SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

Evaluation of IMBITA Credit Operations Swaziland

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Acronyms

BDS	Business Development Services
FCO	Field Credit Officers
FNB	First National Bank
ISWFT	Imbita Swaziland Women Finance Trust
KNH	Kinder Not Hilfe
LMC	Local Management Committee
LP	Loan Performer
MFI	Microfinance Institutions
MSE	Micro and Small Enterprises
SHG	Self Help Groups
SME	Small and Micro Enterprise

Executive Summary

Imbita Swaziland Women's Finance Trust (ISWFT) was founded by a group of women (professionals and micro-entrepreneurs in 1991 as a direct response to the financial needs of women. ISWFT is a membership based microfinance institution (MFI) and its strategic operations are guided by a set of core values as well a vision and a mission. ISWFT requested for technical assistance among other things to evaluate its credit operations.

The evaluation of the ISWFT examined the products and services on offer, loan policies and procedures in place, lending methodologies being used, management information system, human resource and financial performance.

Products and services

ISWFT is providing 3 financial services (savings, credit and funeral scheme) and training of members. The need for an insurance scheme in view of the effects of HIV/AIDS on lost capital was strongly shared. The recommendation is to consolidate current operations before introducing another product in view of current poor quality of portfolio. Portfolio at risk as of end of June 2007 was 63%.

ISWFT will require technical assistance on product development.

The current training program is at two levels i.e. business training program which is more of an orientation to ISWFT's loan policies and processing procedures and is provided by ISWFT field credit officers (FCO). The other one is the leadership training

There is need to consolidate the training unit by developing training plans with a vision and clear objectives. This will include, developing training needs assessment, funding and resource mobilization. In the long term ISWFT can also entertain the idea of establishing a resource centre for both micro entrepreneurs and microfinance training needs.

Loan policies and procedures

The current loan policies and procedures need to be improved. ISWFT designed and developed all the key loan policies and are well documented for easy access. However, the current loan processing takes far too long and need to be streamlined for the operations to be efficient and productive. One way to overcome these challenges is to deploy some loan processing activities to the LMCs. Such activities include, loan appraisal, prospective member mobilization, mutual guarantees and monitoring of repayments.

Lending methodologies

ISWFT implements three types of lending methodologies, namely individual, group enterprise and groups. However, the current approach to group lending methodology is weak in that the groups are not operating to overcome the fundamentals which make it a desirable lending methodology. Firstly, groups overcome issues of collateral by utilizing a mutual guarantee system. Secondly, the management team of groups should be engaged in appraising loans and monitoring repayments. These two fundamentals have been proven to contribute to the quality of portfolio tremendously.

ISWFT would improve current operations by implementing a group lending methodology particularly to rural areas.

MIS and monitoring

ISWFT acquire a loan tracking system – the Loan Performer two years ago. Despite a few problems with integrity of reports being produced the LP is capable of integrating loan activities with accounts. ISWFT and the consultant have been in touch with the service provider who confirmed that the integration can be effected. Training on how to use the integrated system will be provided.

Financial management

Examination was limited to those financial processes affecting the credit operations namely, monitoring of expenses, disbursement of loans, repayments and budgeting processes. ISWFT operates a Pastel accounting system.

ISWFT does its financial business with four banks, thus, Nedbank, Standard Bank, Swazi Bank and First National bank (FNB). The current procedure for disbursements is that all members with bank accounts receive their loans through their respective bank and those without bank accounts will receive a cheque through any of the banks depending on which one has funds available. With regards to repayments member deposit in any of ISWFT bank accounts.

IMBITA charges its members E1.00 for bank charges. FNB is more expensive compared to other ISWFT accounts.

One of the main challenges facing ISWFT with regards to its financial management is the difficulty in tracking payments when made. For example a member might have received their loan through FNB and make repayments through Swazi Bank or a member make a deposit in Standard Bank this month and next month in Nedbank. This is apparently causing confusion and taking too long to reconcile all the financial activities timely.

The recommendation to overcome this challenge is to have separate accounts for separate use.

Monitoring expenses

Other aspects of financial management that impact on the credit operations include administrative expense related to credit operations. 2006/7 fiscal year expenditure show the top five categories of high expenses as salaries, bank charges, communication, technical support and transport, in that order. The evaluation examined transport expenses in detail, even though it is only 3% of total expenses but has potential to escalate.

Although ISWFT currently has log books, these are not being monitored and analyzed to understand the usage and related expenses It is crucial that ISWFT start to monitor vehicle especially as the fleet of vehicle sis getting old.

With regards to bank charges which are second highest ISWFT negotiated with Standard Bank and got a concessionary but have not been able to strike the same with others. ISWFT is encouraged to continue trying to negotiate and to rationalize usage of checks and other bank services.

Budgeting process and Financial Planning

The current budgeting process and disbursement plan is informed by previous performance. There is no consideration of new loans, categories of loan terms that ISWFT should capitalize on and planning for self sufficiency.

Recommend using the microfin financial modelling tool. Microfin is one of the recommended tools in strategic and business planning of microfinance programs.

Financial performance

Financial strength is the primary indicator of the overall efficiency and long-term viability of an MFI. Two sets of indicators were examined i.e. the productivity and efficiency and profitability ratios.

ISWFT is currently operating under capacity in comparison to industry's best practice. There is a deficiency of 53%. On the other hand, the cost per loan as of end of March was approximately below the average size of loan disbursed, which in itself is better than spending more. The trend should be moving downwards.

To improve on productivity and efficiency ISWFT needs to streamline loan processing and to increase the case load of each FCO.

The portfolio at risk is 63%, which mean half of its portfolio is at risk, indicating serious problem of delinquency.

