



PERFECT POINT PARTNERS  
Consultants for Microfinance and Microenterprises



MICROFINANCE CENTRE  
for Central and Eastern Europe and the New Independent States

## Strategic Options in the Times of Crisis

Analyze your MFI's current situation, learn about concepts to address the challenges, learn about strategic options and necessary "next steps"

Perfect Point Partners srl.

May 2009

# Content of Today's Workshop

Please fill the Questionnaires

The Crisis in the Financial Markets – how does it affect MFIs

Analyze how Bolivian MFIs handled the crisis of 1999-2001

Strategic Options for MFIs in 2009 & Pragmatic Steps

Questions and Answers

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# The Main Issues for MFIs as a Result of the Global Financial/Economic Crisis

## Cost

- During "hot" phases cost and efficiency was not of prime importance
- Capacity was increased to serve future growth

## Liquidity

- Operating expenses need to be adjusted for slow growth
- Financial Markets are dried out
- New levels of efficiency are necessary due to market pressure and to be prepared for consolidation
- Alternative funding concepts (eg. CDOs will no longer be available)
- New (domestic) founding sources take time
- New equity funds are not an alternative

## Risk

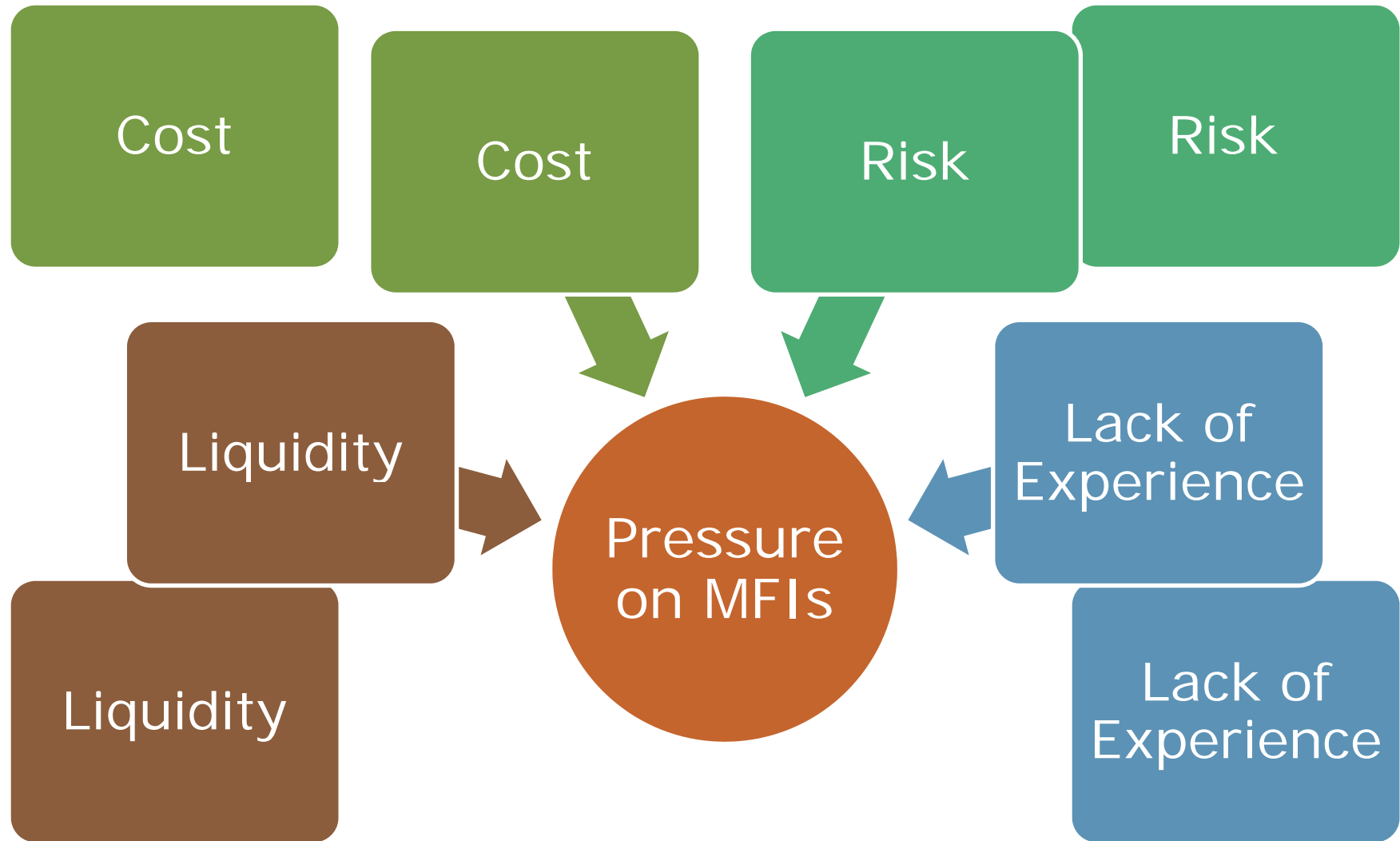
- Main risk categories in MFI are credit and operational
- PAR will suffer (it never reflected true risk)
- MFIs are on average not fully prepared for professional risk management (Risk Culture, Policies, and Reports)

