFIs, to discuss the transformation process and provide insights into the formalized institution's experiences as an RFI;*
- ***Feasibility studies:*** *WWB conducts operational and legal assessments of the ability of institutions to function as a for-profit regulated entity;*
- ***Business and financial planning:*** *WWB assists transforming MFIs with the business planning process, including:*
  - *Development of a business strategy*
  - *Optimization of the formalizing institution's capital structure*
  - *Creation of appropriate organizational structure*
  - *Introduction of new products and services as an RFI*
  - *Development of financial projections in order to attract shareholder capital;*
- ***Implementation:*** *WWB advises transforming MFIs with:*
  - *Capital structure development and shareholder recruitment*
  - *Governance practices and processes*
  - *New product development*
  - *Branding: development of a brand position for the new entity that is differentiated from the existing entity*
  - *Financial risk management: development of policies in accordance with prudential regulations in the country of the formalizing institution*
  - *Management of organizational changes.*

Watching for Signs of Mission Drift: WWB's Database on Transformation

In 2002, Women's World Banking began to track the impact of formalization upon a control group of approximately 25 microfinance institutions in different regions of the world. The database tracked six key financial and social indicators (see page 7) for each MFI on an annual basis, as well as metrics related to the MFI's shareholding structure. On the latter point, we looked at the percentage of shares held by each investor and the composition of the board of directors on an annual basis, in an effort to capture equity stake transfers that might have taken place during the previous year and find out to what extent the investors were private or public sector supported.[2] The primary motivation behind this study was an attempt to put a quantitative framework around the highly qualitative issue of whether "mission drift" occurs in MFIs undergoing the formalization process. This concern had been raised by several parties in the microfinance sector, particularly those who viewed poverty alleviation and financial inclusion as the most important goals of microfinance. As a neutral party in this debate, WWB decided to create a database that tracked the progression of these metrics in order to arrive at our own conclusions on the issue of mission drift and to gain a broader understanding of the impact of transformation on MFI performance.

What Is Mission Drift?

In a microfinance context, "mission drift" is the concept that MFIs migrate away from their original mission (to serve low-income clients and alleviate poverty) in favor of generating profits for investors by serving higher income clients or by maintaining high-interest rates on client loans. Certain observers associate mission drift with commercialization and transformation. It is thought that the conversion from an NGO to an RFI legal structure emphasizes profit motive over social impact, which in turn may encourage an MFI to target a higher-income and less risky clientele, shifting its focus away from low-income clients. Many critics point to the fact that transformed MFIs tend to have higher average loan sizes than MFI NGOs as an indicator of mission drift.

WWB began collecting this data partly in response to the dearth of available information on the impact of transformation on individual MFIs and the industry as a whole. Logically, it seemed that the influx of private capital would in some way affect the performance of transformed MFIs, but there was little consensus about where the impact would be most obvious or how it could be measured. With much discussion of "mission drift" in the microfinance industry, there was little data available to ground or dispel the accusations. Each participating MFI provided WWB with self-reported data, and where there were gaps in the data, we used MIX Market figures as a proxy. The WWB database includes information on 27 MFIs during the 2002-2006 period. The majority of these MFIs are based in Latin America (15) and Asia (9) with the balance in the Middle East and Africa. The bulk of the MFIs included in the set have transformed into regulated commercial entities during the past decade. Using five years of data collected between 2002 and 2006, WWB identified several key trends; then, in order to ascertain whether these trends were particular to a group of formalized MFIs, we worked with MIX Market to create a characteristically similar (i.e., propensity score matched) set of approximately 25 non-transformed MFIs as a control group.

The results presented in the following sections were generated from year-over-year comparisons within the transformed set of MFIs as well as year-over-year comparisons between the transformed set and the non-transformed (i.e., characteristically similar) set. We believe that this analysis represents only the first piece of a more comprehensive diagnostic that is merited on this topic. It should be noted that, in an effort to strengthen the analytical rigor of this dataset, WWB attempted to incorporate econometric analysis into this study to test whether transformation has a direct impact on the aforementioned financial and social variables of interest. Because of the small sample size of data, this type of econometric analysis did not yield conclusive results, but we think that the observations of this analysis pose some interesting questions that warrant further investigation and analysis. We would encourage others to pursue this econometrics methodology in the future with a larger sample database. WWB's econometric analysis, as well as the complete database findings, are available as an appendix to this paper on the WWB website at womensworldbanking.org.

What Have Other Studies Shown on Mission Drift?

In 2001, the Consultative Group to Assist the Poorest (CGAP) published a study on "Commercialization and Mission Drift: The Transformation Experience in Latin America."[3] The study noted the following about this topic: "Some interesting information that emerged…might shed some light on whether commercialization has left poorer clients behind. Evidence shows that regulated microfinance institutions in Latin America provide larger loans to their clients than do unregulated NGOs. Indeed, the average for unregulated NGOs (US$ 322) is roughly a third that for regulated microfinance institutions (US$ 803). This relationship also holds, though to a lesser extent, for a more appropriate comparative measure, average outstanding loan balance as a percentage of GNP per capita, with unregulated NGOs having half that of regulated microfinance institutions. This initial evidence seems to indicate that the more commercial approach to microfinance… left poorer clients behind, which could support the argument that mission drift is an inevitable consequence of the push for commercial viability."

However, the CGAP study goes on to note that "larger loan sizes are not necessarily an indication of mission drift and could be a function of different factors, including the 'generational factor.'" This is to say that, in certain cases, larger loan sizes might not be a reflection of an MFI's shift towards higher-income clients, but rather the natural evolution of maturing MFIs and microfinance clients. The micro-enterprises financed by these loans would likely have increased demand for credit as businesses grew. Lastly, the CGAP paper notes that an MFI's average loan size "must be viewed in the context of the broader economy in which they operate: a dynamic economy may benefit microenterprises, which, in turn, may require larger loans." The CGAP paper concludes that "all these factors would put upward pressure on the average loan size without meaning that the microfinance institution has left its initial target group behind. The average loan balance of a typical microfinance institution could easily double or triple as both the program and its target group mature."

SELECTED DATABASE INDICATORS: FINANCIAL AND SOCIAL

The WWB database tracked the evolution of client and portfolio growth, average loan size, profitability, savings mobilization and shareholding structure among the selected MFIs. In order to measure these categories, we collected specific data points:

Gross Loan Portfolio (or Gross Portfolio Outstanding)—Balance of all outstanding principal for all outstanding client loans, including current, delinquent and restructured loans. Figure does not include interest receivable.

Number of Active Borrowers (end of period)—The number of individuals who currently have an outstanding loan balance with the MFI or are responsible for repaying any portion of the Gross Loan Portfolio.

Total Savings Outstanding (end of period)—The amount of total savings collected from institutional and individual depositors.

Number of Active Savers (end of period)—The total number of individuals who currently have funds on deposit with an MFI, which the MFI is liable to repay.

