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Diversifying in Latin American microfinance organizations.-

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ABSTRACT

This paper is about the use of strategic concepts in microfinance organizations, specifically in Latin American ones.

One important concept in strategy is the product – market matrix. It explains that, basically there are four ways to expand a business, they are the following:

1. Consolidation
2. Market development
3. Product development
4. Diversification

First one would be to keep on doing what you do but harder, in order to have more clients, for instance group credit. Second one is to go on with what you do but in other markets, for instance new segments or in new regions. Third one is to create products (services) similar to the one initially used, but more suitable for the clients. Fourth option, diversification, is about mixing both new markets and new products.

This idea is behind what most microfinance organizations are doing. For instance, many ones began with rural finance but saw afterwards that poor neighborhoods in cities could also be their clients (market development); although not a Latin American example it's clearly the case of Grameen. Exactly the opposite was the case of Procredit in El Salvador, which began as an urban institution and afterwards introduced rural products.

Other MFIs realized that there was a need for new products like housing microcredit, which would represent product development; Acción for instance helps many ones that follow this path.

Finally other MFIs thought about offering very different products and beginning new businesses linked to banking (diversification). An example of this can be Corposol/Finansol in Colombia.

The paper is then about the several trends the business is following in Latin-America in order to expand itself. As a useful tool to help poor people improve their situation, microfinance is growing so it is a good thing to know best ways to do it and to study more deeply each one.

The work ends with some conclusions about pros and cons of these tools, their consequences and others. The idea is to establish the link every successful business has between itself and strategy. As microfinance is not the exemption, then the aim of the paper is to study what strategies are more suitable for the success of this “new” kind of organizations.

1.- Introduction

According to several authors, the initial examples of microfinance in Latin America occurred in the seventies (Von Stauffenberg and Pérez Fernández 2005, Chu 2006). However, the roots of the system can be tracked to other times in history, like the XV century in Italy and Spain, pushed by religious organizations (Gutiérrez Nieto 2005). Undoubtedly, what is new is the span it is having in a lot of countries nowadays. About 3 million people worldwide were “micro clients” by December 2005¹ (Hermes and Lensink 2007). This is not a coincidence or something that can't be explained, there is a reason for this growth: poverty is undoubtedly fought with this method. Following this idea, it would be interesting to see which ways for growing have been more suitable. As more and more people are taken out of poverty with this method, it is necessary to think ways of modifying the original system to keep the pace of growth.

Although there are several definitions of strategy, it is accepted as *the direction and the range an organization has on the long run* (Johnson and Scholes 2001, pag. 10). Then, why would strategy be important for microfinance organizations? Well, as time goes by, institutions become more complex, and the solutions that once were enough are not suitable any more. To keep it short, for a while, new organizations work properly just doing their best but when they mature they have to plan their action and think what they look for, that is strategy. That would be the explanation on the theoretical side.

From a practical point of view, there are several authors that are dealing with strategic concepts and their use in themes that link social matters with enterprise's subjects, like CSR².

Perhaps the best known book on this subject is “The fortune at the bottom of the pyramid”, by C.K. Prahalad (2006) author and university professor on strategy matters. Several other well known authors like H. Mintzberg (2006) confirm this hypothesis. Of course, academy is a “two way” avenue, so there have been articles about strategy use in microfinance and social matters as well as the use of social questions in business organizations, CSR is clearly an example of this latter appreciation. The idea is exposed in Von Stauffenberg et al (2005) in similar terms.

A very important author in strategic thinking that has written about this subject is Michael Porter. He believes that “clearly society and business are interdependent” (Porter et al “b” 2006) and going on the usefulness of CSR, he points out that “*foundations*³ *need strategy*” (Porter et al “a” 1999). His approach is quite simple – although deep – to understand. He believes foundations are just organizations that lead with a particular business: contributing to society.

¹ International Year of Microcredit (see also www.yearofmicrocredit.org)

² Corporate Social Responsibility

³ Organizations that receive funds from corporations for help in social matters.

So “a foundation creates value when it achieves and equivalent social benefit with fewer dollars or creates greater social benefit for comparable cost” (Porter et al “a” 1999).