## Lack of Experience

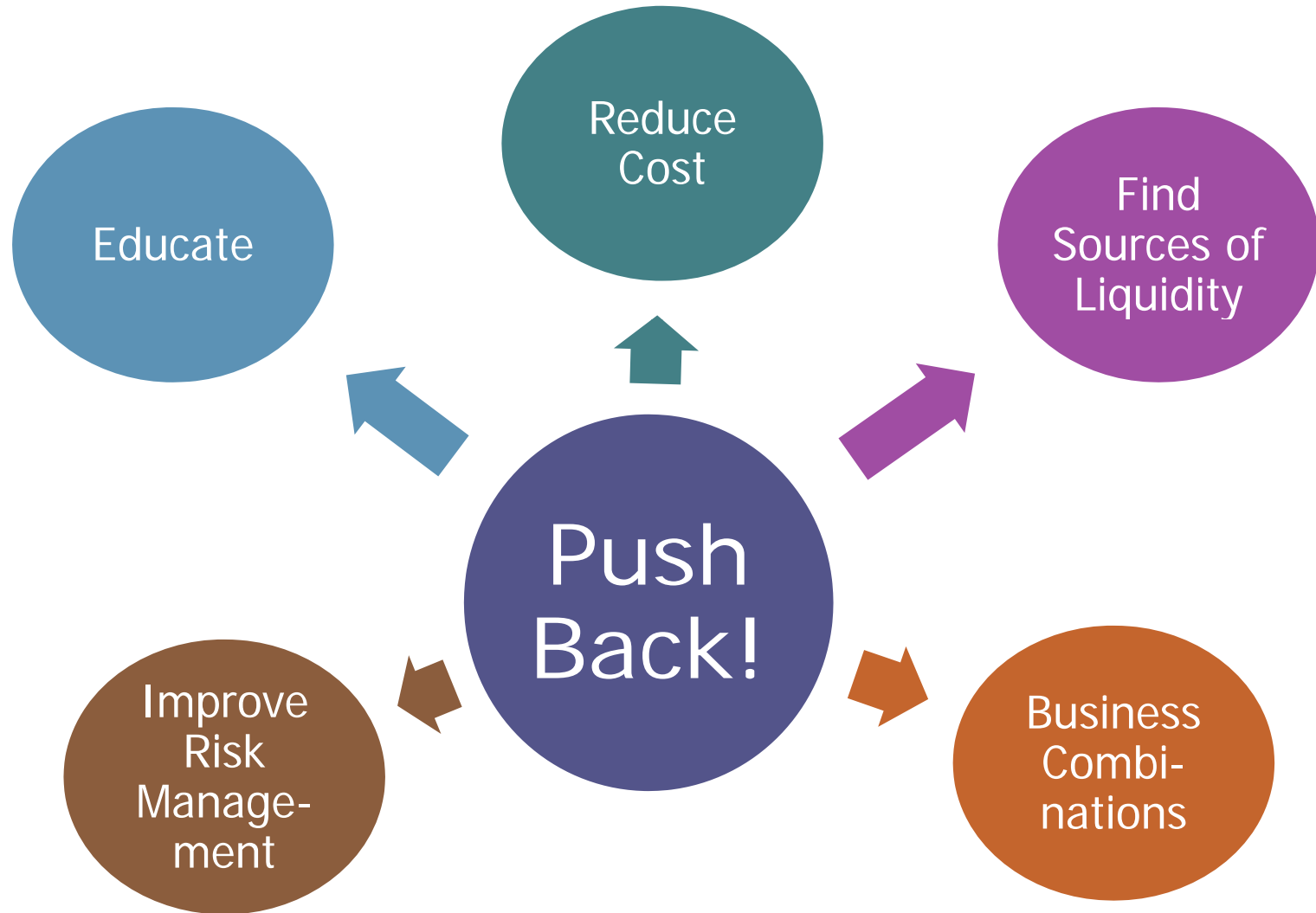
- MFIs are not used to crisis mode. Many CEOs were perfect for growth and vision
- Risk Management needs to be smarter than examples from developed world
- Funds face new situation and don't have the infrastructure to support an MFI in trouble
- New easy solutions could be bottom fishing or immature copies of textbook cases
- Public perception on Microfinance ("King is naked")