ISWFT has been generating over 60% of its income from interest from the loan portfolio, with least generated from bank investments and other sources of income. This has boosted the operational self-sufficiency to current 112% and institutionally it stands at 82% as end of March 2007.

To improve on this situation ISWFT needs to implement a group lending methodology to overcome challenges of close monitoring repayments, streamline loan processing to improve efficiency and to rationalize on expenses particularly bank charges and communication. Most importantly is to increase productivity by increasing the outreach efforts per FCO.

Human resource and technical assistance

ISWFT has been exposed to training in various microfinance components and received technical assistance. This has assisted ISWFT to develop to where it is now. There still remain skills gaps particularly in financial management, portfolio management, and good governance. However, in Swaziland (like many MFIs in the region) there is a huge skills shortage in the microfinance sector.

It is recommended that ISWFT build its capacity through mentorship particularly for the management. It would be ideal if the mentor is an all rounder so that on job training takes place. An all rounder would be someone conversed in all areas of institutional development particularly in microfinance programs. Expert areas to be included are:

- MIS, interpretation and analysis of quality portfolio
- Financial planning, modeling and management at both branch level and institutional
- Strategic planning
- Budgeting processes
- Human resource management
- Funding proposal writing skills
- Marketing of products and services

This is a challenge and ISWFT will require assistance from agencies such as the Trade Hub, particularly in the engagement of a mentor.

Emerging issues

Three emerging issues identified included the following:

- The challenges of decentralization include:
  - i) the need for an internal networking system i.e. branches to head office and vice versa
  - ii) financial management
  - iii) portfolio management
  - iv) program planning, and
  - v) sustainability

  With the network ISWFT needs to identify an IT firm that can connect its branches to the network so that all field staff have access to important portfolio reports as well as be able to capture and log in data immediately. This is envisaged will ensure quality of portfolio is maintained and improved.

- Good governance in terms of board members accessing loans. There is conflict of interest as the board serves as credit committee and to approve loans more than E.5, 000. Recommendation is to develop a policy that does not allow members of board to access a loan during board tenure.
- Lack of a pool of skills and expertise in the microfinance sector. This challenge is compounded by a weak microfinance network, which could have assumed the role of providing training and technical assistance to its members. ISWFT has to build its capacity, through on job training and mentoring.

1.0 Introduction

This report is being submitted as part fulfillment of an evaluation exercise of the Imbita Swaziland Women Finance Trust (ISWFT) credit operations. The Trade Hub approached ISWFT early 2007, as part of its wider Trade Hub campaign to identify potential implementing partners in the Southern African region and explore common interest in microfinance. In response ISWFT expressed interest in respect to technical assistance on issues of microfinance, particularly in evaluating its revolving fund, assess capacity development and support for integrating the loan tracking system and the institution's accounts.

1.1 Objectives of the Assignment

The objective of the assignment is to provide technical assistance in microfinance issues and specifically to:

- **Recommend** additional products and service that will encourage ISWFT 's members to take advantage of credit
- **Evaluat**e current revolving fund mechanisms and recommend steps forward
- **Provide** advice on creating a more integrated system for loans, saving, funeral schemes and accounting, and
- **Conduct** a maximum of a one-day training session for ISWFT's staff on microfinance.

1.2 Methodology

The evaluation used the following methods for gathering information:

- one to one discussions
- group discussions on issues germane to each department
- review of relevant reports and documents
- Assessing the loan tracking system in terms of capacity and utilization
- Training on key identified microfinance topics

The evaluation was carried out within the context of building financial sectors for development approach and was guided by the objectives of the scope of work (section 1.1 of this report). This entailed a comprehensive examination of ISWFT operations focusing on:

- products and services provided,
- loan fund performance
- management information system (MIS) and accounting systems
- human resource development and management

The information generated is envisaged to provide the basis for the formulation of comprehensive recommendations and strategies on the way forward.

1.3 Structure of the Report

The report is structured as follow:

Section 2 provides background information on country context in which ISWFT is operating, while section 3 highlights the background of ISWFT.

Sections 4-7 provides analyses of ISWFT operations particularly the credit operations, the management information system (MIS), finance and accounts and human resource and technical assistance, respectively. Each section describes current status, highlights areas of concern and provides some solutions based on best practices in the industry.

Section 9 assesses other stakeholders in the sector, particularly on potential collaboration opportunities, while section 10 discusses some emerging issues, and section 11 provides the recommendations and conclusions.

2.0 Country Context

It is important to have some knowledge of the environment in which ISWFT is operating to appreciate and understand the various dynamics and activities taking place in ISWFT. This report focuses on socio-economic and the small and micro (SME) enterprise factors.

2.1 Socio-economic Context

Swaziland is 17,366 km2, in extent and is located in Southern Africa where it borders with Mozambique and South Africa. It is a very mountainous country, with a population of 1.1 million people with a population density of 34 persons per square km2. The population growth has been 3% per annum. However, this annual growth rate is expected to be below zero, due to an extremely high HIV/AIDS prevalence of 32%[1]. These figures could change in the short term as Swaziland has just completed a population census (results not published yet)

The economy is highly polarized and characterized by large commercial agricultural farms, some large manufacturing companies, a lot of imports but a large section of the population is at or below the poverty datum line. According to government statistics 70% of the population earns less than E70 (the local currency Lilangeni is pegged at the same value as the South African Rand. One can buy using the Rand in Swazi shops). E70/Rand 70 is about US$10 of the current exchange rate (US$1:Rand7).

Swaziland has good agricultural and forestry resources, irrigation potential and minerals, such as coal, asbestos and diamonds. Sugar cane is the main export and it absorbs a vast majority of the manpower. Swaziland has the largest man-made forest covering 7% of the total area, which is also an important export product. Most of the export commodities, mainly manufacturing products are, sold to the South African market. The country's economy is highly dependent on that of South Africa's, with tourism playing a major role in the economy.