At a first glance this “in breeding” of both sides of this knowledge would be only technical, but that is not the case. As experiences show, forgetting the commercial side when lending money was not a clever idea (Von Stauffenberg et al 2005). The lesson emerges clearly from the agricultural banking experiences of the sixties. In our days, microfinance seems to have assumed that. As a consequence this industry looks to reach poor people but also to be sustainable. A very interesting debate exists concerning the approach microfinance organizations must have. On one hand the “poverty lending” approach believes credit can be subsidized. On the other hand, the “financial lending” approach believes that it is fundamental the programme be sustainable. (Hermes and Lensink 2007 citing Robinson 2001).

Finally, it is important to bear in mind that in Latin America, microfinance situation is quite different depending on the country. For instance, in Bolivia and Peru the market may be assumed mature (Von Stauffenberg and Pérez Fernández 2007) while in others there’s a lot to do still. These differences should be taken into account while reading this, the concepts used here would be more useful in mature markets. Strategy is not a matter a new organization has to care, rather it is something experienced organizations should think.

This paper is then about the several trends the business is following in Latin-America⁴ in order to expand itself. It ends with some conclusions concerning microfinance strategies, their consequences and others. It does not pretend to be a full study of each case of microfinance in the region. Rather it is an explanation through strategy, of the trends the sector is following there.

The idea is to establish the link every successful business has between itself and strategy. As microfinance is not the exemption, then the aim of the paper is to study what strategies are more suitable for the success of this “new” kind of organizations.

The structure of the paper is the following:

1. Introduction (a general description of the ideas to be studied)
2. Strategy fundamentals (the theoretical foundations of the study)
3. Development, strategies and examples in depth (a detailed set of theory and the corresponding example)
4. Conclusions and suggestions for future growth (the final ideas that can be deducted from the study).-

⁴ Latin America and Asia are the “markets” where microfinance is having its biggest development.