Pressure on MFIs from four Sides

## The Main Issues for MFIs as a Result of the Global Financial/Economic Crisis



While this Crisis is harder than most before,  
You can only win if you act NOW!



## MFIs need to improve Liquidity Planning, Funds need to be honest about their Situation

Educate

Reduce  
Cost

Find  
Sources of  
Liquidity

### Find Sources of Liquidity

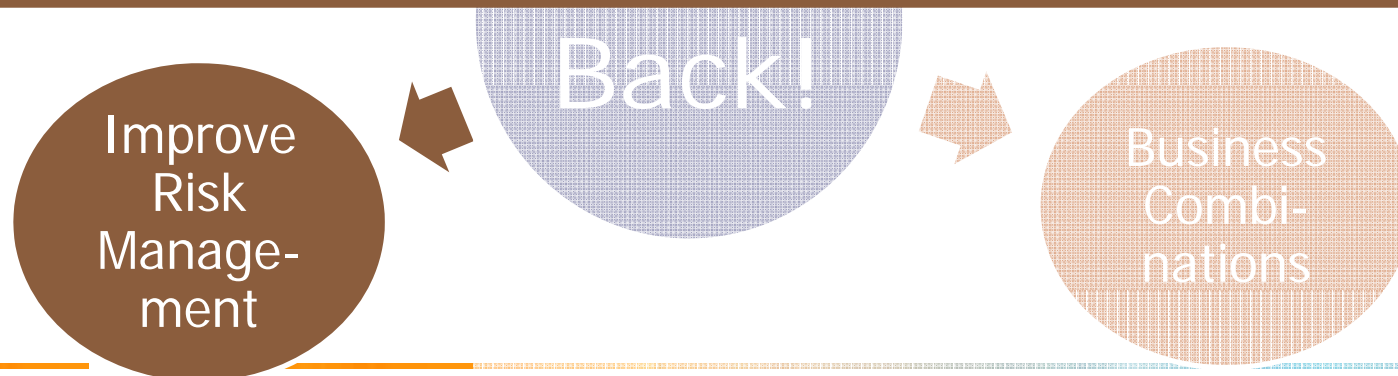
- Great if MFI has access to Emergency Funds, but that's short term
- Plan far ahead – start discussing maturities 6-9 months ahead
- Ultimately Savings or other forms of domestic retail funds are needed
- Financial Innovations in the sense of the last years are gone but technology can be recycled (risk participations instead of securitizations)
- Search for a long term healthy “funding mix” similar to S&L and cooperative banks in developed markets