[1] Data provided at a meeting with the Director of SME Unit, Ministry of Enterprise and Employment

2.2 The small and micro enterprise (SME) sector in Swaziland

The information on the state of the SMEs is scanty as no comprehensive study of the sector has been undertaken since the last USAID 1991 Gemini project[2]. However, there is a study which was carried out in 2006 but the results have not yet been published. The Gemini project identified over 50,000 MSEs employing over 100,000 people. It also found that 40% of all Swazi households were involved in the SME sector and that most of them are in the rural areas.

Without a subsequent, comprehensive survey it is difficult to ascertain the dynamics of the SME sector particularly the numbers, their growth rate, sector concentration, i.e. rural vs. urban and various enterprises in each business sector. Furthermore, many are engaged in the manufacturing, service, retail and wholesaling sectors. In 2000 the UNDP study[3] identified the following:

- 77% of SMEs were located in the rural areas but only providing 65% of total employment
- 9% of SMEs were in secondary towns, providing 10% of the sectors employment
- 16% were in major cities providing the remaining 25% of employment and
- the majority of SMEs (66) in towns were involved in retail trade

The very high concentration of rural SMEs and the high levels of women employed by the SME sector are significant for impact on the well being of the population. It has been proven that extra income earned by women tends to be invested in the family and has an important impact on nutrition, education and healthcare. The assumption therefore is that the major source of employment opportunity for the average Swazi is in the SME sector, concentrated in the informal sector.

The above indicates an environment in which microfinance can play a vital role in reducing poverty incidences, particularly among women.

2.3 Overview of financial sector and microfinance

The commercial banking sector is the dominant player in Swaziland's financial sector. There are five active commercial banks – Nedbank, First National Bank (FNB), Standard bank, Swazi Development Bank and Swazi Building Society. These banks have a comparatively well developed branch network system around the largest towns of the country. This excludes most of the rural areas. The commercial banking sector is highly liquid and has shown very limited interest in investing in the SME sector[4]. This is partially influenced by the interest rate differential with South Africa. They take deposits and then deposit the funds in South Africa and earn a 3-4 point spread. This risk-less use of funds keeps them profitable, while SME lending is always a high risk.

While commercial banks are not making microloans, Swaziland has a vibrant industry of microlenders imported from South Africa. These microlenders concentrate on 30 day loans to salaried wage earners. Short of a comprehensive

[2] Ccountry wide study of Small Enterprises in Swaziland, December 1991.
[3] UNDP Swaziland :Strategy for Supporting the Micro and Small Enterprise Sector, 2000
[4] ibid

study of the sector observations indicate that there is a sizable number of microlenders.

However, there is also the savings and credit cooperatives (SACCOs) sector which is the dominant player in the microfinance sector, with over 20,000 members holding E90 million in assets in 1999[5]. SACOOs operate either as closed or open membership cooperatives. They were created to service the employees of specific companies or government agencies. For example, the teachers' association, the correctional services, the military, hospital workers etc.

There was an increase of microfinance organizations in the early 2000 but over the years many have closed shop. There are however very few pure microfinance NGOs in Swaziland. Most NGOs involved in micro-lending are doing it in conjunction with other services, such as water and sanitation, food and health care programs. Amongst the NGO MFIs, ISWFT, World Vision and Inhlanyelo are leaders in terms of outreach and numbers of clients.

3.0 Imbita Swaziland Women Finance Trust

3.1 Historical background

ISWFT was founded by a group of women (professionals and micro-entrepreneurs in 1991 as a direct response to the financial needs of women. It is a registered Not-For-Profit organization under the terms of the Swaziland Companies Act. ISWFT is wholly owned by its members without any share capital. The institution operates from its own property on Plot 97 of Manzini town.

ISWFT's major aim is to address the constraints faced by business women in establishing or expanding small businesses. The constraints addressed include, non availability of financial services from the formal financial institutions due to the women's businesses legal status as well as the lack of credit worthiness and business acumen and mentoring. These constraints have continued to plague many poor Swazi women, as the Swazi financial institutions continue to marginalize this sector of the economy. This is a niche which ISWFT sought to fill as its services are in demand particularly in the rural areas of Swaziland.

ISWFT's strategic operations are guided by the following vision, mission and core values:

- The Vision:
  - is Accessible credit for the poor
- Mission
  - To uplift the economic status of the poor
- Core Values
  - Innovation
  - Professionalism
  - Quality and
  - Commitment to all operators within the informal sector
- Core business

[5] ibid

- To transform and uplift the lives of the SMME sector operators in Swaziland in order to alleviate poverty by:
  - providing financial services to women and men in the rural and peri-urban areas
  - Promoting a culture of saving
  - Providing demand driven high quality training services
  - Building the capacity of women and men participating in the SMME sector with the aim of becoming large enterprises capable of creating job opportunities.

e) Business objectives are:

- To enhance the economic self sufficiency of women by providing them with financial and technical services
- To increasing participating members' income generating capacity and ability to enter the economic main stream
- To strengthen ability to participate in financial decision making in the homesteads

ISWFT started its operations by targeting the urban and peri-urban areas and in recent years has included the rural areas. The reason for this focus was mainly due to demand of services that are on offer. ISWFT like most microfinance institutions (MFI) offers its members a variety of services and products both of financial and non financial nature demonstrating an integrated approach in its service delivery. The choice of products and services has to a large extent been informed and influenced by its membership.

