IFAD
Investing in rural people

Lessons learned
Formalising community-based microfinance institutions

Inclusive rural financial services

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These notes are "living" documents and will be updated periodically based on new experiences and feedback. If you have any comments or suggestions, please contact the originators.

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List of acronyms

A3C	Association des CVECA et CECA du Centre
ACEP-Senegal	Alliance de Crédit et d'Epargne pour la Production du Senegal
APFI-Burkina	Association de Promotion de la Finance Inclusive du Burkina
CECA	Self-managed savings and credit institution
CIDR	Centre International de Développement et de Recherche
CNCAS	Caisse Nationale de Crédit Agricole du Senegal
COBAC	Central African Banking Commission
COOPEC	Savings and credit cooperative
CVECA	Self-managed village savings and credit institution
EU	European Union
IFAD	International Fund for Agricultural Development
K-REP	Kenya Rural Enterprise Program
KWFT	Kenya Women Finance Trust
MFI	Microfinance institution
MIFED	Microfinance et Développement
MIS	Management information system
NGO	Nongovernmental organization
PADME	Promotion et Appui au Développement de Micro-Entreprises
PAMIGA	Participative Microfinance Group for Africa
PARMEC	Programme d'Appui à la Règlementation sur les Mutuelles d'Epargne et de Crédit
SACCO	Savings and credit cooperative
UML	Uganda Microfinance Limited
UMU	Uganda Microfinance Union
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union
WAGES	Women and Associations for Gain both Economic and Social
WPS	Wakenya Pamoja SACCO

Introduction

Despite the progress made in the microfinance sector, its expansion has been hindered in large measure by institutional and financial impediments. This situation has led some institutions to embark on an institutionalization, institutional transformation, or regrouping process to overcome the obstacles in their path.

The first African institutionalization and institutional transformation operations of microfinance institutions (MFIs) (ACEP in Senegal and K-REP Bank in Kenya, respectively) began in the 1980s. The success of these operations spurred new initiatives such as the institutionalization of PADME in Benin and ACEP in Cameroon and the institutional transformation of UMU in Uganda and FAULU and KWFT in Kenya.

Microfinance regrouping operations are a more recent phenomenon dictated essentially by regulatory constraints.

The main reasons for these MFI institutional transformation and regrouping operations are the desire to mobilize additional financial resources to fuel growth; the need to clarify ownership of MFIs with the legal status of association/NGO, improve their governance, expand the range of products they offer so as to boost their competitiveness, and ensure their institutional and financial viability; and finally, regulatory changes.

Context and challenges

Context

Microfinance developed in Africa during an initial “experimental” phase (1980-1990) with little State intervention but with the gradual support of donors from the North. States confined themselves, on the one hand, to accepting or rejecting development projects that included a microcredit component, and on the other, to tolerating the creation of microcredit associations/NGOs. At that point, microfinance was considered a primarily social activity. The personnel at the helm of these institutions were often selected on the basis of a profile with a generally social and community development orientation. The necessary qualifications did not include specific financial management and banking competencies.

The innovations in microfinance gradually began to be put to the test, and the first successes sparked worldwide enthusiasm about this “new tool in the fight against poverty and promotion of private initiative.” Donors that traditionally had not been involved in the microfinance sector began to take an interest in it, and microfinance projects and associations/NGOs multiplied in nearly every country in Africa.

The development of the microfinance sector unfolded in a context marked by an almost complete absence of State regulation. There were still no laws regulating microfinance; the information possessed by States about the sector’s development was extremely limited; mechanisms and tools for monitoring microfinance institutions were virtually nonexistent; there was no coordination of field operations, either by the States or donors. The result was a runaway sector with no regulatory safeguards. In many countries, this led to unhealthy competition among microfinance institutions that was damaging to the sector, resulting in crises in many of these institutions and the bankruptcy and closure of some of them in the early 1990s.

