



Transformation options and challenges

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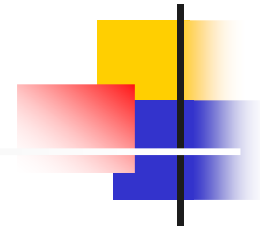
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Rationale for transformation



➤ **Legal obligation:**

=> *To adhere to new laws or regulations*

➤ **Sustainability objective:**

=> *To establish a strong capital base*

=> *To facilitate and diversify refinance options*

=> *To diversify range of finance products*

➤ **Expansion objective:**

=> *To leverage for growth*



Transformation Options



1. **NGO to Non-Bank Financial Institution (NBFI)**
2. **NGO to bank**
3. **NBFI to bank**

Plus:

- Transformation with **merger scenarios**
- *Closer cooperation models instead of merger*



Transformation to NBFIs



PROs

Transformation process:

- Rather simple
- Rather quick
- Rather cheap

Operative phase:

- Lean administration
- Cost efficient
- Light supervision

CONs

Transformation process:

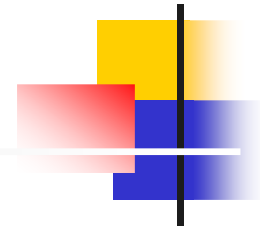
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Operative phase:

- No deposit taking
- Narrow product range
- Limited refinance options
- Reduced creditworthiness
- Higher vulnerability



Transformation to bank



PROs

Transformation process:

n/a

Operative phase:

- Full or special license
- Broad product range
- Diversified refinance options
- Deposit taking
- Access to interbank lending
- Reduced vulnerability
- Better rating due to rigid supervision

CONs

Transformation process:

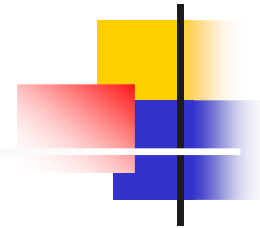
- Complex licensing
- Time consuming
- Capital intensive
- Requires co-investors

Operative Phase:

- Complex administration
- Rather large overhead
- Reduced cost efficiency
- Rigid supervision



Transformation incl. merger



PROs

Merger process:

- Merger is quicker than organic expansion
- Merger may be more attractive to Investors

Operative phase:

- Efficiency chances
- Economies of scale
- Reduced capital needs
- Improved hedge against consolidation policy

CONs

Merger process:

- Valuation requirement
- Necessity to harmonize strategies and policies
- Staff & asset redundancies

Operative phase:

- Efficiency risks
- Clash of different corporate cultures
- Division of power



Transformation process



1. **Preparation**
2. **Financial transformation**
3. **Legal transformation**
4. **Organisational transformation**
5. **Mental transformation**