Average Loan Size or Average Loan Balance—Average loan size refers to the outstanding loan principal divided by the total number of outstanding loans. This is also called the average outstanding balance.

Percentage of Women Clients—Total women clients (end of period) divided by total active clients (end of period).

COMPOSITION OF THE "CORE" DATABASE AND METHODOLOGY

A major challenge in analyzing this database was the need to sort the data into categories that were statistically significant in order to show relevant trends. The target group of transformed MFIs was diverse both in terms of regional distribution and individual scale, but perhaps most significantly, the set represented a wide range of transformation time periods for the embedded MFIs. Approximately one-third of the institutions in the set had undergone transformation during the 1990s, while the remaining two-thirds had transformed since 2002 (with transformations spread approximately evenly between 2002 and 2006).[4] Because it was important to consider the RFIs' results in the years since transformation, we developed a relative year analysis methodology whereby we segregated the MFIs in the transformed MFI set according to the year in which the institution transformed. By using this approach, we were able to standardize the data according to the year of transformation to eliminate inconsistencies for the diversity of transformation sequencing.[5]

How Can Mission Drift Be Measured, Particularly During Transformation?

One of the most fundamental problems around the issue of mission drift is the inability of the microfinance industry to agree upon appropriate ways to measure social performance. WWB uses a variety of social and financial indicators to track the performance or our network members, and there are several efforts underway in the industry to address appropriate tracking of MFI social impact indicators.[6] We would encourage MFI practitioners (including management and board members) to engage potential investors in a dialogue about the measurement of mission drift as the transformation process gets underway. Such a dialogue might include the following questions:

- *Who is the target client of the transformed MFI's products and services? How is this reflected in the MFI's mission and how is this expected to change over time? What accommodations will the MFI make in order to maintain a focus on low-income entrepreneurs as the pressure to generate profits and return dividends to investors increases in the years following transformation?*
- *What social performance indicators will the MFI track in order to determine how well the target clients are being served before and after the transformation process? What financial indicators will be reported to the board and investors in order to show a balanced picture of profitability and social impact?*
- *How will the transformed MFI, which presumably has access to lower cost funds either through commercial sources or client deposits, pass along those cost savings to its clients over time? Once certain levels of profitability have been reached, will interest rates be lowered on microfinance loans?*

OBSERVATIONS FROM THE WWB DATASET

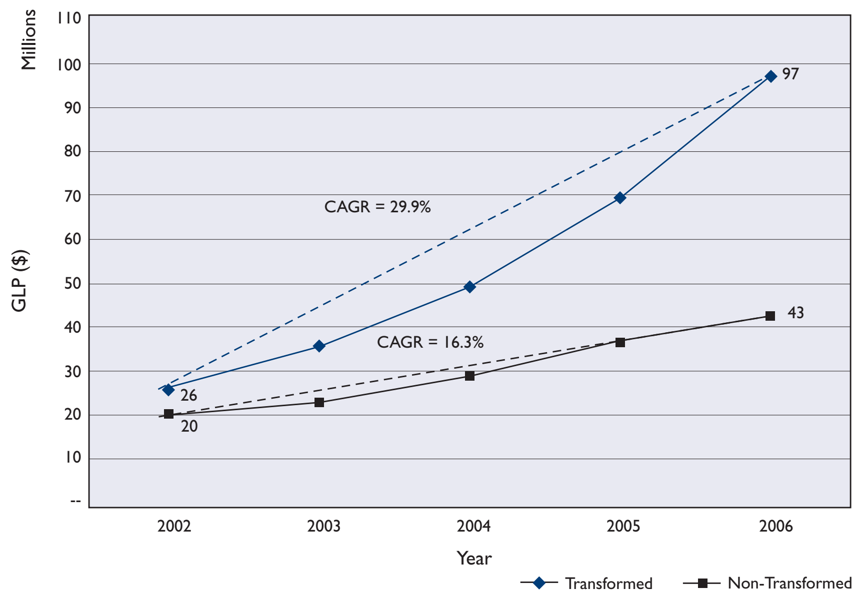
The following is a summary of primary findings from the WWB database based on the six indicators mentioned above; complete database findings are available as an appendix to this paper on the WWB website at womensworldbanking.org.

1. **Transformation results in increased client outreach and accelerated growth in total loan portfolio**

The total value of an MFI's loan portfolio is sometimes used as a proxy for the institution's breadth of outreach. While the year-over-year change in gross loan portfolio serves as a useful indicator of an MFI's overall growth, it is not always the most effective measure of the breadth of coverage because it is susceptible to biases from a small number of very large loans. Therefore, gross loan portfolio must be considered alongside the total number of active clients reached by an MFI to get a complete picture of the institution's outreach. Also, many MFIs offer a range of non-credit products (such as savings and insurance) which would not be captured in the gross loan portfolio figure but are important considerations in measuring the institution's outreach.

Graph A below shows the **considerable impact of formalization on accelerating the growth in an MFI's gross loan portfolio**. The impact of transformation is demonstrated by comparing the transformed set against the non-transformed set on an absolute year basis. The left side of Graph A shows that the average combined gross loan portfolios

Graph A: Gross Loan Portfolio, Transformed vs. Non-Transformed Set

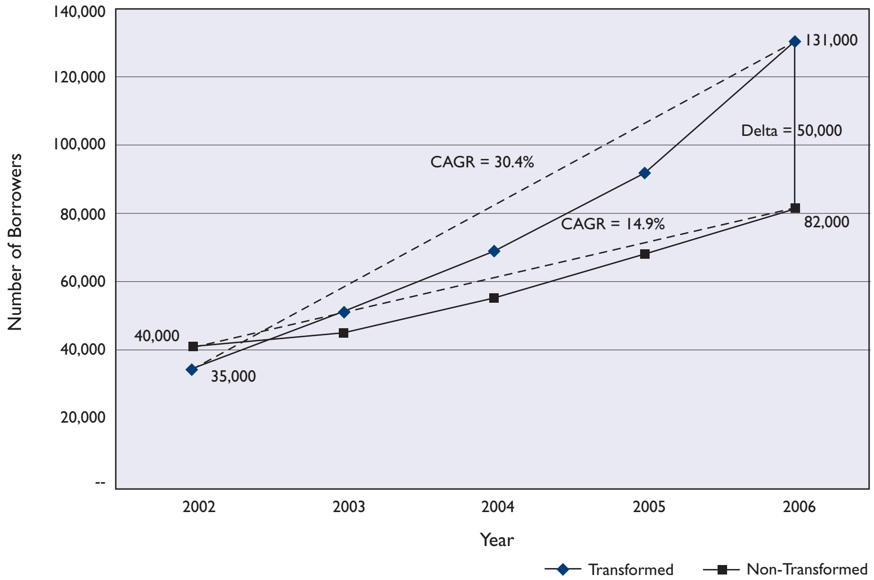


outstanding for all of the institutions in the transformed and non-transformed MFI sets were approximately the same in 2002 (the average of the transformed set was US$ 26M, the non-transformed set US$ 20M). However, the growth rates of the two sets diverged significantly after 2004. On the right side of Graph A, we see that the transformed MFI set achieved a compound annual growth rate (CAGR) in total gross portfolio outstanding of 29.9 percent during 2002-2006, versus a 16.3 percent CAGR during the same period for the non-transformed group. In 2006, the combined gross portfolio outstanding climbed to US$ 97M for the transformed set and US$ 43M for the non-transformed set.