This crisis opened the eyes of government authorities and development partners to the need to professionalize, regulate, and supervise the sector. Thus, in the mid-1990s, lawmakers began to adopt stricter regulatory and legislative mechanisms, especially for institutions that accepted savings from the public or their membership. This was the case with the PARMEC law (*Programme d'Appui à la Règlementation sur les Mutuelles d'Epargne et de Crédit* [Program to Support the Regulation of Savings and Credit Mutuals]) for the member countries of the West African Economic and Monetary Union (WAEMU).[1]

These new regulations led to a change in the perception of microfinance, which traditional political dogmas had considered a purely social activity that should remain unfettered by specific regulations.

By imposing financial management rules and requiring professional organizational frameworks, lawmakers made it clear to stakeholders that microfinance was an activity in its own right, subject like any other financial activity to the rules of transparency, sound management, and good governance.

Constrained by increasingly stringent regulatory frameworks, microfinance institutions quickly took steps to boost their institutional and technical capacity to keep up with the growing demands of better-educated and increasingly savvy clients.

Thus, after the first experimental phase in which objectives were often measured by growth in the volume of loans and the number of disadvantaged people served, the priority gradually shifted toward the search for the financial and institutional sustainability of MFIs. This search for sustainability pushed MFIs in three directions:

- Microfinance projects began to be institutionalized by obtaining legal status as either associations/NGOs, cooperative/savings and credit mutuals, or capital companies;
- Large microfinance associations/NGOs began transforming into capital companies;
- MFIs whose small size prevented them from meeting the regulatory requirements for organization and management on their own began to regroup.

Challenges related to MFI transformation and regrouping

The following are the main challenges of MFI institutional transformation or regrouping operations:

- Selecting investors that support the original mission of the institutions involved and establishing a system of governance that ensures the pursuit of that mission is not easy;
- The composition of the governing bodies of the new entity resulting from the operation: what place will the elected officers of the old organizations have in the new entity's governing bodies and why?
- Redeployment of staff from the old organizations to the new entity resulting from the operation: Who will be the director of the new entity? Which staff from the old organizations will be transferred to the new entity and why? Which staff will remain in the old organizations and why?
- The distribution of capital between the old organizations and the new shareholders: Who will be the majority shareholder and why? Should international investors be allowed in and why? Should the elected officers, directors, and senior management of the old organizations have a share in the new entity's capital? Why, how, and in what proportion?

[1] The contexts used as the basis for the design of these toolkits are African. More specifically, the legal and regulatory framework is the one prevailing in the WAEMU Member States. Most of the analyses and concepts, however, are applicable to other legal and regulatory contexts and frameworks.

- The upgrading of the MIS: Identifying and implementing a higher-quality MIS capable of producing reliable and timely information at a reasonable cost has always been a headache. Furthermore, once a good MIS is selected, transferring the data from the old system to the new one is very complicated and takes a great deal of time;
- Modifying procedures to comply with regulatory requirements and investor demands and mitigate the risks associated with growth has proven an onerous and difficult undertaking;
- Harmonizing procedures when regrouping several entities is not easy;
- Developing new affordable products centered on client needs often entails the need for new competencies heretofore lacking in the organization, confronting it with a dilemma: should it train existing personnel in order to acquire these new competencies, or should it recruit new personnel that already have them? If the latter, where will it find the funds to pay the new personnel?
- Developing a common corporate culture among personnel (old and new) and its corollary, formulating of an effective human resource policy, is not easy;
- Migrating clients (transferring credit and savings contracts) from the old organizations to the new entity is an operation that could prove difficult from a legal standpoint.

Risks associated with MFI transformation and regrouping

MFI institutional transformation or regrouping operations entail many risks, the most significant of which include:

- Cost overruns for the operation;
- Time overruns for the operation;
- Resistance to change on the part of the partners, rank-and-file personnel, and managers of the organizations involved;
- Blocking of the operation due to conflicts of interest between the heads of the old organizations and new investors;
- Change in the original mission of the organizations involved;
- Misinterpretation of the operation by the clients and main partners of the organizations involved.