3.2 Current

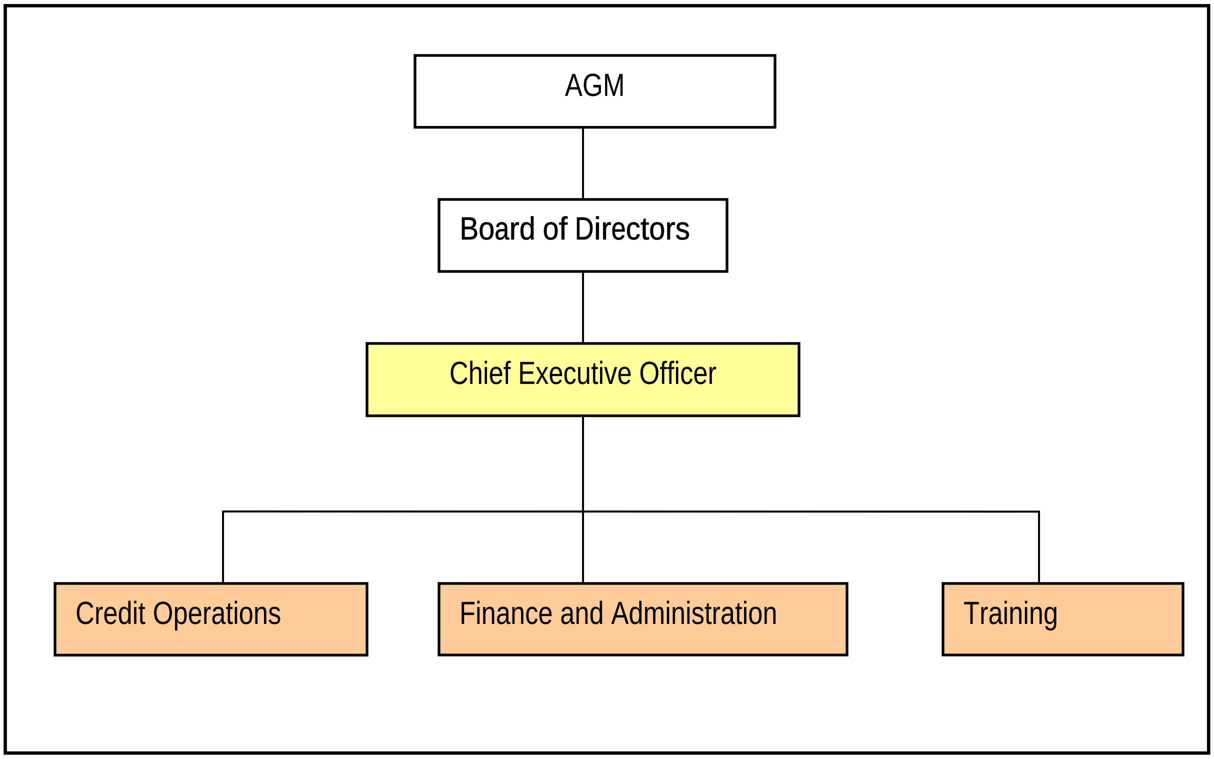
Since inception ISWFT has grown from one stage to another particularly in its membership, portfolio size, performance and as an organization. It currently has a total membership of 15900 made up of 15436 individuals and 26 groups (464)[6] .

ISWFT has a staff complement of 14 persons, comprised of 4 Field Credit Officers (FCO), 4 Tellers, 1 Finance and Admin Officer, 1 finance Clerk, 3 Office Assistance (cleaners) and 1 Chief Executive Officer.

It has recently embarked on a decentralization process with the aim of bringing services to the members. The plan is to open an office in each region and currently 1 office is functional in Lubombo region Siteki business centre. The second office is to be opened in Hhohho region at Pigg's Peak business centre.
ISWFT's financial year runs from April to March and its three year (2005-2007) business plan is still in implementation.

[6] IMBITA Progress report Jan-March 2007

ISWFT Organogram



4.0 Credit Operations

In any MFI the credit operations unit is at the heart of microfinance activities; it is the core business regardless of which approach is being implemented in delivering services to the poor. The success of any microfinance institution (MFI) is dependent on how the credit operations (policies, procedures, and lending methodologies) are designed and adhered to. This section will highlight the evaluation findings; identify areas that ISWFT should address in order to improve on its current credit operations:

- Credit operations structure
- products and services being provided,
- description of loan policies and procedures in place
- lending methodologies
- an analysis of how these impact on the overall performance of credit operations

4.1 Credit Operations structure

The structures commonly found in MFIs are to a large extent influence by the approach adopted in the delivery of services and by the way such institutions are founded. MFI's that use the minimalist approach usually have units/departments supporting the delivery of financial services and these usually include, operations unit, finance and administration and management information. Whereas with the integrated approach in addition would have training unit and other units providing non financial services to its clientele. As the MFI expands its outreach and services, it decentralizes by opening up branches in areas of operation.

ISWFT credit operations unit is comprised of four Field Credit Officers (FCO) each managing a region. Swaziland is divided into four regions, Hhohho, Manzini, Lubombo and Shiselweni, thus, IMBITA has presence in every region. In this case a region is treated as a branch.

The credit operations are currently in the process of decentralizing. One office/branch has already been opened in the Lubombo region and a second in planned for the Hhohho region. While these offices are being opened it is noted that operations are still centralized in the sense that the respective staff for the new offices are still located in head office largely because everything is located there, e.g. forms, MIS, and staff.

The rationale for opening regional offices is not only very plausible but is also in line with the notion of taking services to the clients. This is a necessity for outreach purposes and contributes to moving towards sustainability. However, it is a process that needs to be well planned and managed, otherwise will defeat the purpose set out to achieve.

