Microfinancing in a Commercial Bank: Impact on Firm Metrics and Mission

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This paper examines whether organizational outcomes are improved as a result of a micro financing institution transforming its business model from a non-governmental organizational (NGO) structure to one which operates as a for-profit formal financial institution. The success of the micro financing credit delivery model is well documented. The vast majority of these institutions operate as non-profits. Many of these institutions are studying a possible transformation to a for-profit organizational structure with the objective of increasing, through the use of depositor savings and financial leverage, the amount of financial capital available to be lent to micro entrepreneurs in developing countries.

INTRODUCTION

Relevant research topics in the study of international business are extremely timely today due to the rapid rise of globalization and the international integration of market economies throughout the world. This phenomenon has begun to transform the lives of millions of people in both developed and developing countries and has profound economic, political, social, and cultural implications.

One issue closely connected to globalization that has captivated numerous constituencies around the globe, including the United Nations, the Multilateral Banks, and the United States Congress, is the growing awareness that microfinancing can play a vital role in empowering and alleviating poverty among the millions of poor people, particularly those in the developing countries. In fact, the founder of the microfinancing movement, Muhammad Yunus, was named recently the winner of the Nobel Peace Prize (Economist, 2006); the United Nations declared the year 2005 to be the "Year of Microfinancing" (International, 2004) and; the United States Congress passed a bill in 2005 titled the Microenterprise Results and Accountability Act of 2004 (Congressional Budget Office, 2004) in order to provide additional funding for U.S. based non-governmental organizations (NGOs) committed to implementing microfinancing programs around the globe.

Microfinancing, or microcredit, in a nutshell, puts the basic tools of private enterprise – money, credit, and motivation – into the hands of some of the world's poorest people. It means that millions of people who were once denied the most fundamental access to banking can now receive small loans for self-employment. In fact, many economists and social developers now believe that microcredit has become the single most reliable force for empowerment and poverty alleviation around the world (Klobuchar & Wilkes, 2003).

This study concerns the organizational evolution of the microfinance or microcredit industry. Specifically, assessing the relevance and practical feasibility of employing alternative business models, as some microfinancing organizations attempt to evolve from being primarily a nonprofit NGO to one that is a for-profit formal financial institution (FFI), either as a commercial bank or savings and loan. One such organization, Opportunity International (OI), which is the subject of this paper, has chosen to challenge existing microfinancing institutional boundaries and migrate some of its operations to the commercial bank structure as it seeks to more readily access larger pools of capital, in addition to offering a broader array of financial services to microentrepreneurs.

OI is one of the largest microcredit organizations, providing loans to poor entrepreneurs in developing countries to start or expand small businesses. This MFI has over 760,000 clients and nearly

$250 million of loans currently outstanding in 30 developing countries ("Giving the poor a working change", 2005).

OI has extremely ambitious plans to significantly expand its client base of poor microentrepreneurs to 2 million by 2012, a three-fold increase in just over 7 years ("Giving the poor a working change", 2005). In order to accomplish this strategic objective, this heretofore nonprofit organization must diversify its funding sources beyond its almost exclusive reliance on private donations from wealthy donors, foundations, corporations and churches. As such, OI is in the beginning stages of implementing a partial migration of its operations from NGO status to a FFI form of organization, namely commercial banking institutions.

The fundamental problem that needs to be explored is how OI can achieve such ambitious client growth targets given the fickleness of fund raising, where the degree of funding is heavily influenced by the whims of wealthy donors, churches, and corporations. As such, the central research question relates to whether the transformation of a microfinancing institution from NGO status to a for-profit financial institution facilitates improved organizational outcomes using well established financial accounting metrics as benchmarks.

The principal advantage of the savings and loan (S&L) structure relates to the fact that the equity component in its capital structure can be leveraged in the form of direct loans to the S&L. In other words, $1 of equity can serve as collateral for $3 of debt, for example, which can now be lent out in the form of micro loans to OI's client base. This increase in capital is directly due to the additional debt that can be added to OI's capital structure. OI is currently experimenting with this innovative S&L structure in a number of developing countries, including Mexico, Philippines, and Malawi.

The importance of assessing the viability of such a structural shift is compelling since establishing such a meaningful correlation would mean providing microcredit institutions (MFIs) with an alternative, more financially efficient, mechanism to access larger pools of capital which can in turn be made available to the scores of micro entrepreneurs in developing countries who desperately need capital. Combine this with a more diversified capital base from savings infusions by depositors, and now MFIs could have at their disposal a powerful new weapon to use in the continuing war on poverty in Third World developing countries.

PURPOSE OF THE STUDY

The purpose of this qualitative study is to describe the operations of OI in one distinct third world setting, namely in Malawi, Central Africa. The operations under study will be those that have attempted to achieve a successful migration to the FFI structure. The case study was bounded by this one location and the fieldwork took place over an 8 week period.