Lessons learned

Many MFI institutionalization, institutional transformation, and regrouping operations have been carried out in Africa, yielding many lessons that will be very useful to the microfinance organizations and technical and financial partners that will undertake these types of operations in the future. These lessons are presented here with examples of successful or unsuccessful cases.

Existence of an appropriate legal and regulatory framework

In the past, the absence of regulation had the advantage of fostering innovation and the proliferation of microfinance institutions. Today, it is clear that an appropriate legal and regulatory framework is necessary to ensure the financial and institutional viability of MFIs, the security of credit and savings operations, and the professionalism of stakeholders and to enable the microfinance sector to transition from a sector dependent on subsidies to an autonomous sector. This framework should establish clear rules that will allow MFIs to easily transform or regroup and accept savings from the public.

Case of K-REP in Kenya

The Kenya Rural Enterprise Program (K-REP) began operations in 1984 as a nongovernmental organization (NGO) with the mission of financing small and medium-sized enterprises. In 1989, the organization reoriented its social objective to focus on microcredit activities.

As the first microfinance NGO in Kenya to transform into another type of institution, K-REP has been a veritable school for the banking sector in general and the Central Bank of Kenya in particular in the field of microfinance. When K-REP made the decision to become a private commercial microfinance institution, Kenya had no legal and regulatory framework that would allow it to do so. The institution therefore chose the only option available: to become a commercial bank. It was only after K-REP's transformation that the Central Bank of Kenya created a specific legal and regulatory framework permitting the institutional transformation of many other microfinance NGOs and projects in the country.

Case of ACEP in Senegal

Through an agreement signed with Senegal in January 1984, USAID launched a community and business development project in the Kaolack and Fatick regions, considered areas of the country with great food production potential. The project had two components: "village organization," which provided village organizations with donations, credits, technical assistance, and literacy classes; and "small enterprises," which offered support to small enterprises in the areas of management, accounting, and credit.

In 1987, after an evaluation of the project, the activities of the "village organization" component were cut back, to the benefit of the "small enterprise" component, whose outcomes were considered satisfactory.

It should be noted when the project was created, the "small enterprise" component was expected to be taken over eventually by the *Caisse Nationale de Crédit Agricole du Senegal* [National Agricultural Credit Union of Senegal] (CNCAS) or some other private bank. However, the Government of Senegal subsequently found the idea of transferring the project's public goods to the private sector problematic and held that this component should be institutionalized. However, the regulations governing financial activities in Senegal at the time did not support such a transition. There were no microfinance regulations, no bank was interested in the project's target clientele, and the project's asset base was too small to allow it to become a bank.

In the end, the Minister of Finance was requested to propose a special interim law that would allow the project to act as a credit mutual until the PARMEC law went into effect. Thus, the *Alliance de Crédit et d'Epargne pour la Production* (ACEP) was created on 23 March 1993.

Need to involve the regulatory authorities

MFI institutional transformation or regrouping operations often require preauthorization at the start and approval at the end. In order to secure these authorizations, it is necessary to prepare and submit a dossier with the necessary documentation, which is examined by the regulatory authorities. Involving the regulatory authorities (those in charge of microfinance at the ministry of finance, the central bank, and the banking commission) from the outset (that is, the design phase and preliminary studies) is key to the success of MFI institutional transformation and regrouping operations. Their involvement provides MFIs with useful guidance for preparing the documentation (preauthorization and approval requests) and, above all, will shorten the time required for the regulatory authorities to examine the documentation.

Case of WPS in Kenya

In 1976, the Kisii Farmers Cooperative Union created a savings and credit cooperative (COOPEC) called the Gusii Farmers Rural Sacco Society Limited. This savings and credit cooperative is governed by Kenya's cooperatives law.

In 2006, with the assistance of PAMIGA, COOPEC created a microfinance department, expanded its client base to include farmers, civil servants, retirees, businessmen, and the employees of other institutions operating in the region, and in 2008, changed its name to Wakenya Pamoja Sacco Society Limited (WPS).

