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CASE STUDY

The "Human Aspect" of Commercial Transformation

NRSP-Pakistan, ShoreBank International, Ltd., and the USAID AMPER Program

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Abstract

This paper describes the experience of the National Rural Support Programme (NRSP)-Pakistan in transforming its microfinance operations into a regulated microfinance bank and in implementing a deposit mobilization initiative. The paper focuses particularly on the management, human-resource, and investor aspects of transformation—the "human element."

About the National Rural Support Programme

Established in 1991, NRSP (www.nrsp.org.pk) is the largest rural poverty-relief program in Pakistan, with a presence in 31 rural districts in all 4 provinces of the country. It operates in 46 districts across the country, working with more than half a million poor households and national microfinance loan portfolios valued at more than US$ 58 million. NRSP is a not-for-profit organization with the mandate to alleviate poverty, particularly in rural areas. It holds 25 percent of the total national microfinance market, with 410,520 active loans, as of June 2009.

About ShoreBank International

ShoreBank International, Ltd, or SBI (www.sbksbi.com), is the consulting company of ShoreBank Corporation and part of the ShoreCap companies of ShoreBank Corporation, which are dedicated to working with financial institutions globally to create greater access to capital for underserved clients and to generate economic wealth in target markets.

About The SEEP Network

The SEEP Network (www.seepnetwork.org) is an association of more than 80 international NGOs and associations that support micro and small enterprise development programs around the world. SEEP's mission is to connect microenterprise practitioners in a global learning community. SEEP brings members and other practitioners together in a peer learning environment to produce practical, innovative solutions to key challenges in the industry. SEEP then disseminates these solutions through training, publications, professional development, and technical assistance.

Introduction

What are the management and human capital challenges of transforming an NGO's microfinance operations into a regulated microfinance bank? This case study chronicles the experiences of the National Rural Support Programme (NRSP) in Pakistan—particularly the human elements—as it transformed its microfinance arm into the NRSP Microfinance Bank.

Why Transform?

Microfinance institutions (MFIs) typically transform from a non-governmental organization (NGO) to a bank to reach significant scale and financial sustainability. This trend began in the 1980s and is representative of several trends in the commercialization of microfinance, including the entry of commercial banks into the "micro" market, the founding of commercial microfinance banks, and mergers between MFIs and banks.[1]

As of 2007, fewer than 100 NGOs had transformed into regulated MFIs.[2] For multi-sector NGOs with a microfinance arm, transformation is even more complicated since microfinance is only one of many responsibilities. Transformation is a major process, but while it is underway the other programs of the NGO continue. In a larger NGO with wide geogrpahic coverage, regional offices or branches may transform in a phase approach, with some operating under the NGO even after transformation begins. The original NGO and the new microfinance bank must determine their relationship to one another—in terms of ownership and control, mission alignment, and shared clients and services.

The Change Process: What Does Transformation Entail?

Pros	Cons
Moving toward corporate-like formal management and an accountability system	Ceding control to a broader group of stakeholders
Expanded product offering and broadened client base	More commercially-oriented client relationships; possibility of mission drift
More qualified and professionally trained workforce	Significant change in human resource requirements
Regulatory support and recognition as a formal financial institution	Compliance with costly regulatory requirements

Adapted from L. Ledgerwood and V. White, 2006, *Transforming Microfinance Institutions: Providing a Full Range of Financial Services to the Poor* (Washington, DC: World Bank).

Transformation has multiple benefits for MFIs. Commercial financing becomes easier to access, opening up a large new source of funding. Regulated institutions can offer such diversified services as savings, which in turn attract new clients. The stricter governance and oversight that comes with being a regulated bank can improve an MFI's financial sustainability, efficiency, and transparency.[3]

Mission drift, defined as "the concept that MFIs migrate away from their original mission (to serve low-income clients and alleviate poverty) in favor of generating profits for investors by serving higher income clients or by maintaining high-interest rates on client loans," can be a major concern of transforming NGOs.[4] However, transformation has usually

1. Opportunity International. 2007. "Why Do Some MFIs Transform from an NGO to a Bank?" Briefing paper. Oak Brook, IL: Opportunity International, available on website of All Party Parliamentary Group on Microfinance/Microcredit (APPG), http://www.appg-microfinance.org/files/Why%20transform%20from%20an%20NGO%20to%20a%20Bank.pdf.

2. Ibid.

3. Ibid.; and C. Frank, 2008, Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line. New York: Women's World Banking. http://www.swwb.org/stemming-the-tide-of-mission-drift.