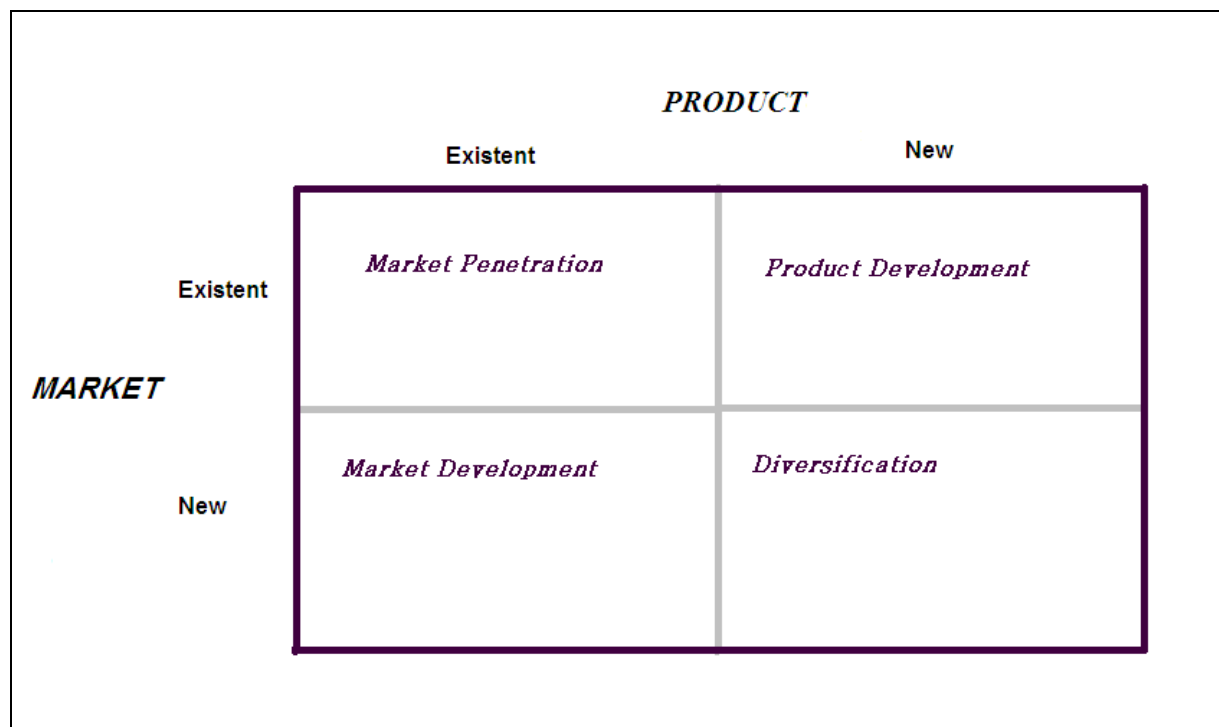
2.- Strategy Fundamentals.-

According to classical strategic theory, there are four ways for a company to grow. These would be the following (see fig. 1):

- a) Market penetration (also known as consolidation)
- b) Product development.
- c) Market development. (new segments, new territories, new uses).
- d) Diversifying

The idea comes from Ansoff (1988), a strategist who worked and studied enterprises and thus created a matrix called the “product –market matrix”, in order to explain the trends a company could follow to grow. Those strategies and that way of thinking is the theoretical foundation for this work.

Fig 1.-



A brief explanation of each strategy (following Johnson and Scholes 2006) is the following.-

a.- Consolidation.-

Basically, it means to achieve better results in what you are already doing in order to have a better position in the market, as the name suggests. As said before, an organization may already be working on group lending, but perhaps there are things to improve. Those could be: more groups, careful follow of their work, diminish the rate of non payments, etc. All those would be ways of consolidating the system.

An important issue to have in mind, is that growth will stop if the same product is always offered and clients evolve. The same problem could arise if new products were offered but they were not the expected ones (Rhyne and Otero 2006). There may be a “quality gap”, that is to say a distance between what is needed and what is offered. That is clearly a problem with traditional monoprodukt organizations like microcredit in its first stage (that offered just group lending methodology).

b.- Product development.-

Product development (or service, they are taken without distinction), is the introduction of new kinds of products, linked to the first one introduced. For example, Grameen bank began with microcredits through group lending. Afterwards it went on, offering micro borrowing and so on. Those are products in the “micro” way that are different from the first, thus it is product development. Generally, clients discover new needs as time goes by. The company understands that and adapts the offer to these new aspects.

c.- Market development.-

Market development is the search for new markets for the products offered. For instance, Grameen began offering their microloans to people in rural areas, following their success, similar systems grew in other countries but lending in cities, mostly in poor neighborhoods, like in the case of Chicago (Counts 1996, pag. 99). That is reaching a new market (urban), with the old product (microcredit).

There is another kind of market development. It is to reach new geographical areas, like for instance other countries or other zones in the same.

