

# Factors That Contribute to Exponential Growth: Case Studies for Massive Outreach to the Poor and Poorest

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## EXECUTIVE SUMMARY

The argument for accelerated growth in microfinance is based on the persistence of mass poverty and the fact that microfinance has proven to be one of the few antipoverty approaches that is both effective and scalable. However, barriers to microfinance outreach remain and must be overcome if optimal levels are to be attained.

Rapid growth (in terms of client outreach) should be pursued aggressively and with a sense of urgency wherever growth-ready microfinance institutions (MFIs) are operating in a reasonably enabling environment. Backing aggressive expansion plans of well-prepared MFIs will impact those clients that are targeted who are reached and will also have a significant impact by demonstrating the growth potential of the overall sector while spurring innovation. Exponential growth can also enable MFIs to realize economies of scale, allowing for the lowering of interest rates.

## Factors Contributing to Rapid Growth

Based on the trailblazing experiences of Grameen Bank and other MFIs in Bangladesh, as well as the three case studies highlighted in this chapter, the most important factors contributing to the success of rapid MFI expansion can be summarized as follows:

- *Strong entrepreneurial leadership.* Although effective leadership can take many forms, it is essential to assure financiers, regulators, staff, board, and clients that the sacrifices required for rapid growth are worthwhile and will result in success.
- *Adequate financing.* Ongoing liquidity and funding are absolutely essential for scaling microfinance institutions; even a temporary liquidity crisis can cripple an otherwise sound expansion strategy.
- *Some degree of regulatory support.* Among the activities that scaling MFIs need to be effectively permitted to undertake by the government are lending to the poor for productive activities; receiving external financing or being able to mobilize deposits; hiring and compensating employees; and charging interest rates compatible with long-range sustainability in the particular market.
- *Strong focus on microfinance, sustainability, and effectively serving a particular niche.* MFIs should focus primarily on providing microfinance to the poor, with other services being secondary and consistent with the goal of sustainable growth of the MFI and its clients' businesses. However, well-designed "credit plus" programs can be essential in ensuring that income gains of clients are sustained, which in turn ensures the long-run viability of the MFI.
- *A large unserved market.* For obvious reasons, relatively large numbers of poor people who do not have access to microfinance services are needed in order for any growth strategy to succeed.
- *Ability to attract, harness, and retain talent at all levels.* MFIs must be able to recruit, develop, and keep quality employees in order to sustain growth. Performance-based incentives (financial and nonfinancial) and promotion as well as training opportunities are often important elements of strategies to achieve this.
- *Effective information management systems and financial controls.* Having a system that produces relatively accurate and timely information becomes especially critical as an organization reaches scale, as it allows for effective decision making and prevention of fraud. Some of the nonessential but important factors that can contribute to the success of a growth strategy are a strong core team beyond the CEO, good governance and strong stakeholder support, financial products that respond to a clear need among the target population, and country-wide economic and monetary stability.

The next part of this chapter features three institutions: Fondation Zakoura in Morocco, Kashf Foundation in Pakistan, and Amhara Credit and Savings Institution in Ethiopia. Through these case studies we will address in greater depth the conditions necessary to allow for exponential growth.

### **Fondation Zakoura: Morocco**

Fondation Zakoura, based in Casablanca, Morocco, experienced its period of greatest growth from January 2000 to December 2002, during which time it grew from 16,055 to 103,720 clients. During this period, Zakoura's client outreach grew at an average annual rate of 87%, and its loan portfolio increased from \$1.53 million to \$15.9 million. The operating expense ratio declined by more than one-third, from 27.59% to 17.12%. Portfolio at risk (PAR) remained below 1% throughout. As of March 2006, Zakoura had reached a total of 193,787 clients. Key factors that contributed to Zakoura's growth during the period under study include its confident, risk-taking leadership; a supportive regulatory framework; and Zakoura's early willingness to take on local currency debt. A grant of \$3.7 million from the Hassan II Fund came at a critical time, and cost control at every level of the organization ensured that it was used prudently. Zakoura's effectiveness at securing resources and designing systems "on the fly" as it scaled up was critical, and its alliance with Save the Children was also important.

### **Kashf Foundation: Pakistan**

Kashf Foundation, founded in 1997 and based in Lahore, Pakistan, underwent a period of exponential growth from 2001 to 2003. During this two year period, Kashf's client outreach grew from approximately 7,000 to over 45,000 clients, for a growth rate of 117% from 2001 to 2002 and 189% between 2002 and 2003. Throughout this entire period, PAR remained below 2%. As of March 2006, Kashf had reached a total of 80,191 clients. The most critical factors contributing to Kashf's growth during this period include a clear organizational vision, strong leadership, sound corporate governance, and a singular focus on financial service delivery to the poor. A period of preparation prior to the growth period was used to adjust the methodology, standardize products and systems, and develop simple and easily replicable products. By charging a price for its services that would make the program sustainable within five years, Kashf was able to grow with reduced dependence on grants (compared with other MFIs in Pakistan) and to avoid the need to raise interest rates later. However, the availability of grants and low-interest loans during its growth period was essential, as they ensured adequate liquidity and sufficient resources to build the infrastructure and internal capacity needed for rapid growth.

### **Amhara Credit and Savings Institution (ACSI): Ethiopia**

Over the span of four years (2001–2005), ACSI nearly tripled in size, from 150,000 clients to more than 434,000. During this time, ACSI maintained a repayment rate of 99% and an operating expense ratio under 10%. This regulated MFI showed that even in challenging regions of sub-Saharan Africa rapid growth and cost containment are achievable. As of April 2006, ACSI had reached a total of 446,625 clients.

Upon careful review, the essential factors contributing to ACSI's growth were an overwhelming demand in an underserved market; strong support for the growth among all levels of staff; and regulatory support through Ethiopia's microfinance law, which was enacted in 1994. ACSI's ability to collect savings and on-lend these funds has been a key factor in its ability to ensure liquidity (the MFI had mobilized almost US\$29 million in net savings as of December 2005). Strategic and consistent donor support was also especially beneficial to ACSI in the first few years of its growth phase. The support of the local government has been helpful in many respects but challenging in others. A credit delivery methodology based on group lending and risk assessment by respected local people has served it well, but with increasing competition it may need to be revised in the coming years. In addition, an enlightened approach to human resource development has been important, along with the strong leadership of ACSI's executive director.

Bearing the lessons from these and other successful growth experiences in mind, and the vast numbers of poor families worldwide who have not been reached, a sustained global effort to scale up microfinance for the poor and poorest is clearly needed and would represent a sound investment toward reaching the Millennium Development Goals. Microfinance managers and boards, regulators, financial institutions, donor agencies, the media, researchers, and the general public all have critical roles to play in this effort.

**This material is excerpted from the book *More Pathways Out of Poverty* (Bloomfield, CT: Kumarian Press, 2006). To order go to: [www.kpbooks.com](http://www.kpbooks.com).**