Mental transformation



➤ **Change of objective:**

Before: Primarily developmental focus

Now: Commercial business principles

➤ **Change of corporate governance:**

Before: Personal management

Now: Institutional management

➤ **Change of control:**

Before: Management is main organ

Now: BoD is main organ

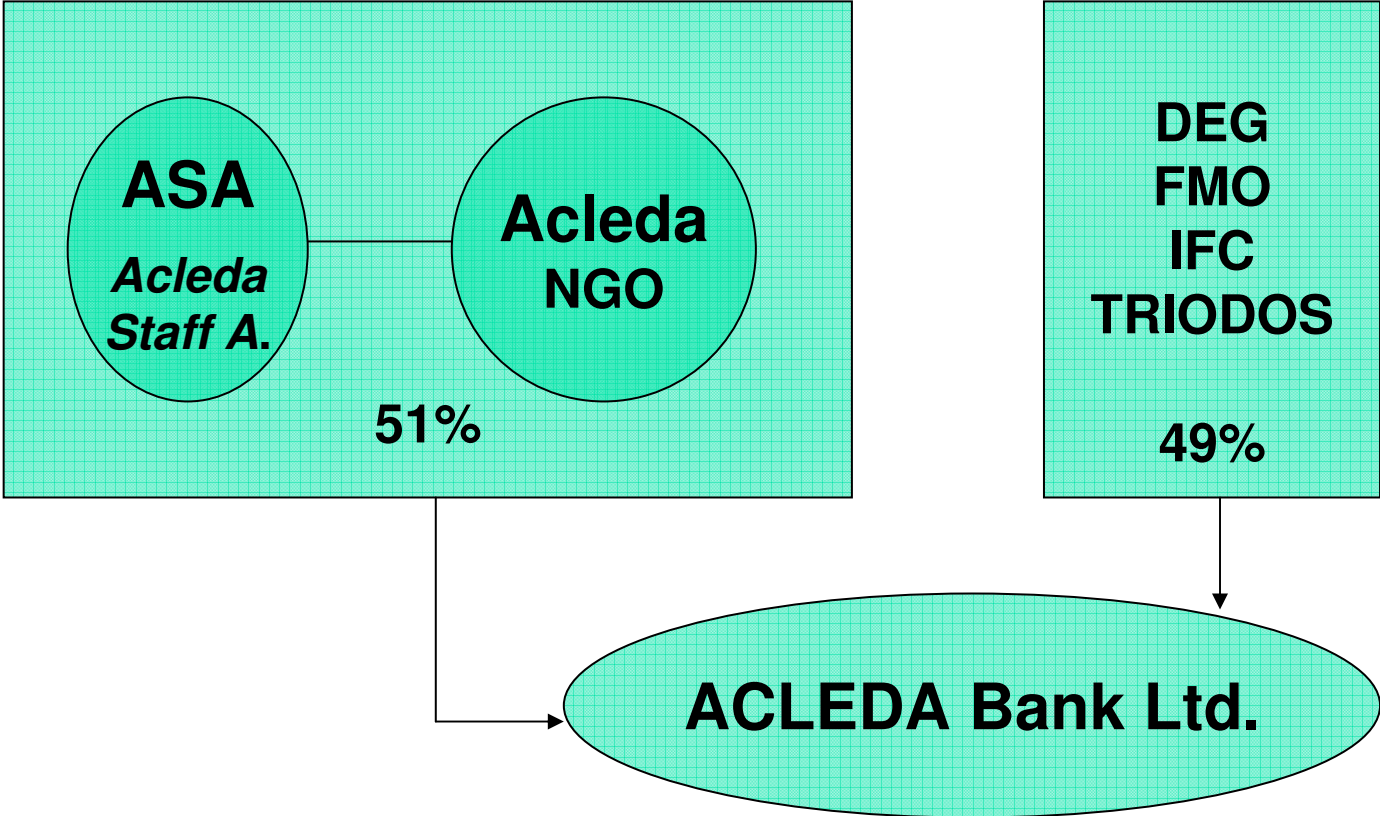
➤ **Change of communication culture:**

Before: Rather informal

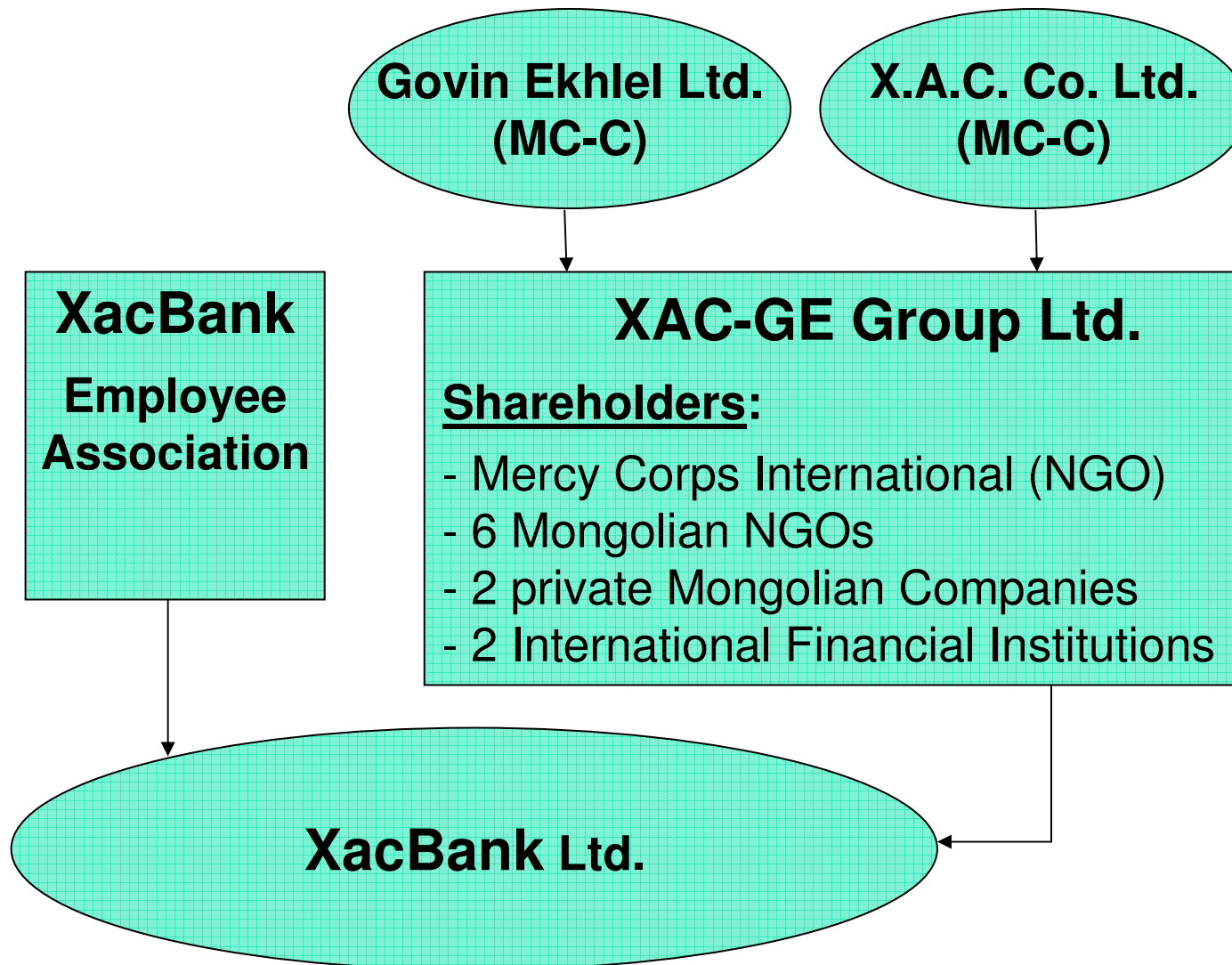
Now: Very formalised (esp. with foreign investors)



Transformation: Acleda



Transformation: XacBank



Microfinance in Southeast Europe (1/3)



1. Increasing competition

=> Banks become more interested in microfinance

2. Decreasing donor contributions

=> limited resources & increasing refinance demand

3. Diminishing interest margin

=> less & more expensive refinance options

4. Deteriorating profitability

=> Effect of (1) – (3) plus profit tax burden

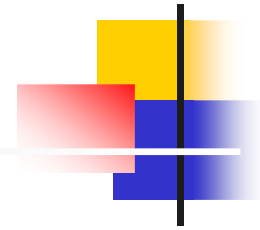
In addition:

5. Stricter regulation by supervising agency

=> Consolidation policy of govt; level playing field



Microfinance in Southeast Europe (2/3)

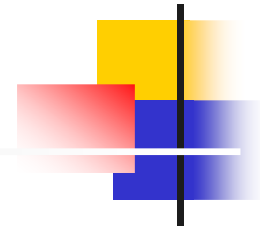


Strategic objectives for sustainability:

- **Operate cost efficiently!**
 - => Capitalise on economies of scale!
 - => Achieve critical mass of clients and volumes!
- **Offer a broad product range!**
 - => Clients want more than just credits!
 - => Grow with your client!



Microfinance in Southeast Europe (3/3)



Best chances for:

- **Banks with focus on microfinance**
- **Larger microfinance NBFIs**
- **Association of microfinance NBFIs**





Thank you