In 2009, a workshop was held on new trends in microfinance and the possibility of transforming the microfinance department of WPS. Following that workshop, WPS management decided to conduct a study on the feasibility of transforming this department into a commercial microfinance institution authorized to accept savings from the public and regulated by the Central Bank of Kenya.

It should be noted that from 2011 to 2013, WPS went through a serious crisis in governance that created instability in its executive management. In fact, in the course of three years it had three different executive directors. All of its important projects, notably the project for institutional transformation of the microfinance department, were thus frozen. It took the election of a new board of directors in 2014 for the institution's operations to return to normal and for the WPS microfinance department's institutional transformation project to get back on track.

The regulatory authority for cooperatives was not amenable to splitting off the WPS microfinance department to transform it into an autonomous microfinance institution regulated by the Central Bank of Kenya. It took considerable negotiation for it to accept the principle whereby the WPS, with other investors, would create a new microfinance institution that would be regulated by the Central Bank of Kenya while maintaining its microfinance department.

Need to start out with an in-depth diagnostic study of the institutions involved

MFI institutional transformation or regrouping operations are highly complex and constitute very precarious periods for these institutions. It is therefore important to conduct an independent in-depth general audit before any decisions are made. This diagnostic study should identify strengths and weaknesses, as well as threats and opportunities, and propose an insolvency plan, which should be in place before the operation gets off the ground. An MFI institutional transformation or regrouping operation that fails to do this has very little chance of obtaining preauthorization from the regulatory authorities.

Case of A3C in Cameroon

The *Réseau de l'Association des CVECA et CECA du Centre* [Self-managed network of CVECAs and CECAs of Centre] (A3C) was set up by *Microfinance et Développement* [Microfinance and Development] (MIFED-Cameroon) with support from *Centre International de Développement et de Recherche* [International Development and Research Center] (CIDR), following the recommendations of the joint mission for the identification and evaluation of microfinance institutions, conducted by the Ministry of Finance and the Central African Banking Commission (COBAC) in April 2005.

A COBAC mission in September 2011 found that the network: i) was in violation of certain provisions of the regulations (existence of unauthorized credit unions and managers); ii) lacked good institutional and operational organization (its technical services are outsourced, while its savings and credit operations are run by volunteers); and iii) its financial situation was precarious. The COBAC mission therefore issued a number of recommendations aimed at ensuring the full regulatory compliance of the network, creating an in-house technical support service, and improving the network's financial situation.

To implement the COBAC recommendations, network managers launched a restructuring effort that would: i) merge the network's 72 CVECAs and CECAs into five large credit unions; ii) create an in-house technical support service; iii) strengthen the capacities of the governing body.

From 2012 to 2013, numerous studies and activities were carried out (feasibility study, business plan, updating of policy and procedural manuals, preparation of a staff redeployment plan, development of human resource management tools, preparation and implementation of the communication plan, etc.) as part of the restructuring process.

Since certain activities in this process required that the approval of many network credit unions be rescinded, A3C directors requested preauthorization from COBAC in April 2014, in compliance with the regulations.

In November 2014, COBAC sent a mission to monitor and evaluate the A3C network. The mission found that, by and large, the anomalies discovered during the previous inspection mission of 2011 had not been corrected and that the financial situation had further deteriorated. Based on this dual finding, in its response to the preauthorization request, COBAC stated that the restructuring process was not credible, because steps had not been taken improve the network's financial situation before addressing institutional issues.

This experience clearly shows the need for institutions to be on a sound financial footing before launching a transformation or regrouping operation.

Need for good governance of the institutions involved

Generally speaking, good governance of an MFI consists of: upholding the vision, mission, and objectives; guiding the strategic orientations; maintaining financial health in the short, medium, and long term; mitigating risks; promoting transparency in management; ensuring and encouraging accountability throughout the institution.