Another conclusion that can be extrapolated from these figures is that transformation might have an important acceleration effect on the flow of capital into an MFI. If we apply the principle of economies of scale to MFI portfolio growth, we would expect an MFI's profitability, and hence retained earnings, to increase in line with gross portfolio outstanding. With higher retained earnings (a key component of an MFI's equity base), the institution is able to borrow greater amounts of capital from local and international banks since these banks lend to MFIs at some multiple of their equity base. Thus, portfolio growth will typically result in greater access to commercial funding which will provide the institution with more funds for on-lending to current and future clients. This trend confirms the motivations discussed above: that MFIs often transform in order to have greater access to commercial capital, to take advantage of client deposit mobilization (another source of funds in addition to commercial borrowings), and to achieve greater leverage of their capital base when borrowing funds.

An MFI's depth of outreach should be measured by considering its gross portfolio outstanding alongside its total number of active borrowers in order to determine scale and overall market penetration. In comparing the growth in the number of borrowers

Graph B: Number of Active Borrowers, Transformed vs. Non-Transformed Sets



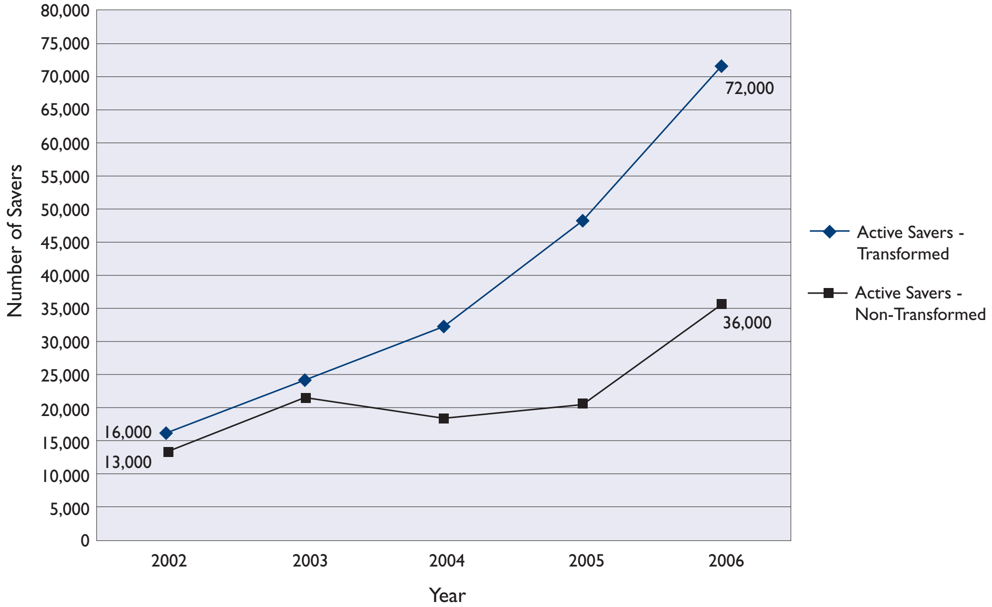
between the transformed and non-transformed groups from 2002-2005, we observe a trend similar to the ones discussed in the portfolio section above. In 2002, the combined average number of borrowers for the transformed group was approximately 35,000, only slightly lower than the non-transformed group average of approximately 40,000. However, as shown in Graph B, during the following five years the combined average number of active borrowers grew at a CAGR of 30.4 percent for the transformed group, as compared to a CAGR of 14.9 percent for the non-transformed group. By 2006, the gap between the two sets had grown significantly and the delta was approximately 50,000 for the combined average of the transformed group (130,000) versus approximately 80,000 for the combined average of the non-transformed group.

The steep growth in the number of borrowers displayed in Graph B, together with the increases in the portfolio outstanding displayed for transformed institutions in Graph A, is confirmation that the pace of expansion was significantly higher for the transformed set of MFIs compared with the non-transformed set. With the ability to raise new funds from commercial sources and mobilize deposits from clients, MFIs are able to expand their reach into new or under-penetrated areas, and can also expand their array of credit products which may steer clients away from competitors. The WWB database findings suggest that **annual growth in client outreach tends to be significantly higher for transformed institutions as compared with non-transformed MFIs**.

2. Transformation results in product diversification—particularly with respect to the mobilization of client savings

The ability to legally collect client savings or deposits as a regulated financial institution is often the driving factor behind an MFI's decision to formalize. A 2006 CGAP study indicates that as few as six percent of adults in some parts of the developing world have savings

Graph C: Total Number of Active Savers, Transformed vs. Non-Transformed



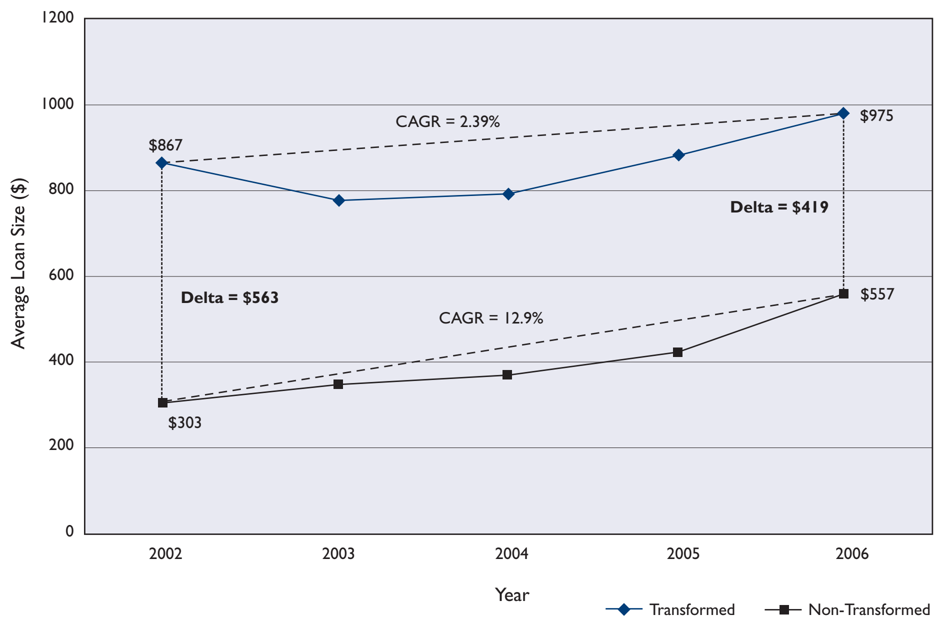
accounts in financial institutions.[7] Despite the slow growth of microsavings to date, it is clear from WWB's research that savings products are of utmost importance to microfinance clients for two reasons: first, there is tremendous demand for these services among low-income entrepreneurs who are eager to find a safe place to save and eventually use their savings to purchase assets such as land, homes, cars and equipment. Secondly, savings provide a protective cushion and security for clients in times of sudden liquidity needs—such as health emergencies and natural disasters. Low-income households have always used a wide variety of informal savings mechanisms and transformed MFIs that have successfully attracted microsavers have created innovative savings products that offer some of the same features as informal mechanisms, such as convenience. For MFIs, client deposits are usually a very low-cost source of funding (interest rates on client savings accounts tend to be low or de minimis) such that RFIs can earn significant yield by on-lending these funds in the form of microfinance loans, which bear a higher rate of interest.