The central hypothesis is that, for a MFI, a transition from a nonprofit organizational structure to a for-profit structure will lead to improved organizational outcomes. Specific outcomes or variables are related to sustainability from a financial accounting perspective. As such, the central hypothesis is follows: the transition from a nonprofit structure to a for-profit, commercial banking structure will result in significantly improved financial sustainability for the MFI.

The case study builds upon existing scholarship which has examined the organizational outcomes of for-profit MFIs who have dealt with the interplay of mission and financial health with varying degrees of success. The research will depart from previous scholarship by not only examining a case study in one of the poorest regions of the world, but analyze what appears to be an operation which has optimized, rather than comprised, the tradeoff between doing good while doing well.

What is Micro Finance?

Micro financing is the provision of a broad range of financial services such as working capital loans, deposits, payment services, money transfers, and insurance to poor households and their microenterprises that otherwise lack access to traditional capital markets. Broadly speaking, the sources of microfinance consists of: (a)formal institutions, such as rural banks and cooperatives; (b) semiformal institutions, such as nongovernmental organizations, and; (c) informal sources, such as money lenders and shopkeepers who charge extremely high interest rates that often resort to inhumane methods of loan recovering (Hossain, 1988).

The present day definition singles out NGOs as the dominant participant in this niche industry as they are not subject to high reserve requirements and interest rate ceilings imposed by regulators (Baydas et al., 1997; Robinson, 2001).

In an often cited World Bank manual on microfinance (Ledgerwood, 1999), objectives include:

1. To reduce poverty
2. To empower women or other disadvantaged population groups
3. To create employment
4. To help existing businesses grow or diversify their activities
5. To encourage the development of new businesses

In summary, The Economist ("From Charity to Business", 2005), in a recent 2005 expose on the micro financing industry, described the industry as a spectrum where at: one end are those organizations and networks that, by intent, are barely profitable and concentrate on providing credit, such as Grameen and most of Finca's and Opportunity's [researcher's principal research subject] operations. They offer repayment terms and interest rates that do little more than cover costs. Typically these groups are non-for-profit or owned by customers or by investors of the religious and philanthropic sort, rather than by shareholders seeking a financial return ….Rather than pursue profit , microfinance providers at this end of the spectrum often seek to be "sustainable" a flexible concept that can mean anything from covering all costs to covering all costs but capital. As these financial institutions have grown, however, demand for their funds has often expanded beyond what can reasonably be obtained from donors. A growing number of microfinance institutions, taking their cue from the success of banks in developed countries, have concluded that the best way to reach the vast number of poor people in the worked is to become profitable and operate much like conventional rich world financial firms. (p.7)

BACKGROUND

Started nearly 35 years ago by the former president of Bristol Myers Corporation International as an ecumenical Christian development organization, OI has been a pioneer in the microenterprise development revolution providing tools to the poor in order to help them work their way out of poverty. Its mission is to provide opportunities for people in chronic poverty and to transform their lives; its strategy is to create jobs, stimulate small businesses, and strengthen communities among the poor. Its primary method is to work through indigenous partner organizations that provide small businesses with credit, training, and counsel to start or expand businesses. Linked together as the OI Network, OI now encompasses 42 organizations in 30 developing countries with over 800,000 loan clients and a loan portfolio value approaching $160 million.

OI's strategy is to establish a 35 country network, including China, India and Indonesia, with the majority of its growth coming from countries where OI is already present. Lofty outreach objectives include two million loan clients by 2012 and 100 million loan clients by 2035. Deploying technology which contributes to the offering of a broad range of financial services and the lowering of transaction costs is a centerpiece of its strategy. Additionally, customer focus, versus product focus, and client transformational impacts will continue to be defining metrics which OI will use to measure success in its implementation tactics.

OI's strategy of establishing formal financial institutions in the form of commercial banks began in 2000. As of 2004, OI had established five microfinance banks with a loan portfolio worth approximately $40 million USD serving over 92,000 lending clients.

Its strategy is to establish permanent FFIs in selected countries, evolving into a provider of not loans but banking institutions, becoming, in effect, according to Participant 6, a "CitiCorp of the poor". The lynchpin of its outreach vision is to grow from being a cadre of predominantly non-profit lending organizations, with relatively high repayment and operational sustainability, to 35 formal financial institutions providing a full range of financial services and achieving financial sustainability.

RESULTS REGARDING DATA COLLECTION AND ANALYSIS

The purpose of this study was to explore the relevancy and viability of a commercial banking business model in a microfinancing context as well as the strategies implementation of a Malawi-based MFI. While at country-level and organizational level, studies have identified key success factors of MFIs, principally organized as NGOs, little research exists regarding the utilization of the commercial bank model. To fill this gap, therefore this study explores in depth implementation strategies attempting to optimize sustainability objectives within such a model in Malawi's economic and cultural environment. This is with a view to gain broader insight into, and increasing understanding of, the challenges of firm implementation of sustainability and outreach strategies utilizing a FFI commercial banking model in a developing country. Specifically, the objective of this study was to explore the influence of commercial banking practices on a MFI's optimization of financial sustainability.