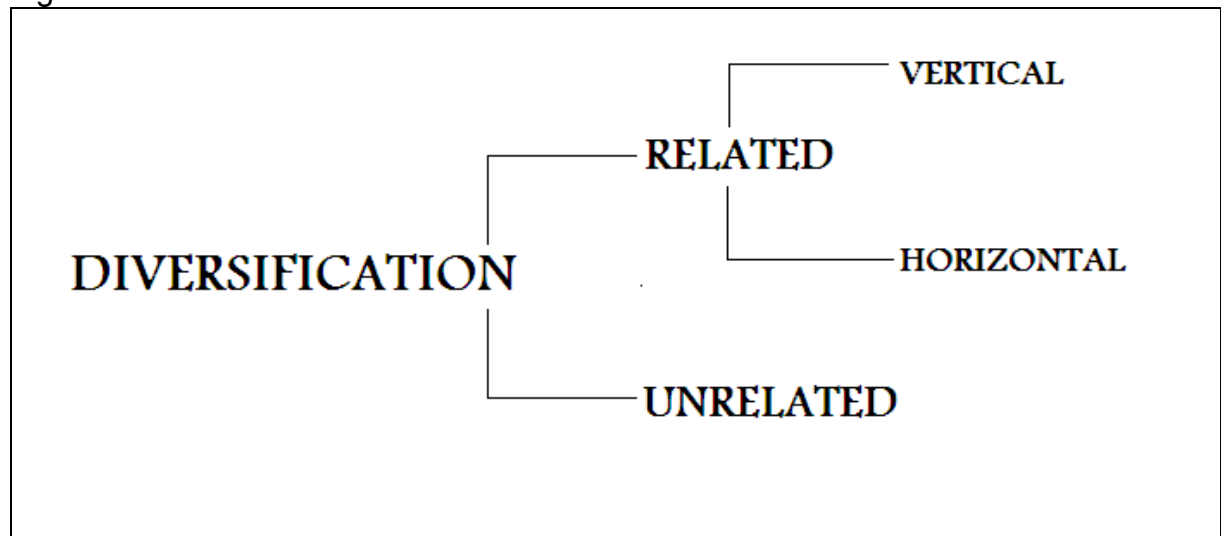
d.- Diversifying.-

Sometimes, there are other things that can be done, deeper changes. When changes have both market and product changes it is called diversifying. That is for instance what happens with Grameen phone. What does it have to do with micro lending? Nothing, except that they lend money to the persons that buy the phones they rent.

An example of diversification would be the case of Corposol/Finansol in Colombia, in the 90' (Chu et al 1996).

Diversifying can be done in different ways (see fig 2). First one would be related, second one would be unrelated. Related can also be considered in two ways, vertical or horizontal. Vertical is when organizations take parts of the same supply chain, like a successful butchery that buys cow farms to raise cattle. Horizontal diversification would be to sell products or services similar to the one's originally offered or where the know-how of the company is used. For instance, an exhaust's pipe factory that begins to build metal furniture because their know-how is the same.

Fig. 2



The other trend towards diversification, is the one called unrelated. As it can be clearly thought, it means to have new businesses barely connected with the first one. The explanation has a different logic than the previous one. When a company diverts to things connected somehow to its core business, it is because it knows about it. When it looks into completely different businesses it is to avoid the risks of a single chain. A Spanish proverb says: “it is wise not putting all the eggs in the same basket”⁵. Business seems to take this into account.

For instance the butchery that bought the farms in the previous example may have trouble if people decide not to eat meat. If they had chosen to buy a completely different thing, like producing bikes, then nothing would happen if client decide not to eat meat.

To finish the explanation on the theoretic side, defining related or unrelated is a matter of where the frontier is considered (Johnson and Scholes 2006, pag. 286), in the end there is always some kind of linkage.

⁵ “No poner todos los huevos en la misma canasta” Author’s note.

Resuming theory

These concepts are not new in microfinance or in traditional strategy books; although their names may vary, depending on the author. For example Rhyne and Rotblatt talk in their 1994 Accion published paper, about horizontal and vertical growth strategies (pag. 91). That is a similar idea to the one used here, although traditional strategy theory and time passed can help do a deeper study. By doing so, new trends and expertise are expected to appear.

An example can show clearly these ideas. A microfinance organization may have begun working with a “one size fits all” strategy, that is to say a single product; for instance microloans in a group lending methodology⁶. In 2007, most of the micro finance’s clients were using this method still (Hermes and Lensink 2007).

As time goes by, the MFIs⁷ begin to understand more deeply the business they are dealing with until one day they see they have covered all the market they could with the system. That would be “Consolidation”.

Willing to go on with the “business”, they realize some changes would be needed, other products, other clients, and other ways of lending. For instance, lending to individuals and not to groups or lending for other needs and not only for microentrepreneurs, etc. These steps would be product and market penetration. As before, after a while the organization reaches its full potential market so again new things should be done. This time diversification could be the answer, a mix of new products and new markets.

This “tale” may not be just a story, it is occurring. Two examples show this. The first one: initially, NGOs were not “microfinance” but rather “micro credit” organizations. That is to say they only had one single product to offer: credit. They realized these groups had other financial needs and thus they began to evolve (Von Stauffenberg et al 2005). The second one: the market gets more competitive “obliging” MFIs to diversify their portfolio (Idem).

Finally it is important to see that growth is not just a matter of market need, it is also useful for the organization itself. Having more clients helps sustainability because it drops costs, the cost per unit (per credit for instance) goes down if the number of clients grows. From the financial perspective that is extremely useful; from the social point of view, it is good also because it reduces the need of donors.