4.2 Products and Services

MFIs can offer a variety of products and services. However, due to the characteristics of their target clientele, poor women and men, without tangible assets, who live in the remote areas and may be illiterate, MFIs cannot operate like formal financial institutions. The very reason for the microfinance revolution is that financial institutions do not generally regard a tiny business run by the poor as attractive investment and they are not geared up to finance such projects. The design and development of products and services is again influenced by the approach that the MIF is using, i.e. financial or financial and non financial or financial intermediation and social intermediation. The types of these products and services are depended on the demand by the target clientele.
ISWFT provides both financial and non financial services to its members. The services and products are detailed as follows:

4.2.1 Financial Services

ISWFT provides three types of financial services and these are:

a) Savings

ISWFT provides two saving services to members only and these are mandatory and voluntary. The mandatory (compulsory) service is linked to accessing the loan program.

Upon becoming ISWFT member one has the option to open a savings account with ISWFT and receive a savings book. All deposits and withdrawals are written in the pass book by an IMBITA teller. The savings book has a photograph of the owner for identification and security reasons.

Mandatory

Any member wishing to apply for a loan has to save for at least three consecutive months. The condition for a subsequent loan is based on the amount saved. In all cases a member can apply for 5 times the amount saved; this translates to 20% security on the loan to be borrowed. Upon the loan application being accepted the 20% is subtracted from the member's saving book.

For the most part mandatory savings are considered as part of the loan product rather than an actual savings product, since they are closely tied to receiving and repaying loans. For ISWFT mandatory savings are useful to:

- Demonstrate the value of savings practices to members
- Serve as an additional guarantee mechanism to ensure the repayment of the loan
- Demonstrate the ability of members to manage cash flow and make periodic contributions
- Help to build up the asset base of members.

International experience shows that requiring members to save in order to access loans increases commitment and the likelihood of loan repayments and therefore the suitability of the MFI.

Voluntary

Once a member, one is expected to make regular savings of minimum E20.00. Members receive interest determined at the annual general meeting. Currently it is 6% per annual. On face value this is 1% more than what the commercial banks are offering.

The interest rate is calculated twice a year and members can withdraw their savings as they so wish. This is done in January and September. The rationale behind the timing is that in January most require some money for school fees and in September those who are in agricultural business would be starting to prepare for the ploughing season. They need the money to use in the tilling of land, and to purchase agro-inputs such as fertilizer and seeds.

Currently all members have a savings account. There are 15962 members with total savings of (E5, 687,940) giving an average balance of E356 per account. It was not possible establish how much of the portfolio is active (referring to a continuous saving habit). Members cannot withdraw their savings before the stipulated times (which is twice a year) or when they are still owing part of their loan repayments.

b) Loans

Initially ISWFT started with business loans only and eventually included the consumer and the agricultural packages due to membership demand. The main difference is the loan policies and procedure as explained in sections 4.3.1 and 4.3.2 below.

Any member of ISWFT has access to both products provided they meet the eligibility criteria as set out in annex 1 a.

c) Funeral scheme

ISWFT also provides a simple funeral scheme. This was necessitated by the expectations of the members to get some assistance from the mother organization when a family member dies. The scheme is voluntary and covers member, spouse, and five children up to the age of 24. It was felt appropriate to include children over the age of 18 (age of majority) because it is common in Swaziland to find 24 year olds unemployed and still staying with their parents.

The member contributes E.300 annually. When the family member dies ISWFT pays as follows:

Member	E.5000
Spouse	E.5000
Child	E.3500
Youngest child	E. 500

Disbursement of a claim is done within 48hours of notification and the scheme elapses when member dies.

It was not possible to establish the active portfolio, how much has been given out as claims and the total balance of the scheme. There are total of 122 funeral scheme accounts with a total of E.34, 985.

It is possible that a member can be accessing both financial services at the same time. At the moment it is not possible to indicate how many of the members are accessing which financial product(s). The main constraint is that the MIS is not configured to produce such a report.

ISWFT is experiencing a very common phenomenon in the microfinance sector in that it has more savers than borrowers- something that is not unique to ISWFT. Without carrying out an in-depth study of savings mobilization of ISWFT members or even at national level, in general this situation could have been influenced by the fact that ISWFT financial services started by mobilizing savings before a loan product could be offered; therefore not many who save are into business or able and have confidence in starting one. It might be that many are saving to ensure that come January and September they are able to meet some of their pressing needs such as school fees and agricultural inputs.

4.2.2 Non Financial

For its non financial service ISWFT offers business and leadership training to its members.

4.2.1 Business Training

Before the loan processing commences a member who wishes to apply for a loan is expected to be trained prior to receiving the loan.

The training is free and it is a one day activity offering the following:

- o Business planning, basically understanding what the business needs are and translating these into financial terms.
- o Budgeting
- o Cash flow
- o Loan repayment schedule
- o How to fill a loan application form
- o Testimonies from existing members

The training is heavily linked to accessing a loan as evidenced by the above training agenda. However, it does not matter how many times one has attended the same course when in need of a loan one has to attend the training.

The field visit gave an opportunity to discuss these products and services with the recipients. Most members appear to be very happy with them. A few mentioned the need for assistance with school fees for their children. Members still felt that the January savings withdrawals are not sufficient to meet the high number of children who need school fees at that time.

4.2.3 Leadership Training

Although ISWFT has been offering training to its members the leadership training program for the LMCs was offered as a package for funding by Kellogg's foundation. It was important that the leaders of the LMCs be exposed to good leadership principles that would assist them to manage and control their LMCs. The training included identifying qualities for leadership and understanding of the roles and responsibilities of the key LMC management team. A total of 25 LCMs benefited from this training and feedback from the staff indicate that most of the LMCs are practicing the ethos of good leadership.