The success of MFI institutional transformation or regrouping operations requires that all of these functions be properly exercised by the governing bodies and senior management of the institutions involved. Any dysfunction in governance can therefore compromise the operation.

Case of WAGES in Togo

Women and Associations for Gain both Economic and Social (WAGES) started out as a project in December 1994 under the CARE International Togo initiative.

In 1997, note was taken of the remarkable results obtained, and institutionalization of the WAGES project began in 1998. The WAGES association was then created and took over the project in 1999.

After more than 15 years as a microfinance association, WAGES displayed performance indicators marked by strong growth. This led its Directorate to consider what legal form was best for sustaining this growth and consolidating WAGES' vision of becoming a sustainable commercial microfinance institution.

This exercise was intensified by the newly enacted law regulating the microfinance sector. This law offers institutions other than savings and credit mutuals and cooperatives, mainly capital companies, the opportunity to engage in microfinance activities. Thus, in late 2012, the WAGES Directorate asked PAMIGA for assistance not only in conducting the preliminary studies, but in carrying out the institutional transformation process.

In March 2013, PAMIGA conducted its first institutional diagnostic study of WAGES. Among other things, the mission found heavy resistance among WAGES staff to the idea of transforming the institution. The diagnostic study offered a series of recommendations, namely: improve the institution's financial situation; improve the institution's governance; conduct a feasibility study on institutional transformation; take action to reduce resistance to change.

In August 2013, WAGES was visited by an inspection mission from the banking commission. The mission found numerous problems, including the institution's poor financial health and governance, before issuing a long list of recommendations.

In February 2014, a workshop on the institutional transformation of WAGES was held that helped improve staff attitudes toward institutional transformation, and in March 2014, a steering committee was formed for the institutional transformation of WAGES.

In September 2014, a team from WAGES comprising members of the board of director and staff traveled to Kenya to visit successful examples of institutional transformation (KWFT and SMEP). This study trip thoroughly convinced WAGES' officers, who decided to speed up transformation of the institution.

In January 2015, however, the banking commission imposed heavy sanctions on the institution and its officers, because the recommendations of the August 2013 inspection mission had not been satisfactorily implemented and the institution was still misgoverned.

Excessively long implementation period

Experience has shown that MFI institutional transformation or regrouping operations always take longer than anticipated. These operations are generally expected to take two years, but in practice, they take from three to five. One of the main reasons for delays in implementing the operation is the regulatory authorities' handling of the documentation for obtaining approval of the new entity resulting from the process. In the WAEMU countries, for example, the approval application is handled by three separate entities:

- The Ministry of Finance unit charged with MFI monitoring and supervision in the country where the MFI is domiciled;
- The national office of the Central Bank of the African States (BCEAO) in the country where the MFI is domiciled;
- The microfinance office at BCEAO headquarters.

Circulating the application for approval among these organizations, especially its back and forth between these organizations and the MFI, is a lengthy process. Finally, once the Central Bank issues its opinion, which represents the definitive decision for securing approval, considerable time may still pass before the Ministry of Finance signs the license decree, which constitutes the evidence of approval.

Case of APFI in Burkina Faso

The CVECA networks of Soum and Boucle du Mouhoun in Burkina Faso were created in 1990 and 2002, respectively, as projects implemented by CIDR, with the support of donors such as NOVIB (Netherlands) and the European Union (EU). The Soum network was institutionalized in 1999, and the Boucle du Mouhoun network, in 2007, once the project phase had come to an end.

In 2009, Burkina Faso enacted the new law containing the regulations governing decentralized financial systems (SFD). In order to take advantage of the benefits of the new law, strengthen the governance of the two networks, improve operational management, increase the capacity to mobilize financial resources, and mutualize certain common services, the two networks, similar geographically and organizationally in their values and mission, decided to regroup and form a single institution.

Before reaching the decision to regroup, the networks held informal exchanges, followed by monthly consultative meetings. This allowed them to learn more about each other and think about the institution that would result from their regrouping. Once the decision to regroup the two networks had been made, PAMIGA was called on to support the entire process.