4. Frank (2008).

resulted in MFIs serving more clients with a greater variety of services, which improved mission achievement.[5] In addition, many transformed MFIs are partially owned by or have board representation of the founding NGO, as is the case with NRSP Bank. This presumably guards against a purely profit-driven mission.

The Pakistan Context

As noted on *Foreign Policy's* Failed States Index website, "It is a sobering time for the world's most fragile countries, facing among other things virulent economic crisis, countless natural disasters, and government collapse."[6] Pakistan has faced internal political instability, conflict related to the Afghanistan war, and the 2008 financial crisis, and currently ranks 10th in the Failed States Index.[7] Poverty in Pakistan rose in fiscal year 2008–09 with high domestic inflation caused by soaring food and energy prices. It is estimated that one out of four Pakistanis lives below the poverty line.[8] Based on the 2007 Punjab Economic Survey, 20 percent of the provincial population is poor, with a higher concentration of poor in rural areas (44 percent).[9]

In Pakistan, only 14 percent of the population uses the formal financial system, and only 60 percent of Pakistanis has access to informal or formal services.[10] However, this still means that four out of ten Pakistanis have no access to financial services. As Nenova, Nenang, and Ahmad wrote in a World Bank study on Pakistani access to finance: "Major constraints to financial access include high levels of poverty, lack of information about available financial services, and gender bias."[11] Among the poor population, "women, small businesses, microenterprises, and the rural population" have the lowest rates of usage—"though market studies suggest they are viable customers."[12] The authors estimate that the potential market for microfinance in Pakistan is as much as 30 million adults, but that only 2 percent of these are currently being served.[13]

There are currently an estimated 40 MFIs and 8 microfinance banks operating in Pakistan. Historically, these MFIs have had a credit-led approach to financial services.[14] This has significantly informed the policy environment, which is highly credit-focused, although recent policy reforms make taking deposits easier. This creates an opportunity for MFIs and microfinance banks that are ready to mobilize deposits and offer savings services to their clients.

5. Ibid.; Opportunity International (2007); and A. Campion, E. Dunn, and J.G. Arbuckle, 2001, "The Transformation of Acción Communitaria del Peru (ACP) to Mibanco," *Microenterprise Best Practices* (Bethesda, MD, USA: DAI).

6. *Foreign Policy,* 2009 Failed States Index website, front page, http://www.foreignpolicy.com/articles/2009/06/22/the_2009_failed_states_index.

7. CIA World Factbook, "Pakistan," "Economy," https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html; 2009 Failed States Index.

8. Using the 1998 District Census Reports data, Pakistan Microfinance Network, in its quarterly publication, *MicroWATCH* (March 2008), calculates the given market size as 16.9 million transitory vulnerable and 12.3 million transitory poor people.

9. T. Nenova and C. Nenang, with A. Ahmad. 2009, "Bringing Finance to Pakistan's Poor: A Study on Access to Finance for the Underserved and Small Enterprises," World Bank Report, Executive Summary (Washington, DC: World Bank).

10. Ibid., i.

11. Ibid., i.

12. Ibid., ii.

13. Ibid., iii.

14. For more information on the Pakistan microfinance sector, visit www.microfinanceconnect.info, run by the Pakistan Microfinance Network.

Overview: NRSP's Transformation

Established in 1991, NRSP is the largest rural poverty-relief program in Pakistan, with a presence in 31 rural districts in all 4 provinces of the country.[15] NRSP's programs encompass microfinance and microenterprise development; urban poverty alleviation; infrastructure and technology development; environmental and natural-resource management; social services, including education and health; and community organizing. NRSP operates in 46 districts across the country, working with more than half a million poor households and national microfinance loan portfolios valued at more than US$ 58 million. It holds 25 percent of the total national microfinance market, with 410,520 active loans, as of June 2009.

