Given increased public awareness and interest in microfinance, the need to offer well-designed financial products through sound microfinance institutions (MFIs) has never been more acute whether through up scaling by nongovernmental organizations or through downscaling by commercial banks. Both approaches offer benefits in the effort to extend the reach of microfinance services, but NGOs that seek to offer new financial products will have to revolutionize their internal structure to manage this process. This transformation, unfortunately, is daunting. It most often involves a complete overhaul of the NGO and mandates a rare combination of skills, money, time, and patience. However, NGOs that can effectively transform themselves into MFIs are rewarded with a stronger community presence, an opportunity to expand the range of financial services, and an ultimately deeper local financial penetration.

Joanna Ledgerwood and Victoria White’s *Transforming Microfinance Institutions: Providing Full Financial Services to the Poor* offers a revealing and valuable “field manual” on how to initiate this transformation and deal with the challenges associated with each aspect of the change. The authors draw from their own impressive experiences and those of other industry experts to help NGOs map their strategies to become formal, licensed, deposit-taking financial institutions; to comprehensively address the institutional change needed to implement the right business strategy, and to successfully position themselves in the financial sector. The book addresses a multitude of challenges faced by NGOs undergoing this transformation, ranging from building a human resources strategy (to ably cope with the need for new skills) to ensuring a meaningful governance framework (to build investor confidence and transparency). The authors have supplemented their discussion with detailed checklists that provide NGOs with immediate tools to design their own strategy. They have achieved a fine balance of offering outlines that will be relevant to all NGOs without being overly prescriptive and rigid. This aspect alone sets this book apart and enhances its overall contribution to the field of microfinance development.

In keeping with a practical, no-nonsense approach, the book is organized into fifteen chapters, and each delves deeper into one particular aspect of the transformation. Two meticulously detailed case studies on Uganda’s experience follow—one explaining a tiered approach to regulating microfinance institutions and the other describing the creation of Uganda Microfinance Limited (UML). Even though the authors rely heavily on their experiences in Africa, each chapter provides examples of NGO transformation in other regions, such as Peru (MiBanco), Mongolia (XAC Bank), and Bolivia (PRODEM). Moreover, examples of financial budgets, marketing plans, legal due diligence checklists, terms of references for new positions, and other handy tools are generously
interspersed throughout the book for any NGO considering transformation. The authors also helpfully capture the time needed to accomplish each step. Fittingly, each chapter can stand alone, allowing readers to turn directly to the chapters of interest.

The authors point out that NGO transformation offers the advantage of deposit-taking services to its clients that diversify financial services and provide a source of capital for the institution. Whether or not this evolution is driven by the need to provide better access to financial services or to have a deeper impact on local economic development, the actual transformation introduces new fiduciary responsibilities for the new MFI that require legal, financial, and human resources processes to manage.

Without question, introducing deposit-taking services will fundamentally change the nature of the institution—the MFI needs to extensively prepare. Understanding the client market, designing the right type of voluntary savings product, and analyzing the results of pilot testing of the new savings products will help fine-tune these services—which can be the first step toward financial deepening for both the MFI and the clients. MFIs must improve their internal controls, antifraud measures, and overall risk management to protect people’s savings. Ledgerwood and White repeatedly (and accurately) emphasize that a commensurate investment in time and money is mandatory for success. The NGO will have to make strategic decisions on the relations it will have with the new MFI, the new governance structure, recruiting, and strengthening human resources.

In addition to the necessary institutional changes, an MFI needs to understand the regulatory environment in which this transformation is taking place. A country’s financial regulatory framework for banks will ultimately influence how quickly an NGO can convert into an MFI. The book includes a primer on regulation and supervision of the microfinance sector, which succinctly frames risk management issues for the MFI and previews the range of prudential and nonprudential reporting requirements.

The funding structure will determine, in effect, the sustainability of an MFI. Though initial donor capital may launch this operation, the MFI needs to identify a long-term mix of debt and equity financing that aligns with its risk return appetite and considers tax and other financial regulations. The key is to find the right mix of investors that share the MFI’s vision and has a double bottom line that stays within the minimum capital to risk weighted assets. If managed well, MFIs can tap markets through bond issuances, local currency borrowing, or public offering to generate capital.

When the authors turn to their case studies, the book weakens. The Ugandan example highlights how a supportive government and a vibrant donor community can serve as a catalyst to microfinance, but, while interesting, the Uganda experience is not necessarily a fair representative of reality elsewhere. NGO leaders contemplating the transformation into a full-fledged MFI need to understand how other institutional environments may be more challenging. The authors should have offered more in-depth case studies on other NGO transformation experiences—both positive and negative. By the book’s own admission, such examples abound.

But such criticism is minor when compared against the book in its entirety. Ledgerwood and White should be commended for tackling such a complicated and pertinent topic, which is a welcome and timely contribution to the field of microfinance, particularly given the increased attention to the industry. This detailed book on how to transform NGOs into successful, soundly regulated, and licensed MFIs is nothing short of required reading for donors, regulators, academics, and anyone interested in supporting this process.

ABOUT THE AUTHOR

Geetha Rao Ramani is currently an economist working on economic development policy at the U.S. Treasury. Previously, she spent time in Indonesia, India, and Haiti analyzing microfinance services. Ramani holds a master’s degree in international economics from the School of Advanced International Studies at Johns Hopkins University.

ABOUT THE BOOK

Ledgerwood and White’s Transforming Microfinance Institutions: Providing Full Financial Services to the Poor was published by World Bank Publications in August 2006.