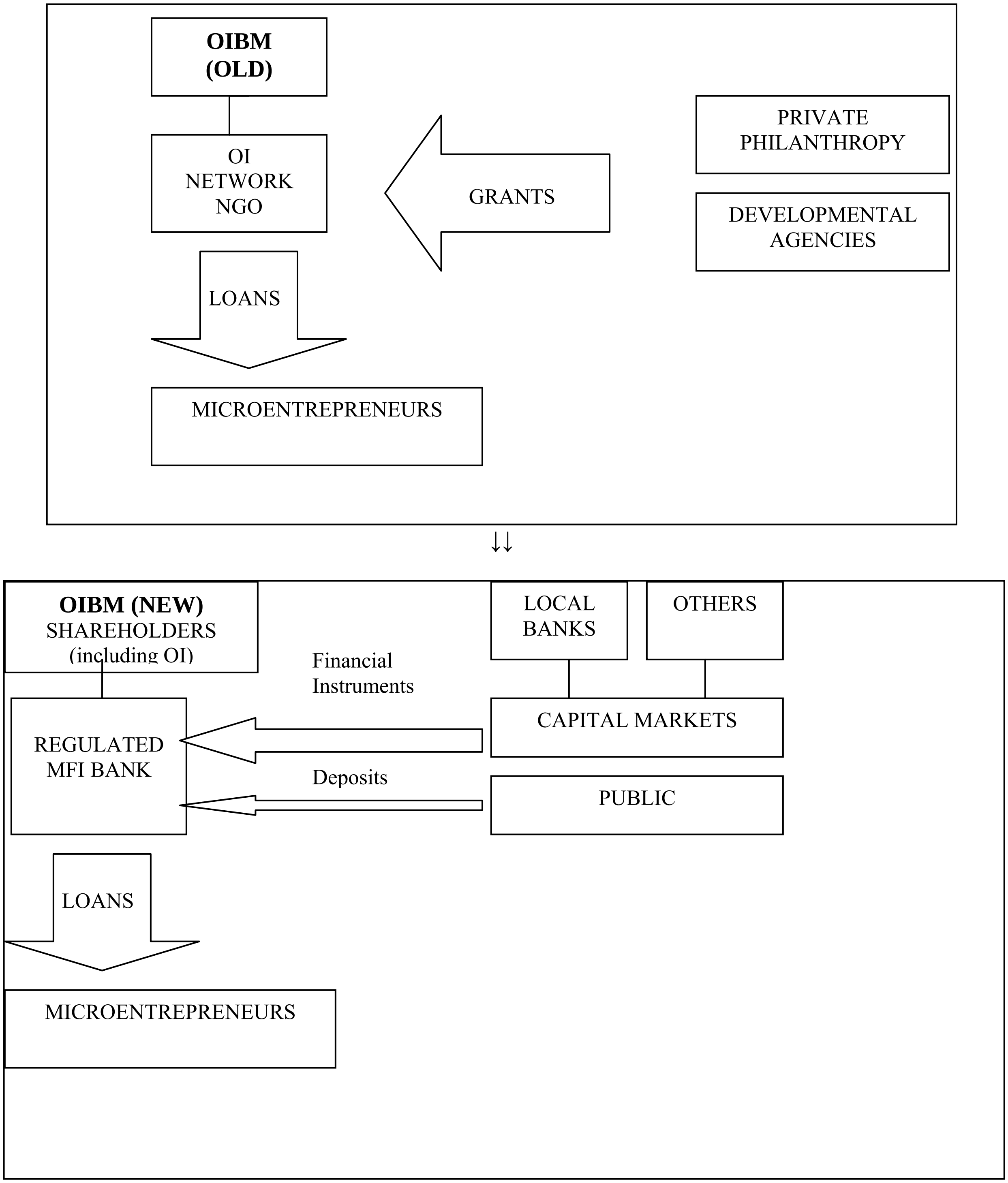
Opportunity International Bank of Malawi - Background

The Opportunity International Bank of Malawi (OIBM) is a financial institution that provides a variety of services to individuals who would otherwise not be served by the traditional formal financial institutions of Malawi. The organization began as a NGO in 2001 with the help of a grant by the British government. Plagued by corruption and nepotism, which caused a 60% default rate, the MFI was subsequently shut down.

OIBM was restarted with a $2 million cash infusion, $700,000USD of systems and new management: specifically, the former governor of the Malawi Central bank was installed as Chairman, Francis Pelekamoyo, as well as Roger Vorhees as Chief Executive Officer (CEO). These two seasoned executives lent credibility to the start up and eased the license application process necessary to be established as a greenfield bank.