## Smart Risk Management needs to be introduced without “over engineering”

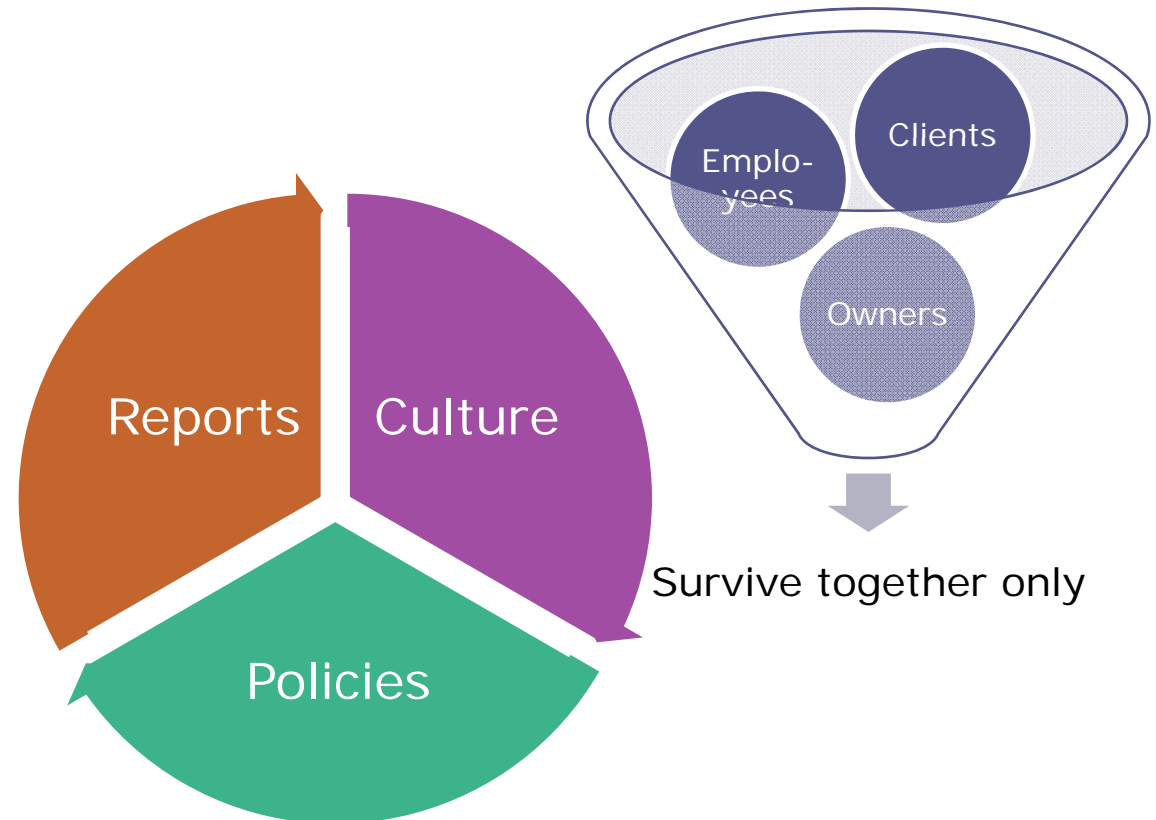
### Improve Risk Management

- Start with Quick Fix: Introduce “Risk Culture”
  - Create awareness of risk among Loan Officers (“no growth” is OK)
  - Clients need to talk to MFI about problems. Be honest about PAR
  - Improve Operational Risk Management
- Introduce better Risk Policies and Reporting
- Educate clients, employees, management and board -
- Don’t over engineer, at the end, sophisticated models of developed banks completely failed



Improve Risk Management

# Approach Risk Management from a Rational Perspective



Introduce Sets of Simple and Pragmatic Policies  
Limits and Guidelines need to be understood