Consistent with the arguments discussed above regarding an MFI's desire to legally mobilize client deposits as a key driver of transformation, Graph C demonstrates that transformed MFIs exhibited a steadily increasing number of active savers (CAGR 45 percent) in the period from 2002 to 2006. The combined average number of savers for the transformed group was approximately 75,000 in 2006 up from approximately 15,000 in 2002. This increase suggests an expansion of the client base targeting both new and existing clients looking for saving products. In some cases, in the years following transformation, MFIs actually experienced faster growth in their client base of savers than in the client base of borrowers. In many transformed MFIs in Africa and South Asia, the total number of active savers far exceeds the total number of active borrowers. **The increases in the number of active savers, and the impressive growth in the total amount of savings mobilized by transformed MFIs, are further proof of the importance of offering savings products as a key motivation for MFI transformations**.

3. Transformation tends to result in higher average loan sizes for RFIs than NGO MFIs

Partly due to the absence of more precise data, some analysts monitor changes (increases) in the average loan size of an MFI as a proxy for measuring mission drift. While an MFI's average loan size is a useful metric to follow because it is readily available from the institution's

Graph D: Average Loan Size, Transformed vs. Non-Transformed



MIS system, we believe that there are a number of drawbacks to using this indicator as a measure of mission drift, some of which are covered above (see page 6, “What Have Other Studies Shown on Mission Drift?”). There is often a weak correlation between the loan dispersed to a client—and by extension, the average loan size of an MFI—and the actual level of poverty of that client. Anecdotal evidence shows that larger businesses sometimes apply for small loans, and conversely that lower-income clients may be authorized to borrow larger loans. This can happen either because of weak credit analysis or because the clients have graduated up from smaller loans through repeat loan cycles.[8]

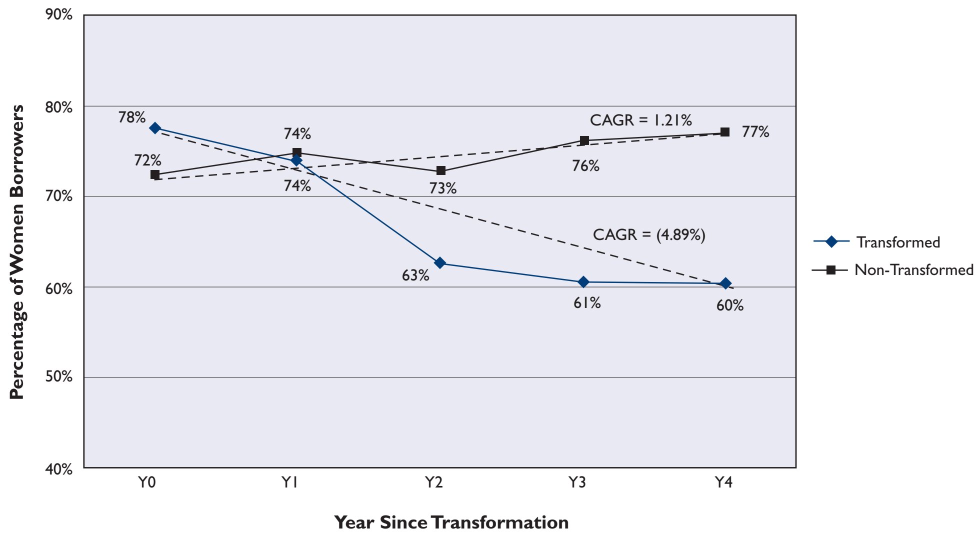
The findings from the analysis of average loan size (ALS) in our database confirmed the notion that transformed RFIs tend to disperse larger loans whereas NGO MFIs tend to offer smaller loans. On average, we found that the transformed MFIs consistently provide loans that are approximately two to three times greater than those provided by the non-transformed MFIs between 2002 and 2006. However, the difference between the average loan sizes between the two groups converges in 2006, suggesting that as NGOs grow and mature –perhaps in combination with improving local economic environments—there is a tendency for their average loan sizes to increase.

As gross portfolio outstanding increases and MFIs can offer a wider range of credit products (including loans of different sizes and tenors), MFIs may be expanding the overall number of people with access to the microfinance services, therefore prompting market expansion rather than shifting away from low-income clients.[9] In conclusion, we found that an RFI’s average loan size increases after an MFI transforms; however, until the data can be disaggregated we will not know how this affects outreach and client base.

4. **Transformation allows MFIs to serve more women clients, but the percentage of women clients being served declines**

Women’s World Banking believes there are exponential benefits to serving the financial needs of low-income women entrepreneurs. Research has shown that women typically contribute a higher percentage of their earnings to the household than men. Furthermore, studies have shown that women tend to prioritize their children’s needs—spending a greater percentage of disposable income on the children’s education, clothing and healthcare—than do men, thus catalyzing greater intergenerational benefits. Because women are responsible for saving in most households, and face different risks than men, they tend to prioritize savings and asset creation over consumption. In addition, when women have the ability to earn their own income there are other transformational effects inside the household, including the fact that women often enjoy greater decision-making power and autonomy as a result of their increased economic participation. While there is still much research to be done in this area, there is evidence to suggest that in many cases women experience significant economic empowerment as a result of microfinance loans. WWB believes that more women will be empowered if they have access to a suite of affordable, reasonably priced products such as credit, savings and insurance and are consistently treated with respect by a microfinance provider.