The new institution resulting from the regrouping is called *Association de Promotion de la Finance Inclusive du Burkina* [Burkina Association for the Promotion of Inclusive Finance] (APFI-Burkina).

The process got underway in December 2010, lasted five years, and included the following stages:

STAGE	PERIOD
Feasibility study	December 2010
Preauthorization by the regulatory authorities	January 2011
Creation of the new regrouped entity	June 2011
Submission of application for approval of the new entity	August 2011
Approval	October 2014

Need to align the interests of senior management with those of the institution

MFI founders are often interested in becoming shareholders and having a seat on the governing bodies of the capital companies resulting from the institutional transformation of associations/NGOs without having the financial means to do so. Failure to take this into account can make the negotiations to structure the company's capital difficult and sometimes cause the operation to fail. Hence, it is very important to create mechanisms that will enable founders to become shareholders in the capital companies resulting from institutional transformation operations.

Case of UMU in Uganda

Uganda Microfinance Union (UMU) was created in 1997 by two students who wrote and defended the project document of the institution as a master's thesis in management. After obtaining their degree, the two friends decided to launch the project, borrowing US$ 32,000 from a local bank. The institution started out as an NGO, and the founders began working virtually without pay, often using their own resources to guarantee the institution's bank loans. Little by little, the institution began to grow and obtain grants (from USAID, HCR, Hivos, NOVIB, the Ford Foundation, etc.), loans at concessional rates, and large commercial loans.

In 2002, UMU had 36,000 borrowers, with loans totaling over US$ 16.6 million. At this point, after Uganda issued new regulations allowing NGOs to become microfinance institutions with the status of capital companies authorized to accept savings, the founders decided to transform it into a capital company.

In their negotiations with potential investors to structure the capital of the new entity resulting from the institutional transformation, the two founders of the institution, as well as other members of its board of directors, each wanted, for no consideration, at least a 14% share of the capital and a seat on the board of directors. They called these shares "sweat equity"—that is, compensation for all their efforts to build the institution.

Certain investors involved in the negotiations had been donors that subsidized the NGO. They and even the new investors felt that distributing to private individuals the fruit of the reinvested profits and subsidies received by an NGO to meet social objectives was wrong. The following was therefore proposed to the institution's founders: i) the NGO would be the main shareholder of the new company with the fruit of the reinvested profits and subsidies it had received in the past, and ii) a mechanism would be created to enable its founders to gradually receive the desired percentage of shares, based on their future work in the new company.

This arrangement did not satisfy UMU's founders, who broke off negotiations with the first investment group and found another investment group run by a venture capital fund called Aureos Capital, which had no experience in microfinance and did not consider distributing the fruits of the profits and subsidies received by an NGO to private individuals a major problem. The new investment group thus gave UMU's founders what they wanted and reimbursed the NGO for the net assets it had transferred to the new company in order to remove it from the latter's governance.

In August 2005, Uganda Microfinance Union (UMU) became Uganda Microfinance Limited (UML), a microfinance institution with the legal status of capital company, authorized to accept deposits.

In 2008, Aureos Capital convinced UML shareholders to sell the institution to Equity Bank of Kenya.

From all the evidence, this case clearly illustrates the need to align the interests of the heads of the old organizations with those of the new entity resulting from the transformation or regrouping process.

Need to prepare and implement a good communication and change management plan

MFI institutional transformation or regrouping processes involve many changes in the organizational and operating plan. Hence, it is important to ensure that all these changes are well-received in a context where lack of information inevitably leads to rumors.

MFI executives and salaried personnel who are concerned about institutional transformation or regrouping operations should therefore be duly informed about all projected changes through a communication plan that will answer their questions and address their concerns. They, in turn, should try to convince others of the need for and advantages of the changes.

This communication plan should also take the regulatory authorities and main technical and financial partners of the MFI into account, providing convincing answers to all their questions and giving them regular updates on the operation.