⁶ The “group methodology” is considered by technical literature one of the important innovations of microfinance and is widely studied by authors. They differ however according to the institution. Perhaps the more particular one is Peruvian “Finca”, because it makes groups of 30 people that do not know themselves previous to asking for a loan.

⁷ Micro Finance Institution – author’s note

3.- Development – Strategies and examples in depth.-

As it was previously said, the theory explained above can be seen in the present of microfinance in Latin America. The following section explains that evolution, signalling examples from different countries in the region.

It is important to quote that theory is linked to practical aspects of organizations. As many authors consider (De Geus, 1998, pag. 91 and following), an organization is a living body, so it learns, it grows, it gets older, etc. This means that MFI follow these strategies because they adapt themselves to the “entourage” where they are and the social needs they identify, this, in turn, means they are still linked to their roots.

In the case of microfinance institutions it is very interesting to take organizations in this way, since many things had to change or – to meet the theory explained above – many had to be learned by IMF and people in general for the system to work. Just to quote the most famous one: “poor people don’t pay their debts”. So, IMFs learn and by doing so, they understand and see new trends for growth, more difficult and complicated. One way of seeing this is imagining a company that grows following each quadrant of the product – market matrix.

a.- Consolidation.-

At the very beginning, MFI begin lending small amounts of money for short periods (months). Almost certainly, people working under a group scheme. One of the first changes to the system is offering bigger amounts in longer periods. Examples can be seen for instance in both Perú and Bolivia, two very competitive microfinance Latin American markets (Von Stauffenberg et al 2005). Perhaps that is the easiest change in group lending methodologies, improving the amount lent. At the beginning, the average amount borrowed is 100 to 200 U\$\$, afterwards “*there is no upper limit*” (Ledgerwood 1998). That is also the case of Guatemala’s FUNDAP.

An important thing to bear in mind about this question is that improving the amount lent is also an enforcement mechanism. As micro borrowers have no collateral, there are two ways for doing this, first one is the group methodology, second one is the “progressive lending” (Egli 2004). Both match perfectly between them.

b.- Product development.-

As already said, the evolution of every business, even more in a special case like microfinance, is linked to the knowledge the organizations develops (Churchill 1997). The name given to the concept is quite profound: “learning organization”. So, as microcredit organizations know deeper their client needs, they begin to think in new ways of serving them. In Latin-America, that would be the case of several products newly offered: money transfer, health insurance, micro borrowing, etc. (Marulanda y Otero 2005 pag. 20, Rhyne y Otero 2006 pag. 37). These new products all follow the financial trend and have in common that they are “micro”, that is to say, small amounts of money in order to fulfill poor people’s needs. A detailed table with the several products offered and to be offered can be found in “*Microfinance through the next decade, visioning the who, what, when and how of microfinance*”, by Marulanda and Otero 2005. Let’s take just some of the ones already working:

- Home improvement – Micasa product of Mibanco in Peru,
- New Home purchase – Bancosol in Bolivia and Banco Solidario in Ecuador
- Consumer – Banco Azteca, Mexico provides loans to consumers buying appliances from Elektra Stores (could also be classified as vertical integration).
- Saving – Banco Solidario in Bolivia and Cajas Municipales de ahorro y Crédito in Perú.
- Individual- based models when what was more common was group-based. Bancosol in Bolivia (Hermes and Lensink 2007).

How does the organization learn and develop these products? At the beginning, it has the “one product” approach, as said before, microcredit for group lending. After several group credits have been given, clients income grows (just to have a hint, Yunus said the system generates every year a 1% reduction of poor people in Bangladesh⁸) so the clients are prone to accept new challenges. From the MFI point of view, there is a lot of data about the client, the business, the payment records, the personal knowledge, etc. That is a powerful tool to evaluate if that person deserves a bigger credit amount or other kinds of credit. For instance, if the borrower is thinking in house improvements, it may not possible to lend him the small amounts of money usually borrowed.