There are four indicators that prompt formation of an LCM and these are:

- when the number of people demanding ISWFT's services are over 15 from the same community, or
- when ISWFT receives an increase in loan applications from a particular community, or
- when other development agencies working with women in any community invites ISWFT to talk about its work particularly the financial services on offer, or
- when a member applies for a loan but lives in a remote area, she is advised to look for neighbors she can collaborate with to form an LMC as it would be costly to service one person

The prospective LMC arranges a date when the FCO comes to discuss what ISWFT is all about and explain the joining and loan application procedures.

4.2.4 Comments and Issues to address

ISWFT should consider the following to consolidate current products and services:

Financial Products

a) ISWFT is offering the most popular financial services targeting the poor. Given the high incidence of HIV/AIDS in the country it will be worthwhile to consider looking into possibilities of designing and developing loan insurance to safe guard against HIV/AIDS casualties.
b) To keep abreast with the banking expansion programs ISWFT could take advantage of such developments and collaborate with the respective banks. This can be done by linking to ISWFT accounts and would make it easier for members' access loan disbursements. However, the cost of this could be prohibitive.

Business training

a) The current training is not targeted. It is important that a distinction be made between training for first timers (first loan) or old members to attend. ISWFT should assess and determine the type of training older members should attend and should be problem solving.
b) Considering the level of education of most of ISWFT members it would be advisable to keep the number of participants attending training sessions at the same time to at least 25 and not 60 as observed.
c) The training is more of an orientation to ISWFT's loan policies and procedures. This is necessary for members to understand how ISWFT operates. Therefore the training can be appropriately called orientation rather than business training.
d) ISWFT needs to consider collaborating with other institutions that are offering business development services for the poor entrepreneurs. Resources permitting, ISWFT should consider establishing a training unit that will specifically focus on offering these services to both members and staff. Both training programs would be based on demand. This can be designed in such a way that ISWFT can offer staff training on a cost recovery basis, especially to other MFIs in Swaziland since there is already a lack of such a resource.

Leadership training

Through the Kellogg's Foundation funding ISWFT instituted a leadership training program. However, since the funding came to an end so did the training. No ISWFT staff understudied the Kellogg's expertise to continue with the training.

Comments and issues to consider

a) The sustainability of a training program, particularly if it is targeting the loan clients, should be put into place by developing training plans and identifying funding gaps for fund raising.
b) To include training plan in the budget so that it becomes part of the institutional programs.

4.3 Loan Policies and Procedures

Regardless of the approach selected the actual loan products need to be designed according to the demand of the target clientele. This requires to define the products and how they will be accessed and managed, i.e. documenting all systems and procedures to be followed by both the institution and the target clientele. The emphasis on designing financial products to meet client needs is embedded in the belief that microentrepreneurs value access to financial services.

ISWFT has clearly laid out and documented loan policies and procedures. This information is contained in a folder and all staff members have access to this important document. Annex 2 contains the loan policies that are being implemented. Below are the findings and analysis.

4.3.1 Loan Policies

Loan policies commonly found in most MFIs include loan sizes, loan terms, interest rates, collateral, and savings.

a) Loan Sizes

There is no rule of the thumb for loan sizes. An appropriate loan size is dependent on the purpose of the loan and the ability of the client to repay the loan. However, as a consideration most MFIs provide initial loan sizes as small as US$100 (this is also dependent on the economic environment in which the program is operating). This serves to deter those who are not so poor to access such a facility.

ISWFT loan sizes are determined by amount saved and the business financial needs as determined by the CFO during the loan appraisal. The policy stipulates that one can apply for up to 5 times the amount saved. Example a saving of E.500 will yield a E.2500 loan. However, for first time borrowers the maximum a member can apply for is E.5000 regardless of how much has been saved. The average loan size based on the MIS Loan Performer as at end of March (fiscal year April to March) was E.4392.
The current active portfolio is 840 worth E4, 143,306

Comments and Issues to address

Based on current data it is difficult to establish where the large active portfolio is located between urban and rural areas. Such data would provide a solid foundation for an understanding of the dynamics of loan sizes in ISWFT. This would have assisted in understanding the characteristics of borrowers. An initial average loan size of E.4392 (appr.US$627) is considered too high in other environments. The smaller the average loan size the nearer ISWFT is in reaching the needs of the poor women. The current average loan size could be influenced by repeat loans meaning there is a small amount of new loans. This is called recycling of old loans and is not good considering the core business of ISWFT.

The MIS could be configured to produce new and old loans per period.

b) Loan Terms

Loan terms are influenced by loan sizes.

In ISWFT the maximum loan term for all loans is 2 years. The actual loan term is determined by the FCO during loan assessment. The agricultural loans have a specific table of loan terms for a particular business as indicated in annex b)-loan policies. This is more manageable and easy to plan for both disbursements and cash flow.

Loan size affects the loan term therefore it is important that the FCO understands the members' cash pattern and loan amounts. Both ISWFT and its members need to understand the crucial correlation of the two particularly on how loan size affects loan term and how this impacts on the ability of the member to repay the loan. The closer ISWFT matches the loan term to cash patterns and members needs, the easier it is for members to maintain the loan and making payments on time and in full.

Comments and Issues to address

It was not possible to verify how many loans are at 3 months, 6 months and so on to track for performance. In terms of planning for disbursements it would be useful to design categories of loan terms and let members choose which one is suitable to them. At the moment it is possible to find 1, 2, 3, 4, 5,…months loans. It would be advisable to design for example: 3 months, 6 months, 9 months, and 12 months loan terms and detailed repayment schedules. These also help in planning for disbursements as well as anticipate cash flow.

c) Interest rate

Pricing of loans is an important aspect of loan product design. A balance must be reached between what a client can afford and what the MFI needs to cover all of its costs (operational and institutional). Generally microentrepreneurs are not interest rate sensitive. For the most part, interest rates above commercial bank rate are acceptable because the clients have such limited access to credit.

Annex 2 shows the interest rate charged for different loan categories and table 1 below indicates the comparison with other stakeholders in the market.