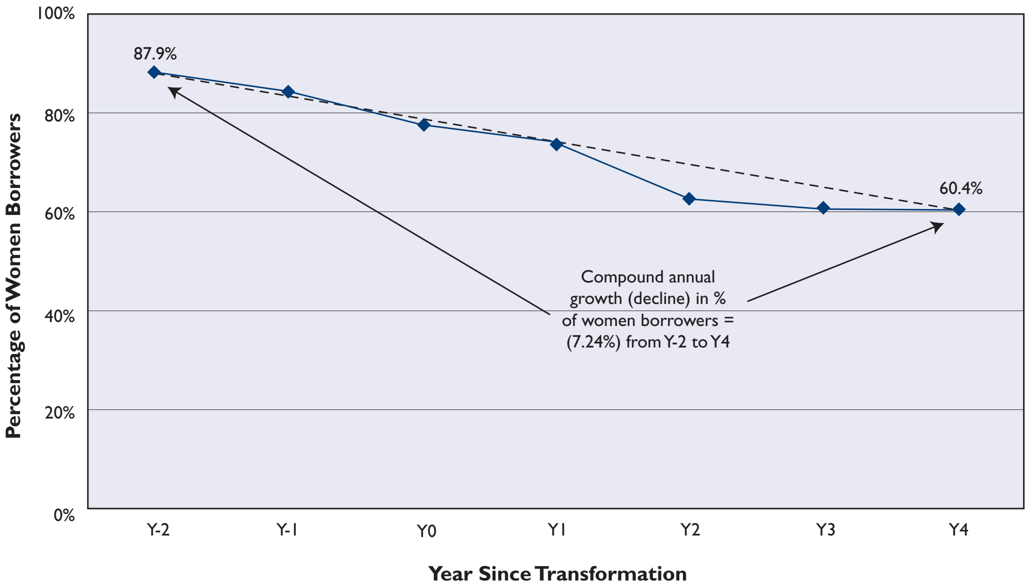
Graph E: Percentage of Women Borrowers, Transformed vs. Non-Transformed



*Y0-Y4 = 2002-2006 for the non-transformed MFIs
Y0 = year 0 of the transformation for the transformed MFIs

WWB is dedicated to helping our network member MFIs deliver on this value proposition to their female client base. Commitment to this core client base informed an important part of the analysis of the transformation database. In order to identify trends relating to the number and percentage of women borrowers for RFIs, we chose to focus on the percentage of women borrowers as a proxy for the MFIs' focus on women clients (based on the most readily available data). **The trends show that there was an unmistakable drop-off in the percentage of women clients served by RFIs in the years following transformation**. Furthermore, comparisons between the transformed and non-transformed set on both a relative year (as seen in Graph E) and an absolute year basis showed that non-transformed MFIs consistently served a higher percentage of women clients than their RFI peers. Although the absolute number of women clients that were served by both the transformed and non-transformed sets rose significantly over the period of analysis, Graph F on the following page shows that the percentage of women borrowers (as a fraction of the entire client base) served by the transformed set decreased from 88 percent to 60 percent—implying a decline in the percentage of women clients being served of 7.3 percent per annum.[10]

Graph F: Average Percentage of Women Borrowers After Transformation (Relative Year Analysis)



*Y-2 = Two years prior to year of transformation

In order to confirm the validity of the findings from the WWB database, we consulted MIX Market benchmarking data on the percentage of women clients served by MFIs of various legal structures.[11] The table below represents the entire set of MFIs reporting to MIX Market on an annual basis, broken down by legal structure (or charter type in MIX terminology). The trends from the MIX analysis confirm the findings from the WWB database. The NGO MFIs reporting to MIX consistently served approximately 80 percent of women clients, whereas the bank and NBFI (Non-Bank Financial Institution) models were rarely above 50 percent or 60 percent. In 2006, of 446 institutions reporting, the highest percentages of women clients were found in those institutions which are: young, NGOs or credit unions, small in scale, not-for-profit and not financially sustainable. The lowest percentages are found in mature, for-profit, large-scale banks and non-bank financial institutions. The percentage difference between the banks and the NGOs may partly be explained by the fact that many of the banks reporting to MIX are "downscaling" commercial banks which most likely had never focused on outreach to women. Nevertheless, the findings are clear: **when the microfinance industry is disaggregated by legal structure, MFI NGOs have a significantly higher percentage of women borrowers than comparable transformed or regulated institutions**.

There are a variety of explanations for this trend. First, women tend to own smaller businesses than men; because these businesses generate less cash flow, the capacity of

Table 1: MIX Market Benchmark Findings[12]

MFI CHARTER TYPE	PERCENT OF WOMEN BORROWERS								
	UNIT	%	%	%	%	%	%	%	%
	YEAR	1999	2000	2001	2002	2003	2004	2005	2006
BANK		35.1	47.4	48.3	52.3	52.8	50.0	52.5	46.0
NBFI		72.6	69.7	71.7	65.2	55.8	60.8	56.1	54.2
NGO		73.9	73.7	72.5	73.6	79.0	82.1	79.7	79.4

women entrepreneurs to absorb debt is, on average, lower than that of men. WWB has conducted several ground-breaking studies on this topic in an effort to determine why women's businesses tend to be smaller than those of their male counterparts in a variety of regions and cultures. Our research has shown that there is a clear link between the size of a micro-enterprise and society's gender roles (see "Why Women's Businesses Are Smaller" on the following page for additional information). In other research, WWB has analyzed the client bases of ten MFIs in different markets in order to determine the best way to segment clients for potential loans. In general we have found two broad segments: the "income-generating" segment and the "microenterprise" segment. The former is made up of small, often household-based activities that are highly seasonal and which require frequent business profit withdrawals for household expenditure. These businesses are better suited to receive smaller loans—most likely one given through the group lending methodology. Such loans can be paid off from the income-generating activity or any other source of household income. This segment is dominated by women. By contrast, the "microenterprise" segment is composed of businesses that generate sufficient revenues to pay household expenditures and leave enough remaining profit to allow for reinvestment of capital back into the business. These businesses tend to be growth-oriented, less-seasonal, and are often located outside of the family home. These microenterprises are targeted for the individual lending methodology. The majority of clients who own businesses in this segment are men.[13] Related to this point, there is a correlation between an MFI's legal structure, the institution's predominant lending methodology and the gender composition of its client base. NGO MFIs typically offer group lending, and therefore tend to have a high percentage of women clients, while regulated financial institutions often offer only individual lending, and therefore have a smaller percentage of women clients.

A second explanation of why an MFI might move away from serving women clients post-transformation is related to institutional profitability and the need to increase average loan sizes in order to improve margins. Because large loans are less costly to administer than small loans, institutions may seek to offer larger loans as a means of improving efficiency ratios and generating more income. At the same time, most MFIs operate in highly competitive markets. Several WWB network member MFIs that previously had offered only group loans later made the strategic choice to add an individual loan product to serve their "microenterprise" segment clients. Their rationale was that this segment was often underserved, especially in markets where group lending had traditionally been dominant (e.g., South Asia). Adding individual lending capability gives a group lender significant competitive advantages over its peers. It allows the institution to tap into a new market segment, to offer additional products that are more flexible in loan size and tenor, and is a harder business model for competitors to replicate.