OIBM was granted a full commercial banking license by the Central Bank on March 21, 2002 and its doors opened to the public in May 2003. It was the first Opportunity start-up launched as a regulated commercial bank with authority to be a full service financial institution capable of offering savings, lending, and insurance products. Furthermore, OIBM represented the first commercial microfinance bank offering deposits, microloans and other financial services to the poor in underserved areas of Malawi. Its founding mission is to provide access to a range of financial services to the economically active poor and low-income, self-employed micro enterprises. The operational models of OIBM both prior to and after the FFI change initiative is depicted in Figure 1.

FIGURE 1
EVOLUTION OF OIBM BUSINESS MODEL



Adapted from: Chu, M. (2005). *ACCION international: Maintaining high performance through time* (Rev. ed.). Boston: Harvard Business

From the onset, the commitment of OIBM to serve low-income members of the community was reflected in its operational vision which specified the intended target group as the "bankable" part of the poor population and small-scale entrepreneurs. For its part, OIBM uses the savings that it mobilizes to fund small scale production enterprises of the poor, especially in rural areas, with the goal of contributing to the enhancement of their social and economic development. OIBM, therefore, uses its altruistic goals to split off a niche market consisting of clientele to which it provides loanable funds in the long term, which is crucial for the economic development of Malawi.

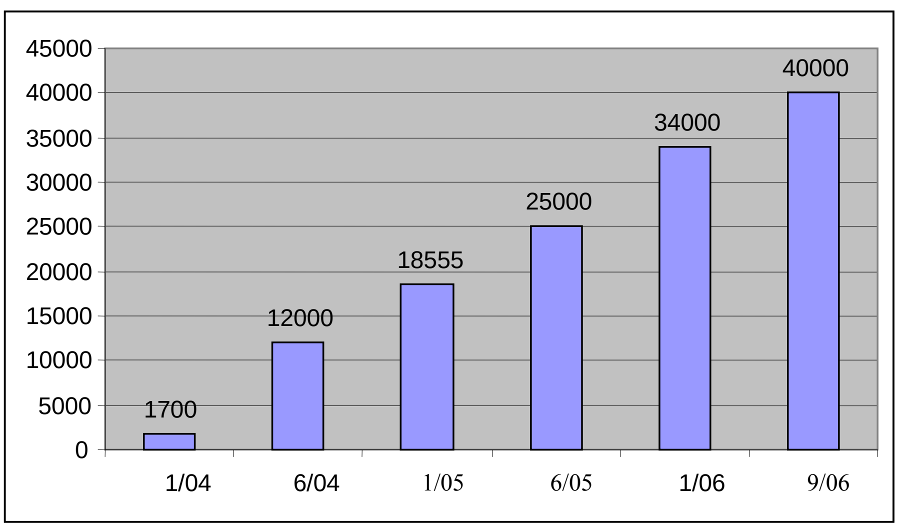
FINANCIAL SUSTAINABILITY

OIBM financial data to be discussed henceforth is denominated in Malawi kwacha and this is the form in which the information was recorded. However, for the convenience of interpretation of this study, the monetary amount was converted to US dollars at a rate of one US dollar for 143 Malawi kwacha. The exchange rate prevailing in Malawi for most of the period examined in this study varied slightly above and below l dollar to 143 Malawi kwacha.

Hypothesis 1.1: the FFI operation, relative to the NGO operation will have access to a more diversified pool of available capital in order to fund its long term operational needs as a result of the organizational structural change.

The period following OIBM's initiation as a banking institution has been characterized by a very rapid growth in savings accounts as a result of the use of new identification technologies which has significantly increased its outreach to the poor. As of October, 2006, OIBM had 40,000 savings clients with approximately $5.5 million currently on deposit, as illustrated in Figure 2, using technology to lower costs and extend outreach.