Table 1. NRSP Microfinance Statistics, 2007–2009

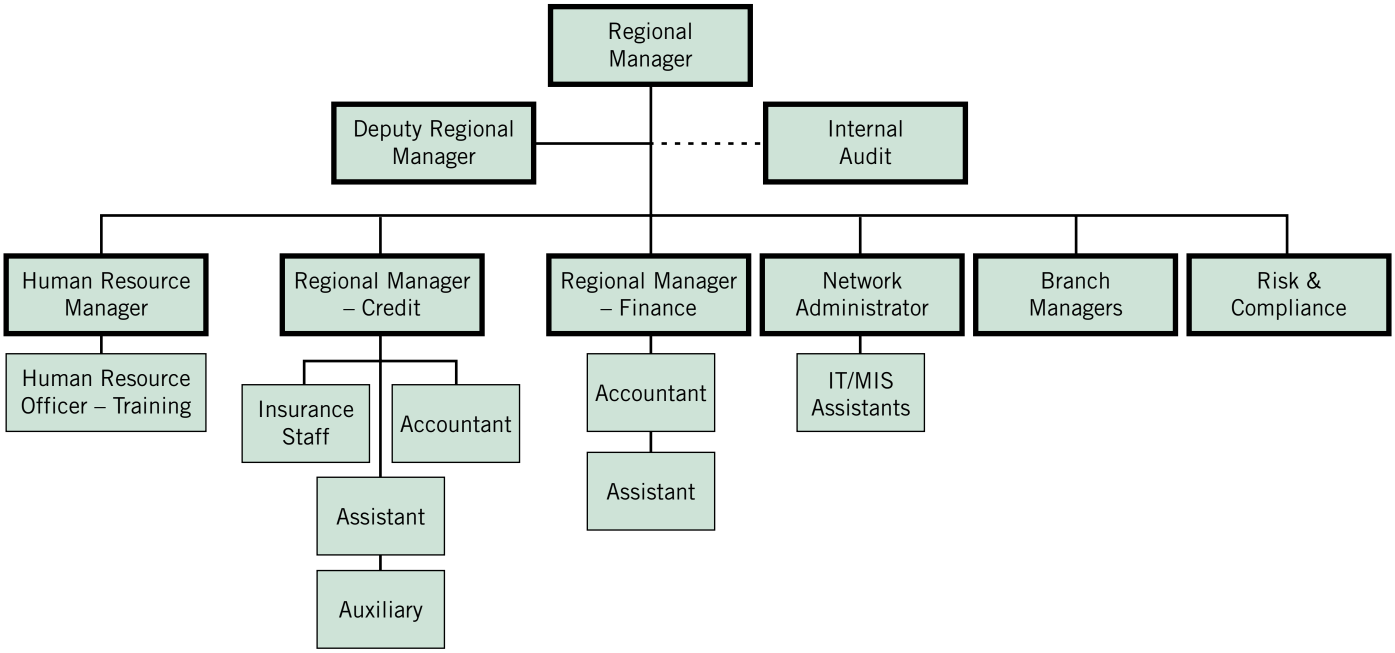
	2007	2008	2009
No. of active borrowers	246,072	463,383	410,520
Gross loan portfolio (in US$)	34,328,271	62,737,500	58,600,000
No. of savers (membership)	766,816	1,091,924	1,219,629
Savings (in US$)	9,967,470	13,911,875	12,900,000
Operational self sufficiency	99%	120.38%	105%

Rationale for Transformation

In early 2007, NRSP management and its board decided to transform the microfinance operations of the organization. When asked why, Rashid Bajwa, CEO (chief executive officer) of NRSP, stated, "If I borrow from commercial banks, I'll have to pay up to 18 percent . . . so deposit taking (and thus transformation) is a need, not a choice." He further explained that the recent credit crisis pushed MFIs to diversify their funding sources and that deposit mobilization holds significant promise as a source of capital. In addition, recent changes to the regulatory environment made transformation easier. Finally, Bajwa and the NRSP leadership felt that credit alone was not adequate to meet the needs of Pakistan's rural poor and that transformation would allow NRSP to meet a much broader range of financial service needs.

15. See NRSP website, http://nrsp.org.pk/.

Organizational Chart for NRSP Bank Regional Hub at Bahawalpur



Support from AMPER

The transformation of NRSP's microfinance program into a regulated bank was assisted by ShoreBank's Advancing Microfinance for Post-Disaster Economic Reconstruction (AMPER) project, funded by USAID through the Implementation Grant Program. This project was initiated at NRSP to introduce innovative microfinance services in the earthquake-affected province of Azad Jammu and Kashmir (AJK). During its first year, the project added another objective: to establish a prototype of a stand-alone microfinance operation for NRSP in this region—"testing out" the benefits of transformation. The pilot separation of the microfinance program from the broader NRSP humanitarian operations was executed successfully in AJK in 2007.

AMPER was a catalyst for NRSP's final decision about transformation. The AMPER project director, Salim Jiwani, had extensive experience with transformation, having led the transformation of another Pakistani MFI, the Aga Khan Rural Support Programme, into the First Microfinance Bank. Jiwani understood NRSP's strengths and weaknesses and was able to mentor and advise Bajwa, the NRSP CEO.