Why Women's Businesses Are Smaller

Since 2003, WWB has conducted four in-depth studies (in the Dominican Republic, Morocco, Bosnia and Herzegovina, and Jordan) to understand the barriers women face in growing their businesses. Though specific reasons vary among individuals and countries, some generalizations apply:

- ***Women spend less time maintaining their businesses:*** *Women are responsible for most household chores, child rearing, and caring for aged parents, which limits the amount of time they can devote to their microenterprises. This factor is particularly significant in countries such as Morocco, where women report that they are only able to work in the afternoons between 3 and 5pm, and in the evenings after 8pm. Globally, women state that the key to their success is being organized and having effective time management skills.*
- ***Women reinvest in their businesses at a lower rate than male counterparts:*** *Profits from a woman's business are likely to be treated as supplemental household income, even in cases where women contribute more than male partners. This tendency, coupled with the fact that women prioritize investment in their children, means that women are more likely than men to withdraw money from their business in order to finance household expenses such as tuition, food, etc.*
- ***Women's businesses exist in highly competitive sub-sectors:*** *Women tend to pursue business activities that are an extension of their household duties, such as food preparation, sewing, beauty salon services and trading. These subsectors tend to be highly competitive with low barriers to entry.*
- ***Women's businesses are situated in sub-optimal locations:*** *Child rearing responsibilities, as well as cultural barriers to mobility in some countries, often result in women operating their businesses from inside their homes. This limits the growth potential and, to some extent, the financial success of the businesses.*
- ***Women's businesses are "under the radar":*** *Many women whom we interview tell us that as they contribute more financially to their households, their male partners contribute less. It is unclear how much of a disincentive this is for women's re-investment in a single microenterprise, but it is an important trend to note. As such, women restrict the growth of their businesses so that they remain under the radar of their husbands, taxation authorities, and other financial actors.*
- ***Women entrepreneurs are limited by cultural attitudes and norms:*** *In some regions, traditional gender identities and roles preclude women from thinking of themselves as capable businesswomen who should be motivated to grow their businesses. Likewise, a woman must ask permission of a male member of her household—her husband if she is married, her father if she is not—before starting a business. The type of business she goes into must also be culturally acceptable (e.g., she cannot work in a business that would require interaction with men).*

Despite these difficulties, WWB has seen abundant instances of highly successful women micro-entrepreneurs served by our network members. It is important to look at the aggregated revenues from the multiple businesses that many women run and not simply at the revenues of a single business (usually an MFI's database tracks just one business—the business for which it made the loan). Investment across multiple businesses, also known as horizontal investment, *is a practice employed by many women microentrepreneurs.*[14] *It is also important to look at what women are investing business revenues in—school fees, nutrition, and health care for their households.*

WWB is left with a variety of questions on this topic: to what extent is the decline in percentage of women borrowers the practical result of shifts in methodology and product design rather than a shift in mission? What can be done to ensure that the microfinance sector keeps women as its primary customer base? Finally, and perhaps most importantly, what can the sector do to ensure that it maximizes its impact on women and poor households?

Remembering the Role of Microfinance for Women

The accelerated growth potential of transformed MFIs is the overriding positive trend observed in WWB's database and other transformation studies. However, WWB's findings from our database study raise concerns about the impact of MFI transformations on the outreach of financial services to low-income women. We hope that this paper spurs microfinance practitioners and other industry players to further discussion about how to maintain the social mission of microfinance, which historically focused on the provision of "micro" loans to low-income entrepreneurs, especially women.

WWB has worked in several areas to ensure that our network maintains and offers increasing value to women customers:

1. Conducting gender baseline studies so that network members get a deeper understanding of client realities and what kinds of products and services can have the greatest impact on households.

2. Designing all products (loans, savings, insurance) based on in-depth market research into the needs of both men and women, and ensuring that products are accessible to and have high impact on women.

3. Designing marketing strategies to acquire and retain women clients.

4. Designing brand strategies that honor women as contributors to household economies and business women.

5. Emphasizing innovation in products that are known to have particular impact on women, e.g., savings and insurance (particularly health).

6. Creating learning platforms, including practitioner workshops, and sharing knowledge with the sector on how it can improve its impact on women.

7. Working with other players to decide what social performance indicators can be tracked so that socially responsible investors have data to support their investment goals.

Practitioner Experiences with Transformation: Mission Drift, The Women's Market, and Managing Change

In order to frame our database findings with the realities of the field, we interviewed leaders of MFIs from within and outside of the WWB network. These leaders represent the gamut of legal structures, including formalized institutions, those that are in process of transformation, those that hope to transform in the future, and those with explicit intentions not to transform. These microfinance leaders described the difficult choices involved in balancing institutional sustainability and social mission. This section gives voice to their experiences and provides the reader with a deeper sense of the key questions that must be addressed with regard to transformation, particularly with respect to its impact on outreach to women clients.

MAINTAINING THE MISSION POST-TRANSFORMATION

A key concern of many in the microfinance industry is whether an MFI can maintain its core social mission after converting to a regulated, for-profit entity. There exists a broad range of perspectives on the question of the inevitability of mission drift for formalized institutions. Not surprisingly, the opinions of leaders from transformed and non-transformed institutions favored the legal status of the institutions they represented. Those that had taken the decision to transform argued that, with appropriate checks and rigorous oversight, institutions can successfully manage the balance of double bottom line objectives; those leaders who had explicitly chosen not to formalize saw a strong correlation between commitment to the MFI's mission and the MFI's status as a non-profit institution.

One important variable that appears to impact an institution's approach to the relationship between commitment to mission and transformation is whether transformation had been a part of the institutional vision from the time of its inception. CARD Bank in the Philippines was founded as an NGO in 1986 with the vision of becoming a formalized institution with its women clients as shareholders. Dolores Torres, CEO and founder of CARD Bank, saw the institution's mission and the transformation process as being in complete harmony, allowing the institution to deliver on its commitment to empower the women clients it serves: "as part of the mission we wanted [the clients] to participate and benefit as much as possible from their association with CARD; currently 29 percent of CARD's shares outstanding are owned by our women members."

Transformation was also part of the original vision of MI-BOSPO in Bosnia-Herzegovina, because of the clear need to stay competitive in that country's rapidly evolving market. For Nejira Nalic, CEO of MI-BOSPO, the institution's ability to deliver on its mission—the economic empowerment of women—depended on whether the institution could survive and compete: "our decision to transform was not because it is trendy; rather we view it as something we *must* do in order to maintain the mission. The idea is not to abandon our mission or our clients but to give them more product options which will help us survive better against the competition."