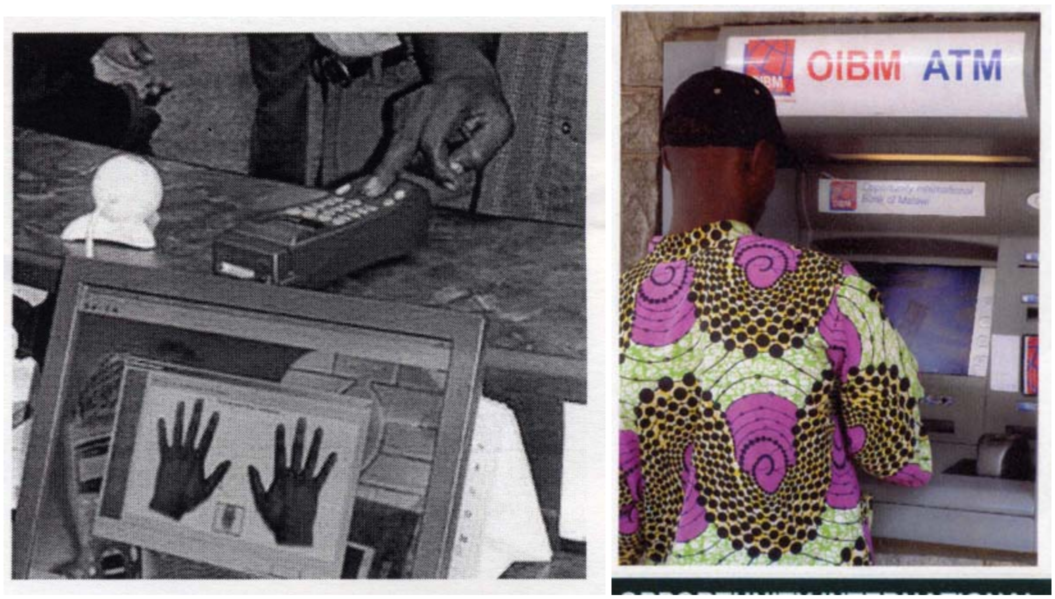
FIGURE 2
OIBM GROWTH IN DEPOSITORS



Adapted from Opportunity International internal documents. Personal communication.

Central to OIBM savings strategy is the use of technology to lower costs and extend outreach, namely smart cards that store fingerprint images to identify clients and automatically brings up account information on a teller's screen or at an ATM machine. OIBM is using technological advancements such as biometric "fingerprint" technology in its microfinance program. Using a paperless system, poor people are able to use their own fingerprint embedded in a credit card size identification card. The card is scanned, as viewed in Figure 3, at the microfinance bank, giving poor people the ability to make financial transactions.

FIGURE 3
ILLUSTRATIONS OF OIBM TECHNOLOGY



Examples of OIBM technology. From Opportunity International 2005 Newsletter. Reprinted with permission

Through biometric technology, it takes OIBM about 5 minutes to process a transaction compared to the approximate 30 minutes it takes most commercial banks, thus alleviating the high transaction costs of other commercial banks due to high minimum balance requirements that typically keep poor people out of the commercial banking sector. From an outreach perspective, Smart Cards gives clients a secure identity for the first time, therefore dignity in the developing world since the traditional means of identification, passport or driver's license, is too costly for a person living in poverty.

The Smart Card has proved to be invaluable in terms of the offering of financial services given the lack of accessible national identity cards. In terms of safety, a story which circulates around the markets and villages of Malawi involves how a client outwitted greedy in laws whereby tradition permits a deceased man's family to claim all of his assets, plus all of his widow's assets. Widows often lose their home, furniture, livestock and money. But this widow, who had recently been laid off from her job, saved her severance pay at OIBM. Her in-laws seized her smart card and rushed to the bank expecting a windfall. But her fingerprint was embedded in the card, not theirs.

Hypothesis 1.2: the transition from nonprofit structure to a for-profit structure will result in a significant increase in the number of financial services available to microentreprenuerial clients.

Unlike other commercial banks in Malawi, OIBM has devised ways of using minimal credit history to make credit decisions about borrowers who request small individual loans. As shown in Tables 1 and 2, the bank has about 5,000 borrowers with a loan portfolio of approximately $2.2 million having made approximately 10 thousand loans in 2005.

TABLE 1
OI LOAN PORTFOLIO

	Total Loan Portfolio Outstanding (US$)	Percentages by Methodology: Individual	Trust Bank	Other
	3/06	3/06	3/06	3/06
OIBM	$2,250,432	10.1%	8.0%	81.9%
OI – AFRICA	$14,649,631	20.8%	61.5%	8.3%
OI	$196,432,290	49.2%	25.7%	25.2%

Adapted from Opportunity International internal documents. Personal communication

TABLE 2
OIBM CLIENTS

	Total Number of Clients Outstanding	Percentages by Methodology: Individual	Trust Bank	Other
	3/06	3/06	3/06	3/06
OIBM	5443	8.1%	65.2%	26.6%
OI – AFRICA	87818	8.6%	84.4%	7.1%
OI	812852	12.6%	82.0%	5.4%

Adapted from Opportunity International internal documents. Personal communication

The two tables illustrates that OIBM has a dramatically different loan portfolio and client base than the OI network with significantly higher percentages in the “Other” category. The “Other” constitutes consumer credit loans and small and medium enterprise (SME) loans. In contrast to Trust Bank non-collateralized loans, consumer credit loans are made to individuals based on credit history and collateral, and collateral is typically pension payments that are due to employees from employers. For example, an employee will borrow money from OIBM and secure the loan through a contract with the employer, where upon if the employee defaults on the loan, the employer will repay the loan out of the pension contributions that are due to the employee upon his or her retirement.