More or less the same happens in all MFIs after the initial years of work. For instance, Rhyne and Rotblatt (1994) quoted that Grameen “*is willing to contemplate a variety of services beyond its basic formula; however it faces organizational constraint in doing so*”. Even so they’ve had done innovations, like offering housing loans and seasonal loans. By 2009, Grameen and Latin American MFIs have done many innovations in their initial “one size fits all” strategy.

One of the examples quoted, microfinance for improving housing, can be very useful because it matches perfectly with the way poor people deal with their house needs (Insight 2003). Generally, they improve the existing house little by little. Micro financing these improvements can be a good thing for the house –

⁸ In an interview seen by the author, in “Management TV”, during 2008.

owner and for the lending institution. That is the case of Prodel program in Nicaragua (Ferguson and Navarrete 2003), although it also gives micro credits for new housing.

Prodel and other Central American institutions (Fusai in El Salvador, Fuprovi in Costa Rica) are organizations that concentrate their efforts in housing schemes. They have been supported by the Swedish agency for development (Sida). Their example shows that NGOs have a goal to achieve in this area, not only government led organizations may be the correct answer. So, microfinance is a solution for these problems also. For more details see Stein and Castillo (April 2005). "Mibanco" in Peru, with its "Micasa" credit shows a similar reality (Insight 2003).

As in other cases, offering housing loans is not just a matter of willing to do it. There are certain particularities. Generally, housing loans are a little bit longer in time. Also, the interest of these microloans is a bit lower (Insight 2003). Both things have consequences on the institution, longer periods and less interest need more funding, whatever this may mean: more donors, more savings or more equity.

An important product development and perhaps a bit different from others is savings. A first glance would say that it is just another traditional banking service but in a micro way. Although that is true, there are some differences from other products. One is that regulation from central institutions when MFIs manage savings is much stricter, it can even make impossible for NGOs to "offer" savings (Fiebig et al 1999). It happens that way in most Latin American economies (Von Stauffenberg et al 2005). Another important thing is that savings can be either forced or voluntary (Fiebig et al 1999). In the first approach, savings is generally a portion of the money clients give back for the amount received. Finally, another difference – quite an important one - is that savings can help the institution to finance itself, thus improving its independence from other kinds of funding like donations.

c.- Market development.-

In a similar way to product development, the possibility of growing through market innovations also exists. When a product has reached its full potential, new clients can be obtained by exploring new markets. Basically, there are two ways of doing this: one of them is to look for *new segments*, the other one is to reach *new geographic areas*.

First, a closer look on having clients in *new segments*. Let's suppose the microcredit organization lends to merchants or traders (Ledgerwood 1998). Perhaps it would be possible to lend to the people these street sellers buy goods. For instance, in many Latin-American countries, these street entrepreneurs sell clothing. The clothes sold are generally manufactured by local workers in their homes (Churchill 1997). Then, this is a similar kind of client to the first one, and the good reputation and know how the bank has with the first clients can be very useful with this new kind of borrower.

It can be said that generally organizations learn and evolve in a similar way. They have a task initially, they learn to do it without errors and after a while they introduce little changes, adapting the way they can their “know how”. That’s what Chandler (1962) and other strategy authors say (Mintzberg et al 1999). Microfinance organizations are not the exemption. Again, it is important to see that organizations learn while doing their task. That’s also what authors studying Latin American microfinance say (CAF 2005 citing Christen).

The evolution in this way has advantages, one of them is there is no need to think in new products but in reaching new people, something perhaps easily made than in the product development case. Also, the organization has the “know how” to follow this trend. What changes many times is the amount of credit, not the mechanism. That is quite logical, as clients and their business grow; their need for money also grows (Von Stauffenberg and Pérez Fernández 2007)

The second idea, market development through *new geographic areas* is the other possibility. That means, new neighborhoods, new cities, rural areas previously not reached or the opposite, depending on weather the MFI was initially urban or rural, etc. In some Latin American countries, like Brazil, microfinance can grow much more still. A particularity in the region is big countries (Brazil, Argentina and Mexico) are not the ones having more coverage in microfinance (Ramírez 2004). So, it would be possible to have many new clients in these countries.