According to Roshaneh Zafar, the Founder and CEO of Kashf Foundation in Pakistan, the decision to transform into a microfinance bank (MFB) was simply the next step on the continuum of fulfilling Kashf's mission to "provide financial services for all." As an unregulated microfinance provider, Kashf Foundation was unable to mobilize savings from their 300,000 mostly-female client base. But given the importance of savings as a "key part in realizing the reduction of poverty among low-income people," said Ms. Zafar, "we [Kashf] felt that we must offer savings products to our clients alongside the group, emergency and enterprise loans that we have been offering for years." As a result, upon its transformation into an RFI, Kashf will immediately introduce a savings product which is "goal oriented" towards a certain economic hurdle such as the purchase of a motorbike or the payment of school tuition. According to Ms. Zafar, because women are the real savers in Pakistani families, the addition of a savings product to Kashf's product offering is an essential step in Kashf's ongoing mission to serve the women's market.

STAYING COMMITTED TO WOMEN, WHILE MANAGING GROWTH THROUGH TRANSFORMATION

WWB is particularly interested in understanding the relationship between transformation and an institution's ability to maintain its focus on serving low-income women. None of the leaders we spoke with assumed there is inevitable causal relationship between an institution's transformation and its commitment to serving low-income women clients. Nevertheless, there are concerns that growth and profitability can potentially impact the gender breakdown of an MFI's portfolio. A central question is whether an institution that has set aggressive growth targets post-formalization can sustain those levels of growth while maintaining its focus on serving women, who on average demand smaller loan amounts than men.

There are, however, many examples of formalized institutions that have successfully maintained their commitment to low-income women clients while at the same time managed strong growth rates. In the case of CARD Bank, the institution's growth was fueled not by going up-market to larger clients but rather expanding in terms of depth of outreach. CARD's credit portfolio is still 100 percent women clients, but savings have been mobilized from the general public, both men and women.

MI-BOSPO recently began the transformation process, and Ms. Nalic stated the possibility that her institution might expand its client base to include men in order to fuel future portfolio growth: "It is costly to exclusively serve women since most women begin with smaller loans which are not very profitable. We are committed to serving these clients, though, so we may have to expand and open our services up to men [who tend to start off with a larger initial loan] in order to be able to sustainably serve our women's niche.

For us, an important motivation [for transformation] was that as a non-profit we are not allowed to issue loans greater than 10,000KM [equivalent to US$ 8,089]. [Once we are a formalized MFI] we will need to learn how to make larger loans that are tailored to male and female clients." For those institutions that are expanding to serve male clients, it is also important to determine which indicators can be monitored in order to ensure that their focus on women is not lost. MI-BOSPO has not set particular targets, but Ms. Nalic envisioned that male clients would never represent more than 20-25 percent of the total client base.

Key Considerations for Targeting the Women's Market

- ***Ask for minimal and accessible guarantees:*** *Because women are asset poor, part of the success of group lending has been that very little or no collateral is required to get a loan (i.e., women co-guarantee each other). Borrowers are often asked to save the equivalent of a percentage of the loan amount with an institution before accessing a loan. If this percentage is kept low, it is one of the easiest requirements for women to meet. Institutions that mandate property title as a guarantee and those that require a salaried employee as a co-guarantor will attract very few women clients.*
- ***Provide simple forms and explanations:*** *Low income women tend to be less educated than their male counterparts and less financially literate; MFIs should provide simple forms and explanations, with perhaps some financial literacy embedded.*
- ***Guarantee confidentiality:*** *During WWB's research many women reported that as they increased their financial contribution to the household, their male partner reduced his. It is important to be sensitive to a woman's need for confidentiality from her financial services provider. Institutions need to think carefully before mandating that the husband's signature be required on the loan agreement. Likewise, with savings products, savers should be allowed to keep their balances confidential.*
- ***Keep transaction time minimal:*** *Women have little time to spare. Keeping the time spent at group meetings and in branches to a minimum is important.*
- ***Design effective marketing:*** *Marketing campaigns include promotion activities in residential neighborhoods, and when children are collected from schools. MFIs should focus on delighting—not just satisfying—the customer because of the prevalence of "word-of-mouth" marketing, and on the power of social marketing techniques to encourage women's emotional aspirations (i.e., being successful business women; being recognized as financial contributors to the household; being independent and capable of making financial decisions).*
- ***Provide excellent customer service:*** *An MFI's front-line staff are the ambassadors and representatives of the institution; the profiles and training of loan officers can greatly impact clients' experience with and loyalty to the MFI. In many countries, women clients indicate a preference for their portfolio to be managed by women loan officers. Loan officers' attitudes towards women clients—how well they treat women clients, how aware they are of the realities and challenges that these clients face—can greatly affect clients' levels of satisfaction and the likelihood that they will refer the organization to their family and friends.*
- ***Offer savings and insurance tailored to the needs of women:*** *Women are the savers in most households, and want safe savings products that enable them to save for lifecycle needs such as health emergencies, school fees, housing, marriage of their children, old age, etc. Likewise, women want access to health insurance for their families.*

As noted above, Kashf Foundation's decision to transform into a regulated microfinance bank is closely aligned with its mission to "provide financial services for all," thus Ms. Zafar said that she is not concerned about "mission drift" in the traditional sense. Furthermore, she noted that Kashf had conducted extensive research on different market segments in Pakistan to understand the correlation between average loan sizes and target clients. The regulated Kashf entity will focus on the individual loan or enterprise loan segment while the Foundation will continue to offer group loans. A key finding, she noted, was that women entrepreneurs were much better accessed or served by women loan officers. Thus, an important part of Kashf's transformation plan includes the recruitment and promotion of female loans officers who are given incentives to specifically to bring in new women clients. She also noted that some adjustments would be made to the enterprise loan methodology to suit female clients (including placing less emphasis on existing inventory, because women tend to run businesses such as beauty salons and schools which require a different kind of credit appraisal)—but overall, Ms. Zafar expressed confidence that there were ample women entrepreneurs in the Pakistani market who were in need of enterprise loans.

PROFILE OF INVESTORS, BOARD AND STAFF: A FOCUS ON WOMEN CLIENTS AND RESOURCES

A newly formalized institution requires a new set of skills and actors to enhance the capacity of the institution, from the staff and management levels to the board and investors. All of the leaders interviewed named the identification of like-minded board members and stakeholders as a key success factor to maintaining a double bottom line. Ms. Nalic explained that MI-BOSPO is in the process of identifying potential investors, a multi-step process which will allow the institution to carefully match itself with investors who share the same vision for the institution: "We will begin by coming up with criteria for future shareholders. Then we will assess who is interested in investing is us and see where the two groups overlap. Agreement with our mission will be an important part of our criteria for screening investors—we do not want anybody to come here and try to change MI-BOSPO's vision and mission."

In the case of CARD Bank, no external investors were tapped because the capitalization was funded with members' compulsory savings and retained earnings. CARD Bank did not require capital from international investors in order to transform, but Ms. Torres knew from the beginning that the profile of the board would be critical to achieving the double bottom line: "We [CARD's founders] are here in order to make sure that the institution fulfills its social mission. We did invite independent directors to help us with this balance and also to help us monitor profitability. The role of the board in balancing mission and profitability is a very important one."