Transformation Governance Model

NRSP's board decided on a transformation model that was similar to the Bolivian Prodem-Bancosol model. In this structure, the parent NGO continues to exist after transforming its microfinance operations into a bank. This decision was made largely to enable NRSP's non-microfinance programs to continue and thrive.

With this governance model, the NRSP Bank and the parent NRSP NGO may eventually become a holding company, such as that adopted by BRAC Bangladesh and BASIX India. In this structure, a non-bank holding company heads its commercial bank, along with other subsidiaries. Currently, the NRSP NGO holds a 52 percent majority stake in the new NRSP microfinance bank.

Major Steps and Timeline

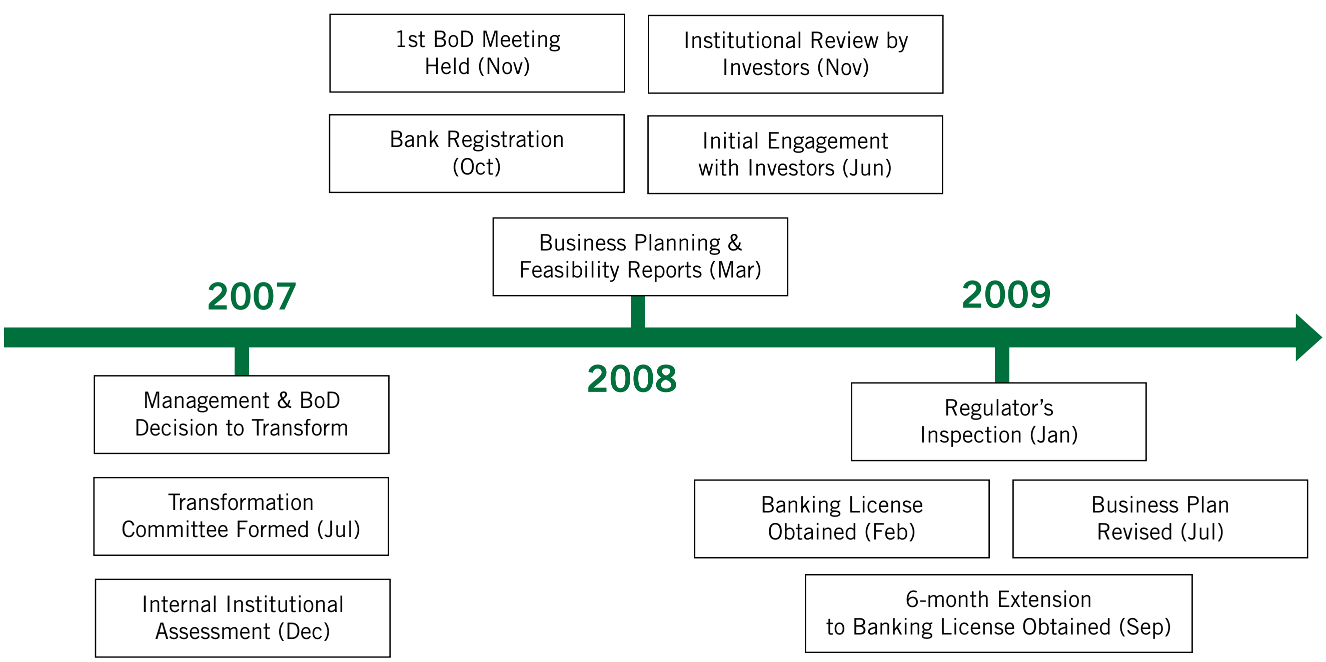
NRSP's Transformation Committee

Chief executive officer, NRSP and NRSP Microfinance Bank
Transformation manager and secretary, NRSP
Chief operating officer, NRSP Bank
Program manager, NRSP
Deputy program manager, NRSP
General manager, NRSP

Transforming into a bank is a difficult process; careful planning is necessary, and NGOs should have a strong strategic reason for transformation.[16] Since 2005, ShoreBank has cultivated a close, long-term partnership with NRSP, which included helping it develop an updated five-year business plan to transform NRSP's microfinance operations into the regulated NRSP Microfinance Bank. This project (with financing at various stages from the U.S. Agency for International Development, the International Finance Corporation, and NRSP) included the creation of a "transformation implementation plan," a review of NRSP's information technology and management information system capacity, and a strategy audit of the business plan, with a focus on making it more attractive to investors. Together, these outputs became a road map for transforming NRSP's microfinance operations. A dedicated transformation committee, which included key section heads, was established to oversee the entire process and to balance the strengths of the for-profit and the non-profit entities. The goal was for NRSP Microfinance Bank to begin bank operations (especially deposit taking) by the end of August 2009.