Table 1 Comparison of interest rates

IMBITA	Swazi bank	Standard Bank	FinCorp	World Vision	Seclof
E.1000-E10000= 30% E.10001-E1500= 25% E.15001-E20000 =20% E.20001-E25000= 15% Consumer loan 2.5pm	For personal loans 18% business loans 15% p.a.	21% p.a. only provides personal loans. Do not provide business loans for micro enterprises	17.5% p.a for all loans	28% p.a. for all loans	24% p.a. for all loans

Table 1 indicates that ISWFT's loans are not subsidized.

d) Collateral

Generally, MFIs lend to poor clients who do not have traditional collateral such as property, machinery, land and other capital assets. Various innovative means of reducing the risk of loan loss have been developed including collateral substitutes (group mutual guarantees) and alternative collateral (compulsory savings).

ISWFT's members are low income earners who often have very few assets, if any. Currently the collateral required is at two levels, i.e. savings (20%) and household assets (80%) and or guarantors. The guarantor could be a spouse, daughters and sons, relative or friend. The 80% of household assets has been put into practice and ISWFT admits it has not been easy. Also recently the law has been on to them that they need to follow certain procedures to confiscate people's assets. In response I ISWFT has contracted the services of a debtor collector.

It was not possible to establish how many assets were collected and sold and whether they did offset the amount owing.

Comments and Issues to address

Considering the characteristics of ISWFT members/clients who have few assets, asking for 80% of the loan to be secured by household assets might not be best way and this might drive the desirable clientele away and attract more of the middle income. This again is ISWFT's decision as to whom they wish to service, particularly for the loan product.

One of the most common collateral substitutes is peer pressure either on its own or jointly with group guarantees. However over time many MFIs have resorted to group guarantees. This involves the MFI facilitating group formation and then members jointly guaranteeing each others loans. This implies that when one person defaults the whole group defaults. Experience has shown that well formed and developed groups have potential to maintain 100% repayments. ISWFT could consider using this lending methodology in rural settings as the urban is currently dominated by consumer individual loans.

On the issue of guarantor, this defeats the whole concept of empowering women. One reason why microfinance came into being is that women continue to be regarded as minors requiring the assurance of the husband. How would ISWFT wish to deal with this one?

4.3.2 Loan Processing

Loan processing is putting loan policies into practice and is one of the key activities of any MFI.

Figure 1 show the steps from the time a member joins ISWFT, applies for a loan up to when she makes repayments.

a) Loan application

The ISWFT loan application is in local language, easy to read and follow, captures critical personal and business information and all is contained in 4 pages. This form is accessible soon after the business training at a cost of E30.00 and should be submitted either at the head office or through the FCOs during their monitoring visits. Once it's received at the head office the tellers input data into the Loan Performer (management information system – MIS). Figure 1, demonstrates the whole process up to the stage of making payments.

b) Loan Appraisal

The FCO receives the form after it has been input into LP and start the process of appraising the loan for viability. This includes visiting the members' business and the house, discussing the business income, marketing opportunities, loan sizes and terms. Based on this the FCO decides whether to approve or reject the application. Rejected applicants are always informed of the reasons for rejection.

The FCO prepares applications for the Management Credit Committee to approve loans below E5000.00. Above that they will go to the Board Credit Committee which meets once a month.

c) Loan disbursement

Once approved the forms are lodged with the accounts unit for disbursements. All disbursements are done either through members own account or by cheque for those without bank accounts. All recipients sign a loan contract which costs E50.00 for first time borrowers and E20.00 for subsequent loans. Cheques are cashed at one of the ISWFT banks (FNB, Standard Bank, Swazi and Nedbank)

d) Loan Repayments

Similarly, repayments are made through the same banks, which ever is nearer to the member. The deposit slips are brought to the head office or to the next meeting and the teller records the amount deposited (loan, savings, and funeral scheme) and issues a receipt. For clients without bank accounts, they bring cash to the next meeting and receive a receipt as well. The teller brings the money to the head office for depositing into the bank the following day.

Table 2: Repayment 2005-2007

Category	**2005**	**2006**	**2007**
	%	%	%
Group	100	100	97
Individual	89	80	79
Business	86	76	75
Consumption	94	86	86
Overall	89	80	79

Table 2 indicates the repayment rates for the past three years for the different categories. It appears as if the capacity to repay loans is high among the group category and low with business and individual loans. What could not be established were the performance of different business sectors as well as different uses of the consumption loans. The MIS is not configured to produce this report. Also it appears as if the overall report is the same as the individual category. This could be the way the MIS is configured.

It was also not possible to establish the number of groups for the group lending methodology and enterprise groups. The distinction and tracking performance of the two would make an interesting assessment.

It should also be noted that members pay E1.00 towards bank charges.

The whole process from application to disbursements takes an average of 6-8 weeks (excluding the 3 months for saving). However, this to a large extent depends on how fast the member has read and understood what is required in the application form and to get the appropriate information, particularly for the business loans.

Comments and Issues to address

a) In general the whole process appears to be taking too long particularly for the old clients/members. The length of time taken actually affects both the member and ISWFT. For members it is starving the business of the much wanted capital. Anything can happen during that time, such as further borrowing from other sources thereby creating a string of debts. By prolonging the time in disbursing loans ISWFT is also starving itself of earnings from interest and other fees. For example, 25 members with an average loan size of E5000 @30%pa would have earned ISWFT a total of E5125 (interest E3125 and fees E2000) This could have financed either 1 business of an average loan size of E5000 or 5 businesses with an average of loan size of E1000.