## MFI cost structure can usually be improved significantly without causing operational issues

Educate

Reduce  
Cost

Find  
Sources of  
Liquidity

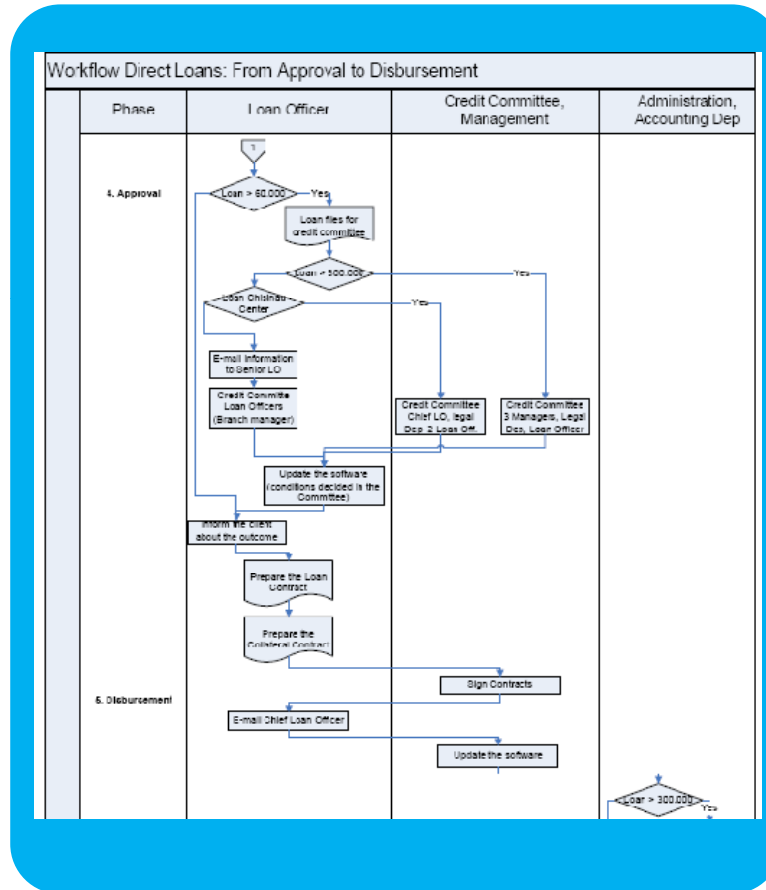
### Reduce Cost – Increase Efficiency

- Use the current situation to review all processes, products and infrastructure
- Conduct efficiency analysis of your lending process – we have seen potential to cut up to 40% of process time
- Conduct analysis of indirect expenses – reducing overhead by 20% is frequently feasible, but cut in smart way. Don't cut lifelines
- Reallocate capacity to front office
- Only the most efficient institutions will lead in consolidation
- Communicate measures to investors and owners



Reduce Cost

# Improve Processes, identify, analyze and reduce Expenses



## Areas for Reengineering

### Item Related Improvements

- Are we using the right tools?