SME customers are typically “walk-in” loans whereby people come into the bank who already have an established small or medium size business and are given loans based on a combination of collateral and due diligence on the business plan, mimicking typical lending processes in developed countries regarding traditional, small business loan practices. This diversity in lending customer is a good feature since it is one of the factors that enhances the diversification of credit risk in the portfolio

Both of these sources of loan activity contribute a fairly significant part of the loan value or the loan portfolio of OIBM:

The remaining part of the loan portfolio are loans made to Trust Banks and also loans made to individuals who have typically graduated from the Trust Bank group who now have much more secure and larger businesses who want to peel off or graduate from the trust bank group.

What is interesting is that once clients graduate from the Trust Bank group they are still encouraged quite strongly by OIBM to serve as advisors, as leaders in the village or in the community, even though they no longer co-guarantee other Trust Bank members. So it's a graduation in form only: in substance, there is still a role for these individuals who have really done well, vis-à-vis the other trust bank members.

Hypothesis 1.3: The transition from nonprofit structure to a for-profit structure will result in higher quality customers for the MFI – that is a lower overall default rate among its microentrepreneur clients.

Arrears rates in a loan portfolio are a measure of the principal payments that are over-due divided by the outstanding principal portfolio (Yaron, 1994). It merits examination since high rates may signal that sufficient funds may not be available to ensure the proper maintenance of an institution's overall liquidity position leading to poor cash flow, and ultimately bank insolvency. Furthermore, high levels of arrears will hurt the reputation of the financial institution as depositors and investors become pessimistic about profitability prospects.

The achievement of low arrears rates in OIBM's loan portfolio is apparent. Since the early days of OIBM, the problem of arrears has been minimal due to rigorous management and lending procedures, particularly related to the challenges of agricultural seasonality and the effect this has on the day-to-day activities of OIBM. In fact, as shown in the second chart below, it is clear that the "Other" customer category is the principal reason why, OIBM has achieved exemplary repayment rates, relative to OI overall:

TABLE 3
OIBM PORTFOLIO IN ARREARS

	Portfolio in Arrears (>30days)		Portfolio at Risk (>30days)		Loan Loss Reserve Ratio
	3/06	9/04	3/06	9/04	3/06
OIBM	1.58%	.94%	2.91%		1.98%
OI – AFRICA	2.48%	3.54%	4.44%		2.71%
OI	1.97%	2.64%	4.06%	5.02%	3.03%
MX BENCHMARK			1.5%		

	Portfolio in Arrears (>30 days)	Percentages by Methodology: Individual	Trust Bank	Other
	3/06	3/06	3/06	3/06
OIBM	1.58%	4.5%%	4.4%	.95%
AFRICA	2.5%	2.8%	1.4%	5.7%
OI	2.0%	1.7%	3.1%	1.2%

Adapted from Opportunity International internal documents. Personal communication

Hypothesis 1.4: The transition from nonprofit structure to a for-profit structure will result in a significant increase in the profitability of the MFI.

The first stage reached before a lending institution can achieve full financial viability is operational sustainability whereby interest charges and program fees can cover non-financial expenses. It is particularly dependent on the maintenance of low delinquency rates (Yaron, 1994; Christen et.al., 1995). Once the institution attains operational self-sufficiency it is on the right course towards the achievement of financial sustainability. As of September, 2006 the organization is operating at 88% operational sustainability. Below are operational and financial statistics for OIBM compared to OI and MX benchmarks:

TABLE 4
OIBM OPERATIONAL AND FINANCIAL SUSTAINABILITY

	Operational Sustainability			Financial Sustainability		
	9/06	3/06	9/04	9/06	3/06	9/04
OIBM	88%	65.7%	20.3%	86%	65.7%	
OI – AFRICA		87.3%	79.8%	74.2%		
OI		115.5%		107.8%	102.8%	
MX BENCHMARK (2005)		113%		104%		

	Return on Assets	Return on Equity
	3/06	3/06
OIBM	(14.3) %	(64.1)%
OI – AFRICA	(64.1) %	(10.9) %
OI	3.7%	9.5%
MX BENCHMARK (2005)	1.2%	4.8%

Adapted from Opportunity International internal documents. Personal communication

One of the things that helps smooth out the cyclicality is consumer credit loans; loans that are made to consumers where the collateral is somehow tied to payroll guarantees, or guarantees that arise from the ability to sequester future earnings at a consumer's employer. OIBM managers comment on future sustainability goals:

Finally, one of the major challenges OIBM faces regarding financial sustainability is the optimization of the conversion process of savings into loans. MFIs who evolve to take deposits could find themselves flooded with too much liquidity running short on loan generation creating an over reliance on lower yielding money market investments, versus a higher yielding loan portfolio. Participant 2 cited the critical need to manage this institutional intermediation process:

Hypothesis 1.5: the transition from nonprofit structure to a for-profit structure will result in a significant increase in the efficiency of the MFI.