Follow-up and strategic recommendations

Recommendations for designing the project

MFI institutional transformation and regrouping operations are both complex and time-consuming. However, when they are successful, they can have a positive impact on financial inclusion, especially the development of new products tailored to the needs of rural households. Despite the usefulness of these operations in diversifying financial services and, especially, in consolidating the financial sector, it is unclear whether governments will readily agree to their financing by the debt. CPMs could therefore put together a strong case for financing these operations. This could include:

- A number of arguments, the most important of which are:
    - Institutional transformation or regrouping operations are often the best way of ensuring the institutional and financial viability of rural MFIs
    - Unless they are transformed or regrouped, many rural MFIs are condemned to disappear, and the cost of their disappearance to the community will necessarily be higher than the cost of financing the transformation or regrouping operations
    - The failure of MFIs in a locality creates a culture of nonreimbursement of credit that will be prejudicial to all new MFIs covering that locality in the future
    - MFI institutional transformation or regrouping operations make it possible to revisit the procedures of these MFIs to facilitate the access of populations to proximate financial services and develop new products more suited to customer needs.
- Joint IFAD/government grant applications to donors;
- Applications for grants from IFAD.

Recommendations for implementing the project

An MFI institutional transformation or regrouping operation entails a number of activities that require the intervention of multiple consultants and should be coordinated by an expert to guarantee success.

The main recommendations for ensuring successful MFI institutional transformation or regrouping operations are summarized in Table 1.

Table 1: Main recommendations for MFI institutional transformation and regrouping operations

Stage	Recommendations	Profile of consultant/consulting firm
Before the operation .	▪ Undertake a serious study of the country's political environment. An unstable political environment can delay approval. ▪ Study the economic and business environment. A favorable economic and business environment is a success factor for the operation. ▪ Perform an independent general audit of the institution. ▪ Ensure that the institution is on a sound financial footing. ▪ Conduct an in-depth feasibility study that examines the capabilities, implications, costs, and environment in which the new entity will operate. ▪ Encourage the heads of the institutions involved to learn from others by organizing study trips. ▪ Hold a workshop on the operation and take the recommendations of all stakeholders into account. ▪ Involve the regulatory authorities— specifically the officials responsible for microfinance in the ministry of finance, the central bank, and the banking commission— in the decision to launch the operation. ▪ Prepare a realistic plan of action and adequate budget. ▪ When the operation involves the creation of a new entity alongside the old one, clearly identify the new activities of the old entity. ▪ Mobilize the financial resources necessary for implementing the plan of action. ▪ Ensure that the heads of the institutions involved are willing to change the vision, mission, and strategies of their institutions. ▪ Ensure that the heads of the institutions involved are willing to share ownership of their institutions. ▪ Align the interests of the heads of the institutions involved with those of the new entity resulting from the operation. ▪ Discuss all sensitive matters (choice of director, senior management, and members of the new entity's governing bodies, distribution of the new entity's capital, etc.). ▪ Obtain authorization from the BD and GA of the institutions involved.	▪ The consulting firm in charge of the general audit should: ✓ Be an auditing firm or a firm with accounting expertise ✓ Have extensive knowledge of the microfinance sector ✓ Have already conducted at least two similar operations ▪ The consultant in charge of the feasibility study should: ✓ Have a thorough knowledge of the national regulations governing MFIs ✓ Have extensive knowledge of national or international MFI transformation or regrouping experiences ✓ Have conducted at least two similar missions ▪ The consulting firm in charge of coordinating the entire process should: ✓ Be an international firm experienced in the field ✓ Have extensive knowledge of the legal and regulatory framework governing MFIs in the country ✓ Have conducted at least two similar missions