### Process Related Improvements

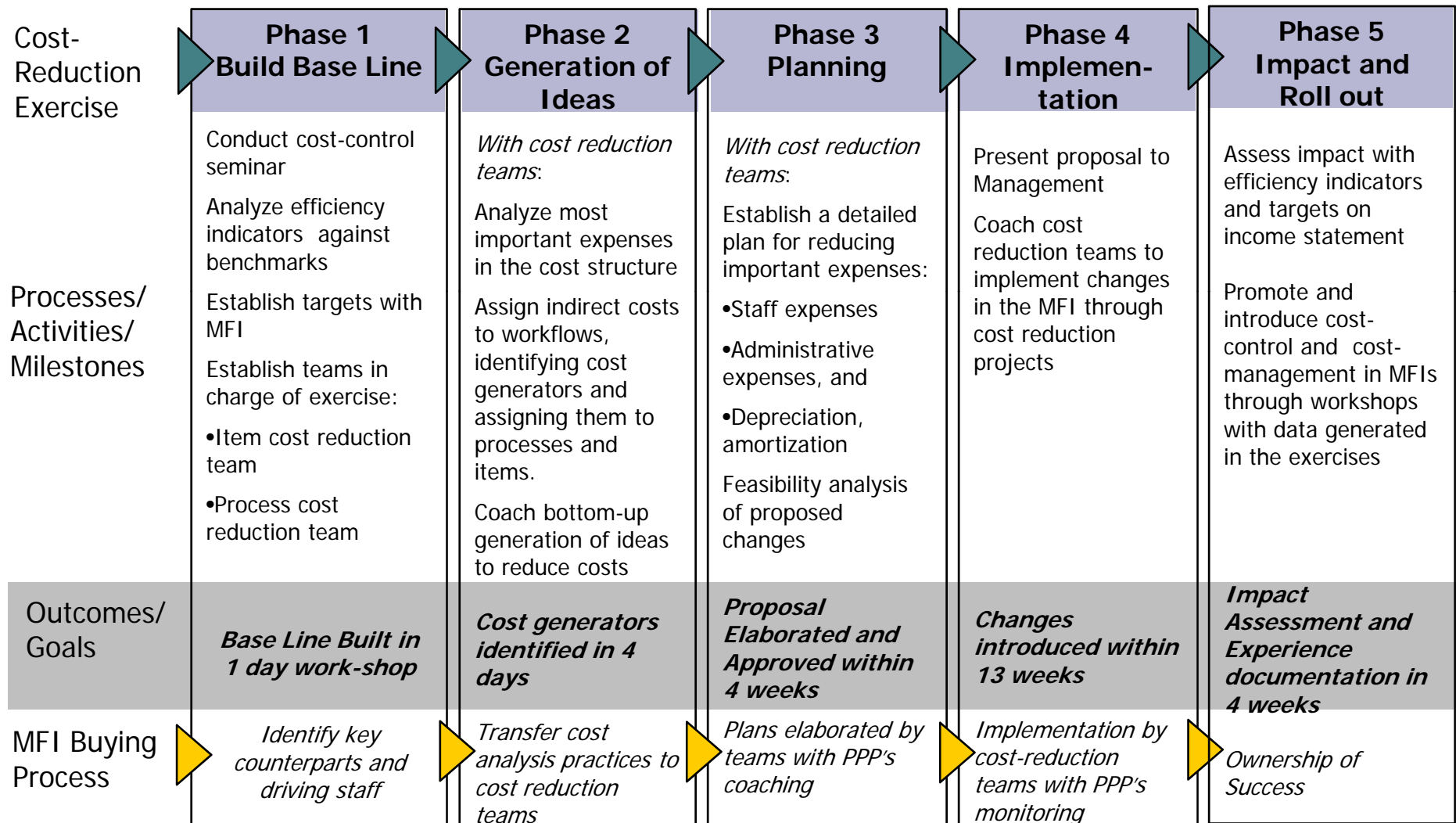
- Are steps designed to optimize the available capacity

### Complete Restructuring of Workflow

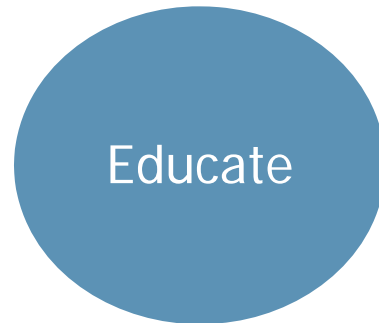
- A process might be redundant in general or can be centralized

## Project Plan - Overview

# Project Plan for reducing Indirect Costs at a sample MFI



## Communicate and Educate – there are too many Myths and wishful Thinking



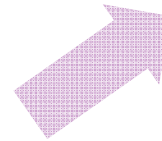
### Educate

- Educate MFI employees about Crisis Situation, in case reductions are planned, communicate quickly
- Educate Customers. The goal must be that customers talk about financial problems before they arise
- Communicate to Regulators (through industry organizations) about ways to support the sector
- Talk to other MFIs about their issues.
- Educate investors about the true situation in your sector.
- The true nature of Social Responsibility can be tested in this crisis



## Business Combinations

- Increased interest in Mergers and Consolidation
- Before engaging in such thoughts:
  - Remember key strengths of MFIs
  - Review other bank's mergers and their success rate
- The strength of an MFI is the proximity to its clients – NEVER GIVE UP ON THIS
- Main areas for improvements and rationalization is "behind the scene" in areas like MIS, IT, Back Office
- Beware of quick solutions – fully understand the motivation of new Equity Funds

