Assessing the capacity of microfinance institutions

Key areas for the assessment

- **Vision and mission**: Does the organization have a clear vision and mission? Is this in line with the vision of the TREE programme? Does it combine social and financial goals? Is it willing to work with TREE’s target group?

- **Strategy**: What is the organization’s strategy for its microfinance programme?

- **Sustainability focus**: Does the organization have a long-term view? Does it plan for sustainability? Is it looking ahead, beyond one particular funding opportunity?

- **Management**: How is the agency’s capacity to manage a microfinance programme? Does management support the agency’s vision, mission and strategy?

- **Expertise**: Does the agency have microfinance expertise? Has it maintained low levels of delinquency (e.g., less than 10 per cent portfolio at risk after 30 days)? Is its experience in savings and credit programmes for the rural poor?

- **Image and reputation**: Is the reputation of the agency compatible with microfinance, or does it generate expectations that it will provide services for free, or at a subsidised rate?

- **Presence of branches and network close to the community** where the programme is being operated.

- **Presence of staff at the field level** who can monitor the loans and provide the required services.

- **Range of services offered** (credit, savings, etc.) in line with what is required by TREE clients

- **Flexibility in its credit policies** and procedures for short- and medium-term loans for individual and collective small enterprises in both farm and non-farm activities.

- Willingness to waive stringent **collateral requirements** and use the concept of group guarantee, community support and pressure and to serve non-traditional and socially excluded groups.

- **Reasonable interest rates** (Note: NGOs often have a flat rate of interest which is higher than the bank rates because of their higher administrative costs with smaller loans and intensive loan monitoring).

- **Experience in small saving schemes.**

- **Interest and willingness to participate in the promotion of self-employment schemes.**

Preferred requirements

Ideally, the partner MFI should also meet the following preferred requirements (these can also be built through capacity building support):

- **Depth of financial services**: Does the agency provide a variety of financial services (including savings and credit)? Are these services appropriate for TREE’s target group?

- **Staffing**: What are the skills of the staff, and how much emphasis is placed on skills development? What is the productivity and turnover of staff? Are staff members well-motivated?
- Performance: What has the agency achieved through its past operations (in terms of outreach, impact, sustainability and efficiency)? If past performance has been low, how does the agency justify this? How does it track its performance?

- Internal controls: How does the agency protect itself against fraud?

- Multi-donor support: How many donors support the agency, and for what purposes? Support from more than one donor is preferred, yet support from too many donors is counter-productive. Donor requirements should also be compatible.