Table 5 highlights the relative performance of OIBM as it relates to operational efficiency metrics:

TABLE 5
OIBM EFFICIENCY STATISTICS

	Cost (US$) Per Loan Made	Clients per Loan Officer	Portfolio (US$) per Loan Officer
	3/06	3/06	3/06
OIBM	420	170	70,326
OI – AFRICA	97	255	42,463
OI	53	245	59166
MX BENCHMARK (2005)	32	281	
	Operating Expense Ratio	Financial Expense Ratio	
	3/06	3/06	
OIBM	116.3%	32.7%	
OI – AFRICA	72.0%	8.1%	
OI	28.4%	5.3%	
MX BENCHMARK (2005)	22.6%	5.9%	

Adapted from Opportunity International internal documents. Personal communication

DATA ANALYSIS

The central purpose of the data analysis was to shed light on what formed the constellation of focus by OI and OIBM management and staff members underlying implementation strategies effecting the evolution of sustainability and outreach of this microfinancing commercial bank, operating for nearly four years.

To facilitate the qualitative content analysis of sustainability and outreach components described in the foregoing, and as identified in in-depth interviews and firm documents, the following list of financial sustainability (FS) action themes in Table 6 were used in patterns identification, aggregation, and content descriptions:

TABLE 6
SUSTAINABILITY AND OUTREACH COMPONENTS AND PROPERTIES

FINANCIAL SUSTAINABILITY	CODE
Market Interest Rates	(FS1)
Repayment Rates	(FS2)
Growth/Scale	(FS3)
Institutional Intermediation	(FS4)
Seasonality/Cyclicality	(FS5)
Product Diversification	(FS6)
Transaction Costs	(FS7)
Operating Costs	(FS8)
Technology Utilization	(FS9)
Regimentation	(FS10)
Debt Financing	(FS11)
Equity Financing	(FS12)
Savings Deposits	(FS13)

In Table 7, the ‘Xs’ represent instances of comments relating to each respective theme previously outlined in Table 6, where sustainability and components were coded under key themes. Interview text contents from twenty one participants drawn from managers at OIBM (Human Resource, Operations, Lending, Corporate Headquarters, Information Technology, Finance and Accounting) were analyzed.

TABLE 7
QUALITATIVE FINANCIAL SUSTAINABILITY THEMES BY PARTICIPANT

PARTICIPANT	FS1	FS2	FS3	FS4	FS5	FS6	FS7	FS8	FS9	FS10	FS11	FS12	FS13
1	X	X							X	X			
2	X	X	X	X			X	X	X	X	X	X	X
3		X							X				
4													
5			X						X	X	X	X	X
6													
7		X	X	X				X			X		
8	X	X		X		X	X		X	X		X	
9						X		X	X			X	X
10							X		X				
11							X	X					
12						X			X		X	X	X
13		X	X	X	X	X	X	X		X	X	X	X
14			X	X	X		X	X					
15		X						X				X	X
16		X						X					
17													
18								X				X	
19													
20		X				X							
21			X					X		X			

Subsequently in Table 8, key sustainability themes were aggregated comprising of participants responses to the interview questions indicative of organization-wide and individual department's sustainability and outreach implementation activities. This table represents a quantifying of the thematic responses ranked by frequency in order to gain better clarification of the frequency of sustainability and outreach themes, previously outlined in Tables 6,7, and 8.

TABLE 8
SUSTAINABILITY AND OUTREACH FREQUENCY COUNTS OF THEMES COMMUNICATED IN INTERVIEWS

Financial Sustainability Action Themes	Frequency (n=21)
Operating Costs	10
Technology Utilization	9
Repayment Rates	9
Equity financing	8
Product Diversification	6
Regimentation	6
Savings/Deposit Mobilization	6
Growth/Scale	6
Transaction Costs	5
Debt financing	5
Institutional Intermediation	4
Market Interest Rates	3
Seasonality/Cyclicality	2

MAJOR FINDINGS

The Opportunity Bank of Malawi was used as a case study to illustrate that a microfinance institution organized as a commercial bank in a developing country can be successful using innovative management practices in such a way that it achieves the twin goals of sustainability and outreach. The following are the major findings of the empirical evaluation:

1. The number of poor clients that OIBM serves is large compared to other MFIs in Malawi. The institution is growing in terms of both deposit mobilization and lending services with more than 40,000 depositors and 5,000 lending clients. Nearly a third of respondents mentioned the importance of growth and scale as important strategies in achieving financial sustainability.
2. OIBM has evolved from a state of poor financial performance to nearing breakeven in terms of profitability. During this evolution, the bank has relied on certain key success factors to avoid mission creep, thus avoiding deviation from the market segment it was formed to serve. The following factors are crucial to explaining how OIBM has maintained its mission vision of broad outreach during its transition to profitability: (a) appropriate use of technology (as mentioned by nine out of twenty one participants) that has improved the processing and servicing of depositors and the monitoring of loans and transformation metrics of clients. The major components are: fingerprint technology and computer based management information systems that allows for real time monitoring and tracking of loan status and repayment history, thereby increasing the probability that potential repayment problems are addressed as soon as suspected; (b) an excellent governance structure, as mentioned by a third of the interview participants, that emphasizes transparency and fairness to all clients thereby reducing opportunistic rent-seeking

behavior by OIBM employees; and (c) recruiting qualified staff and continuous training designed to minimize moral hazard problems among bank employees reinforced with internal and external auditing of bank accounting practices (as mentioned by eight of twenty one participants) and utilization of best practices (as mentioned by nine of twenty one participants).