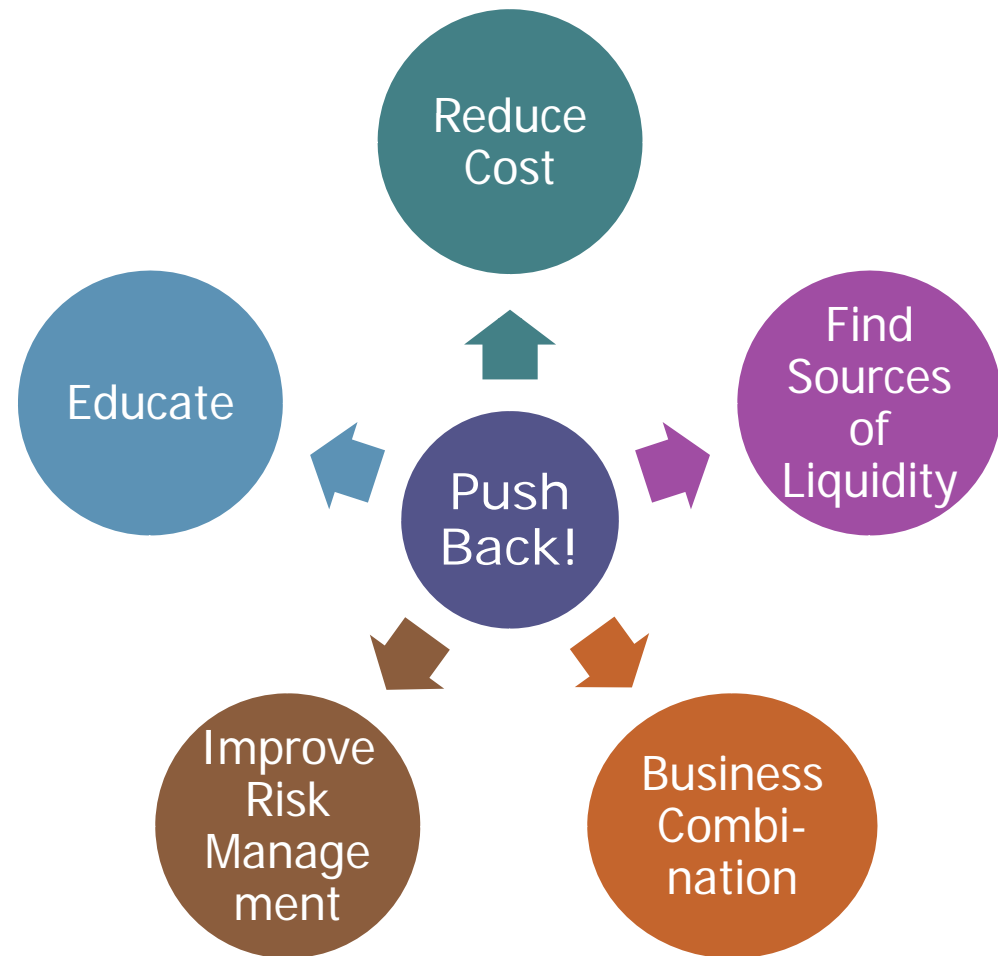


## Summary

# MFIs need to react to the new Environment – but this will need major Efforts

## Summary

- The crisis does hit the Microfinance sector
- Fast growth of the past forces adjustments
- Don't believe in miracles – MF won't solve poverty (fast)
- Crisis is complex – solutions need to be smart
- Look for samples in the developed world (S&L, Cooperative)
- Adjust expectations – no natural born Crisis Managers



## Perfect Point Partners

### Capacity

- 7 Full Time Consultants
- Strong base of highly qualified Short Term Consultants

### Experience

- Worked with over 50 MFIs from all regions over the past 3 years
- Long term client relationship
- High Reputation and excellent feed-back from clients and investors

### Strength

- Based in La Paz Bolivia
- Senior Consultants have 10+ years experience in Banking/ Microfinance

## Perfect Point Partners can support MFIs and Investors based on its broad Experience

- Projects for Cost Management (direct and indirect)
  - Product costing (adjusted ABC concepts)
  - Process Mapping and Reengineering
  - Implementation of cost containment programs for indirect expenses
- Efficiency Management projects,
  - Centralization/Decentralization projects
  - Design of Incentive Systems
  - Product (Re-)design
- Risk Management (Credit, Market, Liquidity, Ops)
  - Risk Culture, Risk Policies and Guidelines, Risk Reporting.
- Due Diligence Projects





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# Thank you for your attention!

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