NRSP registered as a separate public limited banking company with the State Bank of Pakistan in October 2008 and applied for a banking license in December 2008. On February 17, 2009, after a series of discussions and an in-person inspection of NRSP, the State Bank of Pakistan issued an initial provisional license, which allowed the NRSP bank six months to finalize its shareholder and capital structure and to initiate branch banking operations. This provisional period was extended by additional six months in August 2009 to accommodate delays due to political unrest and travel advisory issues. The figure below illustrates the process to date.

NRSP's Transformation Timeline



16. Ledgerwood and White (2006).

At time of publication, NRSP Microfinance Bank is still finalizing its shareholder structure and launching its initial branch network. Investors are close to completing their equity commitments. In addition to the equity challenge, management also faces the challenge of raising debt from commercial sources, despite the fact that the State Bank of Pakistan has introduced a credit guarantee mechanism for microfinance banks and transforming MFIs. NRSP Microfinance Bank management fear that this challenge may prove difficult to overcome because the commercial banks (from which the NGO previously borrowed) may view the new entity as a direct competitor in the short term as depositors transfer their deposits from them to the NRSP Microfinance Bank. In the long term, as other transformed MFIs' experience has shown, NRSP expects that it will become an attractive investment for commercial banks, which will be more comfortable lending to a fully regulated institution. Keeping this short-term apprehension in mind, NRSP management devised a two-pronged deposit strategy, targeting both lower and higher ends of the market. By targeting institutional depositors along with the microsavers, NRSP Bank hopes to establish some stability, as well as deposit capital to expand services to the poor.

Lessons Learned

Managing an NGO's transformation into a bank is an enormous managerial responsibility. Important lessons and recommendations emerged within four key areas: internal management, human resources, investment interests, and infrastructure.

Internal Management

1. An Effective Management Team Has Clear Role Roles and Responsibilities

Transformation is a challenging process and requires a capable leader supported by strong senior management. NRSP's CEO currently heads both the NRSP NGO and the bank and oversees the entire transformation effort. This dual role presents particular challenges to the long-term viability of this structure, which has been questioned by internal and external internal stakeholders. However, the NRSP board and some senior managers feel strongly that this arrangement is essential for a smooth transition, because it allows the CEO to make strategic decisions in the interest of both entities, based on advice from senior management.

Potential capacity gaps between the CEO and other senior managers also need to be carefully managed. Although the new bank has recently appointed a chief banking officer and chief financial officer, most stakeholders argue that the bank's management team is relatively small. In the future, the bank will need additional specialized staff to manage core banking functions, such as risk and treasury management.

Recommendations

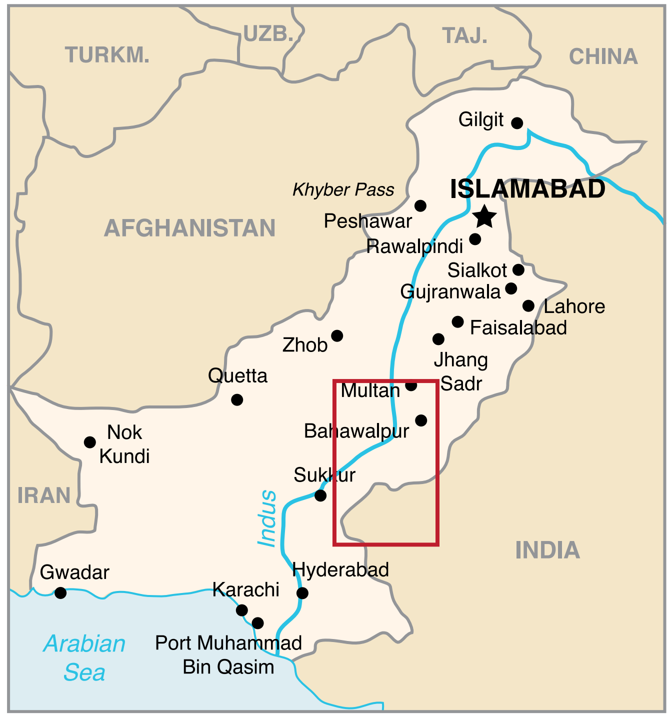
- Assign and communicate clear management roles to represent the interests of both the original NGO and the transforming microfinance entity.
- Develop succession plans for a stable management structure.
- Focus on mentoring and developing junior managers and promising staff, in order to ensure there is qualified staff to fill key positions.