3. The results showed that managerial characteristics such as product mix selection and cost management affected financial sustainability at the subject firm. Specifically, thematic analysis illustrated that nearly 30% of interview participants commented on the importance of product innovation or product diversity and a clear majority (eleven of twenty one) of participants stressed the need for either operational or transactional cost management. This supports an early study by Otero and Rhyne (1994) and more recently by Christen and Pearce (2004) in the study of the South African microfinancing industry.
4. Unlike Yaron (1994) and Gonzalez Vega (1997) who relied on GAAP based measurements, such as return on equity to measure financial sustainability, this current study found that seasonality effects on loan portfolio management and institutional intermediation weigh heavily on achieving financial sustainability in a commercial banking driven business model. Although heightened market turbulence generally linked to serving a predominantly agricultural clientele, led to poor financial results initially, proactive practices combating seasonality and intermediation effects, as articulated by the CEOs of both OI and OIBM, alleviated somewhat the challenges associated with loan portfolio management on a month to month basis.
5. The bank has emphasized the creation of relevant lending products unique to the Malawian economy and in maintaining a reasonably high quality of customer service for its savings and lending clientele. Most loans were for working capital, although a significant percentage of loans were collateralized by employment contracts.

CONCLUSIONS

A number of recent studies of microfinancing institutions in developing countries have highlighted the sustainability and outreach of institutions that use the NGO model to provide financial services to impoverished entrepreneurs. In contrast, institutions that have operated under the commercial banking model designed to serve the poorest of the poor have not received nearly as much attention. The usual challenges that such a microfinance institution faces are further compounded by regulatory requirements and difficult product mix decisions on the deposit and lending front, and significant macro economic and financial constraints that arise from operating in the developing countries. It is, therefore, not uncommon to encounter pessimism regarding the viability of such an institution using a commercial banking structure. A case study that can provide evidence that, given a reasonable amount of time, a MFI using the commercial banking model can achieve viability in the face of multiple obstacles represents a poignant contribution to the literature, and to practitioners. OIBM represents a telling case study whereby sustainability and outreach issues can be examined.

There is evidence that OIBM's implementation strategies have yielded positive results, particularly relating to sustainability and outreach, within a reasonably short time. A key factor responsible for the improvement in operating performance is the fact that loan portfolio diversification has enhanced profitability, combated seasonality, and minimized suboptimal institutional intermediation performance.

This study highlights that sustainability at OIBM is due to the fact that unlike most formal institutions in Sub-Saharan Africa, it has devised better ways of serving the underserved by using minimal identification mechanisms and minimal credit histories to accept deposits, and make credit decisions about borrowers who request small trust bank or individual loans. It demonstrates, that in the poorest of the poor communities, if appropriate technologies and management practices are utilized, a commercial bank based MFI can improve its chances of viability and outreach. For its part, the institution must demonstrate its longevity and its intention to provide market specific financial services to its customers on a permanent basis since growth in savings and lending accounts at OIBM is partly attributed to customer increasing expectations that OIBM will be able to provide quality products and services for a long time.

In conclusion, OIBM is a financial institution targeting the low-income segment of Malawian society. The firm has a major objective of contributing to the economic and social transformation of the poor by financing the activities of micro entrepreneurs. Hence, the bank's management and other stakeholders prefer that the bank's lending and deposit mobilization products and services lead to significant improvements in the economic and social welfare of the poor that it targets. While it is laudable that this institution has made significant strides in empowering thousands of Malawians, one should not underestimate the amount of work that remains to be done. In order to attain long term financial sustainability, OIBM's management must continue to keep default rates and expenses low in order for returns from the lending business to cover the high costs associated with loan and savings accounts that are small in amount per customer.

This study of OIBM emphasized the crucial role of maintaining high levels of operational efficiency during the transition to financial sustainability and substantial outreach. Furthermore, it highlights that irrespective of the product mix deployed, any institution operating in a predominantly agricultural economy must pay attention to seasonality and environmental effects as OIBM is operating within a very challenging financial market characterized by extreme poverty and a bleak social environment.

While the institution has made great strides in improving many aspects of its product mix and deposit mobilization, the major challenges ahead will be centered on how best to extend its outreach, cost effectively. Risk/Reward tradeoffs regarding the introduction of new lending products will be critical. Furthermore, OIBM's management faces a big challenge in trying to reduce the cost per transaction due to the small size accounts on both the lending and savings fronts.

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