Of course this trend has pros and cons; it is more expensive to reach new areas in third world countries (Vachani and Smith 2008). It’s quite easy to understand it, roads are not generally good, the population may not be sufficient, etc. However, that can be also an advantage, since it provokes good behavior in borrowers. As there are very few sources of credit, clients are prone to be careful with them. This would make repayment more likely (Hermes and Lensink 2007).

Two examples of this strategy can be mentioned. Caja “Los Andes” in Bolivia, first was urban and began after some years to expand to rural areas (CGAP 2005). Just the opposite happened in the case of “Confianza”, in Perú, that had begun as a rural MFI and afterwards began offering urban services (idem).

It is important to see that in the same way that an organization has to learn how to sell a new product, it also has to understand how to reach successfully a new market. That is to say, an MFI may know perfectly well how to lend to groups in cities, however doing exactly the same in a rural area may not be possible. Changes must be done. As said before, the organization must learn and adapt itself.

d.- Diversifying.-

As said previously, there are basically two ways of diversifying: related or unrelated. First one is to reach businesses linked somehow to the initial one. Second is to change to new ones (Churchill 1997).

In Latin American microfinance, this has also been done.

Let's consider first *related diversification*.

There can be several ways of doing this, but all of them have one thing in common: do things related (as could be expected) somehow to the initial business.

One possibility is "vertical integration", that is to get into the work of organizations that are upwards or downwards the chain. For a MFI that means be a bank that funds banks (upwards) or running businesses that sell thing bought with the credit the MFI gives (downwards). This latter example was the case of Corposol, an interesting case already cited in this work, that shows gives many lessons.

Corposol was a successful Colombian MFI. They decided to look for new trends, so new that unfortunately many of them ended in financial problems. These new businesses were (Steege 1998):

- Mercasol, different products for micro entrepreneurs.
- Agrosol, for rural clients.
- Construsol, for housing credits.

Theoretically, all these business had something in common: lending money to clients to buy things in any of them. There were two problems: it's not the same thing to lend money to somebody than to lend the money and also sell him what he should buy (Churchill 1997). The second reason was organizational, according to some authors (Chu et al 1996), it was not clear who was responsible for each task.

The other case of vertical integration, would be a MFI that begins to fund other MFIs. Again, although not Latin American, the case of Grameen trust⁹ is from a theoretic point of view, the appropriate example.

As explained before, another way of diversifying is through unrelated diversification, this is completely the opposite of the first and it has a different explanation: to reduce the risk of having just one business.

In this case there are many Latin American examples. Again in Colombia, several NGOs helped by the IADB, have microcredit programs for micro entrepreneurs that oblige the latter to follow some learning in order to obtain a loan (Von Stauffenberg and Pérez Fernández 2007). Although undoubtedly qualification

⁹ www.grameentrust.org.

should help the entrepreneur to run his business, that can be barely the task of a bank.

Also concerning education there are more cases, for instance financing education itself (CAF 2005). It is difficult because it is linked to external things such as finding a job and being successful as a student. Even so, Bolivia's FUNDA-PRO offers such a thing (ibid).

Other examples of unrelated diversification can be seen in Banco Ademi, in the Dominican Republic, that offers credit cards. But there can be many possibilities like offering microinsurance for instance (CAF 2005).

One interesting example is the products for immigrants. As it is well known, Latin America has a huge quantity of people that immigrates both internally or externally. At first, IMF offered money transfers for these people and their families, but there can be a full portfolio of products for this kind of clients (CAF 2005). An example can be seen in "Banco Solidario de Ecuador" (ibid). This shows clearly that diversification is a window for creativity and new ideas.

It is relevant to tell here, that there are examples of successful diversifications that have nothing to do with the original business. Again, although not Latin American, Grameen bank runs things like cellular phones (Yunus 1999) or irrigation. The reason why can be easily understood, the organization has a good managing system and know how, so it is able to get into completely new areas. That was specifically the case of Grameen and irrigation (Ibid).

It is important to bear in mind that diversification is always a difficult step for organizations. As it was previously explained, it would be wise to evolve into businesses that have to do with the first one, because the company already has the "know how" (Churchill 1997). The problem is that not always organizations choose the strategy they may want. Rather they try to achieve a goal step by step, adapting the path they follow to the situation. The concept is known as "logical incrementalism" (Johnson y Scholes 2001 citing Quinn, pag. 50), and manages the idea that companies many times have to cope with situations they have not chosen.