2. Extensive Planning Is Essential

Although NRSP's process of transformation is still evolving and maybe unpredictable at times, good planning can help ameliorate many of the inherent challenges. NRSP has had mixed results to date in this regard.

One of the reasons NRSP made the decision to transform its microfinance operation into a bank was to access multiple funding sources. In turn, some stakeholders criticized the organization for fast-tracking the process of obtaining a banking license solely to expedite access to new capital sources. Others maintained that NRSP management was overconfident about their successful credit operations in some regions.

In some cases, there is evidence that NRSP management could have better predicted and proactively resolved certain issues. For example, the new bank did not plan to hire a human resource (HR) manager in the early phase of the bank's development. Upon realizing the need for an HR manager to oversee the placement and deployment of staff for the new deposit operations, the bank's managers requested donor funding for HR experts' advice.



A map of Pakistan showing initial geographic focus of the new NRSP Microfinance Bank. Map source: CIA World Factbook.

Some decisions in the transformation process were seen by a few stakeholders as spontaneous and might have benefited from more formal market research. For example, some NRSP Bank investors were more inclined to target the higher end of the deposit market. This was based on the experience of similar financial institutions, which had attracted deposits from entities interested in the mission of the institution, such as philanthropically minded wealthy individuals or corporations interested in social responsibility. Small deposits, conversely, are a valued service to savers, but can make it difficult for MFIs to raise capital cost-effectively. Some investors have remarked that although it is commendable to have an ambitious overall plan, it is more important that the bank's first stages be driven by a detailed step-by-step plan.

Recommendations

- Learn from documented experiences of other MFI transformations.
- Move cautiously and estimate effort conservatively. Lay out a step-by-step plan particularly for the early stages of transformation.
- Base all major decisions on thorough market research.
- Incorporate contingency plans into the transformation plan.
- Instruct regional management teams to develop their own, specific transformation plans based on the overall plan.
- Document each step of implementation for institutional learning.

Human Resources

1. Communication Is Key to Resolving Staff Concerns

Major organizational change can be a time of uncertainty and may even trigger fear among staff. Research indicates that open communication increases the probability of success and improves the satisfaction levels of those affected.[17] NRSP's transformation committee became the nucleus of all transformation activity and source of communications about it. Externally, the committee dealt with stakeholders, such as investors and regulators. Internally, all staff members looked to the committee, particularly the CEO, for information about the transformation process. Although the NRSP committee regularly updated staff, staff members still voiced concerns about job security, new roles and responsibilities, and consistency of communications from management.

17. S.M. Klein, 1996, "A Management Communication Strategy for Change," Journal of Organizational Change Management 9(2): 32–46.

Although committee members did their best to assure staff members about their job security, some did not think it possible to assuage everybody's concerns and thus limited their communications. Some staff members, in turn, reported that they felt estranged from the committee and did not find their apprehensions and questions adequately addressed. Branch-level staff reported the most concern about how organizational changes would affect them personally and how they should inform their communities of the transformation.

Recommendations

- Focus on maintaining friendly and open communication with all staff at all levels. Many concerns can be resolved when people feel that management is accessible and communicative.
- Keep staff informed through internal newsletters, regular meetings, and involvement in the planning phase to increase staff buy-in for the transformation process.
- Avoid silence, even if the information is negative. Keeping information from people only increases potential confusion and frustration.

2. Alignment of Staff Culture and Commitment Matters

As anyone who has ever worked at both a bank and an NGO can attest, these two types of institutions have very different organizational cultures. Many NGO MFIs are staffed by employees who care deeply about the non-profit mission of the MFI and may have difficulty adjusting to a new corporate culture. While NRSP management gave all staff members a choice to join the microfinance bank or to stay with the NGO, a number of challenges still emerged.

Some current NRSP staff members reported that they considered the high commercial interest rates charged by other MFIs in Pakistan to be unfair. For certain staff members, such practices seemed contrary to the perceived social mission of NRSP and, in some cases, contrary to Islamic principles—a potentially serious issue in this majority Muslim region. Therefore, several staff members, including a handful of senior managers, opted out of joining the bank and decided to stay with the NGO. The NRSP management accommodated staff's preferences. The staff members who stayed with the NGO now expect to focus more on other, non-microfinance programs at the NGO, including health and education.