<table>
<tr><th>Stage</th><th>Recommendations</th><th>Profile of consultant/consulting firm</th></tr>
<tr><td></td><td>Obtain authorization from the regulatory authorities.
Create a steering committee to direct the operation.
Recruit an expert to coordinate all the activities of the process.
Prepare and implement a communication and change management plan.</td><td></td></tr>
<tr><td>During the operation</td><td>Before obtaining approval
Ensure that the process is gradual, creating several stages and allowing time to adjust each stage, rather than hurrying.
Prepare and implement a detailed plan for training existing staff and a plan for integrating new employees to ensure that the two groups work well together.
Take the time needed to identify investors who support the original mission of the old organizations and are capable of recapitalizing the new entity, if necessary.
Use competent consultants for certain key activities (setting up the new MIS; updating policies and procedures; developing human resource management tools; preparing the business plans of the new and old entities; evaluating the assets and liabilities of the old organizations, as well as the plan to transfer these assets and liabilities to the new entity; evaluating the human resources of the old organizations, as well as the plan to transfer these human resources to the new entity, etc.)
Review the organizational chart of the institution to better manage institutional growth and ensure the timely acquisition of good information.
Develop new products to stay competitive.
Prepare and implement training plans for staff and elected officers.
Hold investor and shareholder roundtables.
Create and register the new entity resulting from the process.
Ensure adoption of the management documents (business plan, policy and procedural manuals, etc.) by the BD.
Create and submit the dossier containing the application for approval of the new entity.
Monitor the approval process.
Ensure validation of the important stages of the process by the BD and GA of the organizations</td><td>The human resources consultant/consulting firm will be in charge of preparing the staff redeployment plan, the staff training plan, and the personnel management tools, and have:
✓ A thorough knowledge of the country’s labor laws
✓ Extensive experience in the design of personnel management tools
The consulting firm in charge of evaluating assets and liabilities should:
✓ Be an accounting firm
✓ Have extensive experience in evaluating businesses
✓ Have already conducted at least two similar operations
The consulting firm in charge of implementing the MIS should:
✓ Be an informatics firm
✓ Have extensive experience in setting up MFIs for the implementation of management information systems.
✓ Have extensive experience in negotiating with software providers
✓ Have already conducted at least two similar missions</td></tr>
</table>

Stage	Recommendations	Profile of consultant/consulting firm
	After obtaining approval ▪ Transfer the assets and liabilities of the old entities to the new one. ▪ Transfer the human resources of the old entities to the new one. ▪ Commence the activities of the new entity. ▪ Commence the new activities of the old entities.	▪ The consultant/consulting firm in charge of the business plan should: ✓ Have a thorough knowledge of the country's microfinance sector; ✓ Have extensive experience in strategic planning and financial forecasting ✓ Have conducted at least two similar missions
After the process	▪ Compensate the elected officers, senior management, and staff by developing mechanisms that will enable them to become shareholders in the new entity. ▪ Conduct a final evaluation of the entire operation.	▪ The consultant in charge of the final evaluation of the operation should: ✓ Have extensive experience in project monitoring and evaluation ✓ Have a thorough knowledge of experiences with national and international MFI transformation or regroupings ✓ Have conducted at least two similar missions

What should not be considered in the design and implementation of projects

MFI institutional transformation or regrouping projects that are on a sound financial footing. These institutions can readily attract private investors. Therefore, it is not recommended that IFAD make resources available to these institutions to finance their credit portfolio under conditions that could create distortions in the country's capital market.

Furthermore, all activities connected with the institution's current operations and the decision about whether to launch the transformation or regrouping operation should be left to the institutions that initiated it.

Conclusions

The path ahead of institutional transformation or regrouping operations is strewn with obstacles. Many factors can hinder these processes or block them altogether. These factors may be related to the regulatory environment, the challenges of implementing management information systems, the needs of investors, or resistance to change on the part of the elected officers or salaried personnel of the organizations.

The individuals and entities involved in an institutional transformation or regrouping operation may have an interest in its outcome. They have the power to make it fail and may well attempt to do so if they believe the outcome will not be in their interest.

Not all MFI institutional transformation or regrouping initiatives have met with success. Other such initiatives that might have been very beneficial have never taken place.

The diverse fortunes of these operations have yielded important lessons.

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