TRANSFORMATION AND COMMERCIALIZATION: CONCLUDING THOUGHTS

The most commonly voiced motivation for formalization among those interviewed was improved access to funding and product diversification. Nejira Nalic explained that MI-BOSPO's primary motivators concerned funding the institution's sustainability and growth: "In order to grow, we must be able to draw on investor capital which will give us a larger equity base. We will then leverage this equity base in order to increase our borrowings from local banks. As a formalized MFI, banks will allow us to leverage our equity base at a higher multiple than we can presently do as an NGO MFI." In the case of CARD Bank, Dolores Torres explained that the primary motivation for formalization was to decrease the institution's reliance on donor funding: "At the time [1996] we felt that donors were showing some fatigue in providing grants and assistance [to MFIs]. So we thought if we could mobilize savings from the public then we could sustain our operations." As mentioned earlier, the process of transforming into a formalized financial institution affords a microfinance provider the ability to diversify its product offerings, particularly savings, in most regulatory environments. CARD is one institution for whom the prospect of public savings mobilization answered a strong need for alternative fund sources that eventually eliminated the reliance on donor funding. "By mobilizing savings," said Ms. Torres, "we thought we could ensure funding for future portfolio growth. That was our first motivation."

Transformation is a central component of the commercialization trend in the microfinance industry. As we celebrate the astonishing growth and future potential for microfinance afforded by commercialization, we must be mindful of the industry's initial target clients—poor and low-income women entrepreneurs—and their central role in the mission to reduce poverty. Will the need to generate profits lead transformed MFIs to serve higher income and less risky clients or maintain unnecessarily high interest rates on client loans? The microfinance industry needs to remain alert to the potential for mission drift, and ensure that the movement toward larger and more profitable loans does not come at the expense of low-income entrepreneurs that have formed the core of the industry since its inception.

Notes

1. We believe that the trends which have emerged from this analysis are an accurate reflection of historical results related to MFI transformations in general. However, neither the results of this analysis, nor any of the conclusions of the paper, are intended to be predictive for future MFI transformations on an individual or institution specific basis.

2. The principal purpose of gathering information on shareholders of the formalized MFIs was to discover whether the new investors were truly "private" or public or development institution investors, and to see how equity shareholding structures changed in the years after formalization. In particular, we were interested in seeing whether stakes purchased initially by development organizations or international financial institutions during the transformation process were later sold to local or fully commercial investors. In the end, we detected very few changes in the shareholding structure over the years; this confirmed our suspicion that microfinance investment exits are still in a nascent stage of development.

3. "Commercialization and Mission Drift: The Transformation of Microfinance in Latin America," Occasional Paper Number 5. January 2001, pages 14 and 15. http://www.cgap.org/docs/OccasionalPaper_05.pdf

4. Though we would have preferred to construct and analyze a dataset of MFIs that transformed just prior to or after 2002 (in order to better isolate the impact of transformation on the social and financial indicators) we recognized that this was not feasible as the sample sizes are too small for a conclusive analysis. In addition, we felt that it was important to consider the performance of transformed MFIs that had been operating as RFIs for several years in order to observe a longer trend-window.

5. Several problems should be noted with regard to the relative year analysis. Because of the disparity in the range of transformation years (i.e., the distribution between 1990 and 2005) among the MFIs in the transformed set, there are inconsistent numbers of MFIs included in the out-year calculations when the data-supply dwindled. For example, in the case of an MFI that transformed in 1996 we were able to generate ten years (or up to Y10) worth of relative year data, whereas in the case of an MFI that transformed in 2002 we were only able to generate four years (up to Y4) of relative year data. In brief, the majority of our database of MFIs had approximately 4 years of post transformation experience; thus, we were able to see some indicative trends from these figures though we are reticent to draw many conclusions from such a small set of observations.

6. Please refer to CGAP Focus Note, Number 41, published in May 2007, for additional information on social performance monitoring. The paper notes that social performance monitoring in microfinance is about "truth in advertising. Many individual donors, foundations and governments put money into microfinance with the belief that microfinance helps poor people. To be accountable to these funders, MFIs (or those who support them) should be able to report on how (or whether) the stated goals they have promised (i.e., improved earnings, reduced vulnerability, increased empowerment, etc.) are being realized." The paper also mentions other tools (such as CERISE and the SPA tool among others) as well as a list of Core Social Performance Indicators that should be considered when assessing an MFI's social performance.

7. "Safe and Accessible: Bringing Poor Savers into the Formal Financial System," CGAP Focus Note no. 37, September 2006.

8. The ratio of average loan size as a proportion of GDP per capita is often preferred to the simple average loan size calculation since this is viewed as a more accurate proxy of an MFI's poverty focus.

9. Another factor to consider when examining an MFI's average loan size is the distribution between group and individual loans at the institution. Many MFIs with gross loan portfolios predominantly composed of group loans have average loan sizes which are inflated relative to the size of their client base.

10. At the same time, in 2006, the final year of the database's analysis, the transformed MFI set served on average twice as many women borrowers as the non-transformed set. Recognizing the potentially favorable and unfavorable implications of these findings, WWB believes the issue is worth further exploration.

11. The MIX MARKET is the preeminent platform for web-based information on microfinance. Mix gathers data from MFIs, public and private funds that invest in microfinance, MFI networks, raters/external evaluators, advisory firms, and governmental and regulatory agencies around the world and provides information to sector actors and the public at large. The MIX Market seeks to develop a transparent information market to link MFIs worldwide with Investors and Donors and promote greater investment and information flows.

12. MicroBanking Bulleting, Issues 8, 9, 10, 12, 13, 15, Benchmarking Tables. http://www.mixmbb.org/Templates/PreviousIssues.aspx

13. The gender asymmetry between segments is less pronounced in Latin countries and more pronounced in the Middle East and North Africa (MENA) and South Asia.

14. Women tend to invest *horizontally*. This allows them to smooth cashflows across weeks, months and seasons, as different businesses have different cycles. It also means that if one business fails, other income sources are available. Women may also diversify by building a room or two to be rented out. This is a means of securing income for old age.

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About WWB

Our mission is to improve the economic status of poor families in developing countries by unleashing the power inherent in women. We believe that when a woman is given the tools to develop a small business, build assets, and protect against catastrophic loss, she is empowered to change her life and that of her family. Drawing on our diversity, resources and experience, WWB's global team of advisors helps to strengthen the microfinance organizations and banks in our network that share our commitment to helping poor women access financial services and information.

Women's World Banking was created in 1979 to be a voice and change agent for poor women entrepreneurs. Our goal is to continue to build a network of strong financial institutions around the world and ensure that the rapidly changing field of microfinance focuses on women as clients, innovators and leaders.

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