Still other staff members viewed a bank job as sophisticated and professionally attractive. In Pakistan, a bank job implies social status as well as better compensation and benefits. NRSP's initial business plan called for higher salaries for bank staff, which understandably excited staff members planning to move to the new bank.[18]

Based on other transformation experience, a common concern is that integrating existing NGO microfinance staff with newly hired finance professionals could lead to a clash in work cultures. NRSP's current NGO staff will work with newly hired bankers in middle and senior management positions. Staff with formal banking backgrounds will have different expertise, and some NGO-based staff members have reported that they feel intimidated by the specter of potential competition with the bankers. Additionally, NGO staff members may be used to simpler, more flexible, and less formal operating practices, which may cause some friction. Staff coming from the NGO may also resent their new colleagues from whom, as formal banking experts, they must learn new procedures, such as deposit taking. Or, they may be uncertain about their ability to learn new, required skills: many NRSP NGO staff members voiced doubts about their individual and institutional capability to carry out new tasks. NRSP senior management maintains the view that training in the new banking procedures and regulations will enable the NGO staff to settle in their new work environment. To continue some sense of familiarity, most credit procedures will remain nearly identical to the NGO's previous processes.

In addition, some staff members reported doubts about their new roles and expressed insecurity about their positions in the hierarchy. While some believed the transformation would create an opportunity for professional advancement,

18. Later, the salary ranges were modified to more closely align with the mission of the NRSP Bank. NRSP decided to train many of the current microfinance staff of the NRSP NGO, rather than to recruit from the commercial banking sector (which would necessitate higher salaries).

others were worried about their role in the new hierarchical structure. Many of these apprehensions are based on speculation about the future, which could be addressed by keeping the communication channels open for such queries. For instance, one way of resolving their concerns about the new hierarchy could be by sharing various possible organizational charts with staff during meetings and getting their feedback.

Recommendations

- Accept that mixed feelings among the commercial and NGO staff are inevitable.
- Assure everyone of their job security, if possible. However, the management needs to be sensitive to different perceptions among staff because giving all staff a choice may not be a luxury that every transforming NGO can afford.
- Address individual concerns through regular meetings, open discussions, and one-to-one mentoring, as needed.
- Share new organizational charts, with details on individual positions, during staff meetings.
- Manage the disparity between "old" (NGO) and "new" (bank) staff carefully:
  - There may be a disparity between NGO- and bank-experienced staff in terms of skills, professional expectations, and workplace culture.
  - If appointed to train other staff, bank staff should be senior to the NGO staff in experience and qualification. Junior bankers should not be appointed to lead senior NGO staff.
- Keep confidential all plans regarding sensitive issues, such as hierarchical position, authority, and compensation, until final decisions are made. Always keep information regarding compensation confidential.

3. Include and Incorporate Sub-units

Within NRSP's NGO operations, there is a separate microcredit program for urban areas that has been successful and profitable. This program will not be merged into the bank in the initial phase because it does not fall in the targeted region for transformation activities. However, staff members of the microcredit program remain unclear about its future status. NRSP management plans to address sub-program issues in the future when they evaluate later-stage plans for the bank. The bank will begin with the rural portfolio in NRSP's largest region, Bahawalpur, and gradually expand to urban areas where this program operates. Since the urban program is already sustainable, transformation is not a priority because management does not feel it will result in greater outreach or efficiency at this point. Management intends to communicate this decision to the program staff at the time of their program's merger with the new bank.

Recommendation

Encourage sub-units to participate in the transformation planning discussions because they may have invaluable experiences and success stories that could strengthen the bank's penetration. This will ultimately engender a sense of ownership among diverse groups of staff.

Investor Interests

MFI transformation often means an entirely new set of investors. Commercially-oriented actors are more often interested in investing in the new banks, although more social-minded investors may feel uncomfortable with the new developments.

Managing the interests of both social and commercial investors can be difficult. NRSP's CEO emphasizes that the new bank will hold onto its original social mission in order to avoid potential mission drift from the influence of commercial investors. Major international investors have committed to the new institution, however, with the expectation of commercial returns, in addition to a primary focus on financial rather than development objectives. Staff members at different levels of management at NRSP foresee a possible clash of opinions between the two sets of investors. Many believe that the new bank will eventually become a purely commercial entity. The new bank's management, on the other hand, maintains that they selected investors who had at least some inclination toward development objectives. In addition, the

NRSP NGO holds majority shares in the new bank and will continue to have a strong say in all major decisions. These two sets of investors will need to be managed in a way that encourages healthy debate and balanced growth.