It is important to quote, that, as a way to set aside the difficulties of diversification, CAF¹⁰ suggests IMFs should look for strategic alliances when doing this (CAF 2005). Reducing risks is necessary for a bank.

¹⁰ "Corporacion Andina de Fomento" in Spanish; "Andean Developing Agency" literally, in English.(translated by the author).

4.- Conclusions and suggestions for future growth.-

1. Growth means also technical/"know how" changes.-

When a microfinance organization offers new products, it has to be able to manage these innovations. For instance in order to accept savings, it should be able to cope with regulations from central banks (Fiebig et al 1999). That in turn will make MFI organizations more professional, improving their "know how". Something similar happens with housing loans, as quoted before; they have particularities that need to be learned by the lending organization (Insight 2003). Microfinance institutions are not alone in this task. Their "Know how" has also improved due to the organizations linked to them, like the ones qualifying its risk (Von Stauffenberg et al 2005), in other times only existent for traditional banking. There are also others, like "second floor" cooperation agencies and the like: GTZ, Acción, Sida (from Sweden), AECI, World Bank (Through CGAP).

2. It's not just a matter of willing to do something, but of learning to do it.-

This statement is linked to the previous one. The concept of "learning organization" used in organizational theory and already cited is very useful. It shows clearly that it's not a matter of willing to have new products, the problem is to see if the MFI has the organizational capability to do so. For instance, could an NGO offer more products with the same staff, perhaps of voluntary workers?, most probably not. Thus, to evolve it has to learn.

3. Not all the possibilities existing are for every organization.-

Even if an organization has the will to learn and the clients for a new product, it may not be possible for a MFI to make an innovation it wants to make. That is clearly the case of savings, where regulation may prevent or at least make very difficult for some organizations to offer that service. Strategy theory states that also, sometimes the path followed by organizations is not the one they would like to make, but the one they can.

4. The organizations environment also evolves helping changes.

A first glance at the previous statement may induce the reader to think that the environment is a "brake" for microfinance. That is not the case, as MFIs evolve; they push for changes in their environment. That, in turn, helps their growth. A clear example of that can be seen in "BancoSol" (in Bolivia), originally a NGO. It evolved into a regulated organization, improving in this way the possibilities of funding. Something similar occurred with Mibanco (in Perú), originally an NGO called "Acción comunitaria" and now a bank specialized in microfinance (Von Stauffenberg et al 2005)..

But there other changes in the environment, like the organizations that help funding MFIs, some examples: Blue Orchard, Fondo de Microcrédito Dexia, Latin American Challenge Investment Fund (Von Stauffenberg et al 2005)

5. Reality is far richer than theory

Although it is important to have an idea of what an organization can do, there is no substitute for ideas that grow in the given situation. From that perspective, the strategy concepts used here are useful ways to study the ideas that may grow in the “battlefield” and in that way analyze which can work better.

It would be very useful for an MFI to evolve matching both theory and practical aspects of the reality faced. Simple as the reasoning may sound, it has to be kept in mind that social organizations many times rely too much on good will.

6. Classical strategic theory is very useful in microfinance

The typical debate between academicians and practitioners may not have a place here. Business theory states things that can be seen in the arena of microfinance in Latin America. This is an important statement, since it means that for future growth, strategy could be a useful tool to analyze both the new possibilities and what to expect from them.

Aspects for future study.

Growth means also organizational changes, both legal and internal.-

As it would be expected, all the changes that a microfinance organization can make are linked to structural (organizational) moves. This is strict strategy theory but it is also what many microfinance authors say (Rhyne y Rotblatt 1994). Citing them we can conclude: *“introduction of new services has repercussions throughout all parts of the organization”*.

And that’s not all, the legal status of the organization also changes. That is so in order to meet new challenges, a clear example is the evolution from NGO to regulated institution (Von Stauffenberg et al 2005).

These aspects could be seen in the examples and papers read and used in this study. It is also a theme theory analyzes. Strategy is linked to structure, the first evolves and the second goes along with it.

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