Recommendations

- Present the mission and vision of transformation clearly to all current and potential investors.
- Accept investments only from those investors who accept the original social mission as incorporated in the vision for the transformed institution. If an MFI cannot attract enough investors, it may indicate the absence of a strong business case for transformation.
- Discuss and plan for issues arising from diversity of opinion among the investors.
- Encourage open and free exchange of ideas between the two groups of investors. However, ensure the acceptance and survival of the original social mission.
- Maintain adherence to the vision, while still being open to investors' suggestions.

Infrastructure

Infrastructure decisions—such as investing in a new management information system (MIS) or selecting new office space for the microfinance bank—are critical to successful transformation and involve a human aspect. This section discusses two of the major infrastructure decisions made by NRSP in their transformation process.

1. MIS Development and Upgrading Is a Major Undertaking in Transformation

The transformation team concluded that the existing MIS department at NRSP's NGO required substantial improvements to support banking functions and to fulfill regulatory requirements. Currently, the bank's in-house MIS runs parallel with the NGO's system. Various stakeholders, including investors and staff, remain concerned about MIS development.

The regulators have been supportive, contributing US$ 1 million to facilitate the transformation process. This amount includes a portion for MIS development process.

Recommendations

- Consider carefully issues around regulatory requirements, cost, and the necessary time and expertise needed to implement or upgrade MIS.
- Focus as much on the human aspects of effective transition and mainstreaming of MIS as on the core technology systems themselves. Many technically solid MIS systems have failed to deliver due to poor integration, staff training, and staff buy-in.
- Understand and weigh the trade-offs between cost and cost efficiency with MIS.
- Have a long-term vision of what is best for the microfinance bank.
- Allow sufficient time for assessing options.
- Invest in a strong MIS. A good system is often expensive, but MIS shortfalls can result in heavy penalties from regulators.
- MIS development needs time, expertise and management's commitment:
  - The process—assessing needs and options, weighing costs and benefits, and making a decision—takes time and should be followed diligently.
  - This is a critical decision and delays and unexpected costs are common. Therefore, thorough contingency planning and estimates are critical.

2. Consider Clients' Needs and Preferences for Physical Infrastructure

Transformation is more than just an administrative change. It often involves an image change as well, from a nonprofit look and feel to that of a more formal commercial bank. The NRSP bank's operational hub is headquartered in a newly constructed, impressive-looking building in Bahawalpur. The branch network under development is designed to keep microfinance clients' preferences in mind, for example, considering distance from the clients' communities, a permanent edifice to inspire confidence, and an approachable image. NRSP management has stayed within the budget for the infrastructure development by using cost-efficient construction models. Management also considers it important to project its permanent presence in the market through an attractive building, specifically to build trust in clients who might otherwise not feel confident in depositing savings.

NRSP Bank Regional Hub at Bahawalpur

Recommendations

- Keep current and future clients' preferences in mind while investing in infrastructure.
- Weigh the trade-offs between simplicity and market image through the physical structure of the bank.

Conclusion

As NRSP's transformation is underway, lessons continue to unfold. The findings in this case study can be considered a current snapshot of the situation and could be revisited once the bank commences its operations. However, some main lessons learned can already be shared.

First, it is critical to realize that transformation is as much about people, attitudes, perceptions, and opinions as it is about legal requirements, regulations, and funding sources. Management of both the transforming entity and the continuing NGO is a major task and requires distinct roles and responsibilities. Senior managers, while focusing on day-to-day tasks of transformation, also need to look to the future, mentoring and training valuable staff members. The additional work of managing a commercial bank—market analysis, service expansion—should also be considered.

During the creation of a new organizational structure, apprehensions of staff members can range from individual concerns about authority, competency, salary, and job positions to larger functional and departmental concerns. Clear, regular communication can address some of these issues; however, the confidential nature of potential changes can agitate staff fears and distort expectations. Mixing staff from different corporate cultures and technical levels—for example, commercial banking versus microfinance/NGO—has historically been a challenge for many transformations. It is also important to highlight positive aspects of the transformation, such as new career and/or compensation opportunities, to generate excitement and a positive attitude among staff. The management team can pre-plan by having the NGO staff work separately from the bank colleagues until they are fully trained in relevant banking functions.

Finally, investors' suggestions, while helpful and insightful, may have undue influence on management and may lead to significant changes in transformation planning. It is the responsibility of management to remain confident of the agreed-upon business plan and negotiate with the investors, rather than incorporating every suggestion or demand. A strong and well-prepared management team can protect the development objectives of the new microfinance bank.

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