   It would be advisable to streamline the process particularly for subsequent loans by taking out business training/orientation for older members.

b) Most MFIs include members' representatives (group management team) in the loan processing activities particularly in business assessments. This has been found to be much easier for MFIs that use group lending methodology. Table 2 is indicative of the capacity of groups to meet their debt obligations. However, the current Local Management Committees (LMC) need further training and developed to take this role.

c) ISWFT should monitor and analyze performance of each group category to be able to strategize for better performance.

4.3.3 Monitoring

The effective financial management of an MFI requires an understanding of how various operational issues affect financial performance, thus, monitoring becomes one of the key and important activities of microfinance programs. It is therefore fundamental to understand all about defaulters and the dynamics in defaulting i.e. the effect that delinquency has on productivity and efficiency and ultimately on the sustainability of the MFI.

In ISWFT, after the disbursement the FCO make a follow up visit to verify loan utilization, by checking receipts and stock levels. This is done within 2-3 weeks following disbursement. Thereafter the FCO will visit the business to monitor progress and to follow up on defaulters, at least once a month.

It is also the FCO to assess the quality of her/his portfolio by printing the status reports mainly the aging analysis report, which highlights loans due at 30-60-90-120 days. This helps the FCO to know where to put follow up efforts. At 120 days before writing off the loan efforts are made to take the assets that would have been pledged during the loan assessment.

Comments and Issues to address

a) Given the current quality of the portfolio it is evident that ISWFT has a problem of delinquency. One of the major aspects of successful MFI has been the inclusion of clients/members in the monitoring process. The advantages are that:

   i) Groups take responsibility of monitoring each other and have a lot to lose if one member defaults. Therefore it is in their interest to ensure that payments are 100%. Members live in the same community and they are most likely to know when and why a member is defaulting than the FCO
   ii) It cuts down on monitoring expenses of ISWFT. For example it is much easier to visit a group of 10 groups of 10-15 members in a week than 10-150 individuals
   iii) it also fosters the spirit of solidarity

b) The time taken to do loan utilization inspection is far too long. In a period of 2-3 weeks a lot can happen. It would be advisable to aim for ad hoc visits within 3-5 days after disbursement.

4.4 Lending Methodologies

Lending methodologies play a vital role in the way financial services are delivered and influence the overall financial performance of the MFI. There are two broad categories of methods used in the industry based on how the MFI delivers and guarantees its loans. These are:

- individual loans are delivered to an individual based on ability to provide assurances of repayment and some level of security, and
- group loans approach make loans to the groups i.e. either to individuals who are members of the group and guarantee each other's loans or to groups that then sub-loan(on-lend) to their members

ISWFT currently employs three lending methodologies and these are described as follows:

Individual lending - The individual lending methodology was the initial methodology used since inception. This simply means an individual applies for a loan and the loan is granted based on the 20% savings and 80% guarantor or household assets.

Group enterprise lending - The group that is involved in the same business applies for a loan and loan is granted in the name of the group. If a group of 5 members who are in the business of rearing chickens apply for a loan the loan is considered as one loan and disbursed in the name of the group.

Group Lending - The group applies for a loan but each individual receives what her business requires. However the loan is written in the name of the individual. This is a recent methodology. ISWFT does not facilitate the formation of the groups; instead it adopts already existing groups in the area in which ISWFT is operating. These groups could have been formed for different purposes such as agricultural, water and sanitation program, food programs etcetera. Their coming to ISWFT is specifically to access financial services.

Comments and issues to address

These lending methodologies are common in most microfinance programs. However, there is a striking difference with the way ISWFT is implementing them, which I think would be important to unpack.

a) It is not that common to start operating a microfinance program using an individual lending methodology. The main reasons for using group lending methodology are:
   - to promote solidarity among participants,
   - to lay the ground for an effective mutual guarantee system[7],
   - to replace collateral requirements which for individual lending tend to be household assets
   - to reduce costs of delivering financial services as group will perform many of the administrative duties
   - for group members to benefit from each others guidance and support

Individual lending is normally used as a graduation from group solidarity lending. For example members start with a small initial loan of E500, and when they reach the E5000 level can now graduate to an individual program or another group with lesser members. This could be after 5-6 loan cycles during which time the MFI builds confidence in the client and the client build her creditworthiness. When the member graduates the MFI does not need to maintain close monitoring.

The influence of formal financial institutions lending methodology decisions is very evident in the ISWFT's individual lending. This includes assessment of client characteristics, cash flow, debt capacity and collateral/guarantors to motivate members to repay loans. However, given the current status it would appear that individual methodology for consumer loans is working well in urban areas.

Although ISWFT has a small portfolio of groups (464 members) the groups are not operating to assume the responsibilities needed for a mutual guarantee system to be effective. Staff would like to implement a group lending methodology, but they do not seem convinced about its effectiveness. The initial reaction was that Swazi people do not like working in groups, but examples were given of cooperatives, informal burial schemes, and informal savings. What seems to be lacking is

[7] Details of group lending methodology are covered in the one day workshop

empowering the groups to assume many of the tasks that FCO is undertaking, instill and foster the understanding that members own the processes thereof.

b) Group enterprise lending is very common and is encouraged for ISWFT to continue.

Group lending methodology is the most common lending methodology used by many microfinance programs targeting the poor. ISWFT's approach is slightly different in that ISWFT is adopting already formed groups. These groups are formed by other NGOs and programs focusing on agricultural and other non financial activities.

ISWFT is already facilitating the formation of LMCs. An LMC is formed when at least 15 people indicate interest in ISWFT's services. They set a meeting and the FCO visits them to explain how ISWFT operates. The current approach does not include developing that LMC to take responsibilities and understand their role particularly in monitoring loan repayments. An observation made during field visits indicates that LMCs do not perform roles and responsibilities that compliment ISWFT's efforts in the assessment and monitoring of loans. For example in one meeting during discussions of defaulters, one member stood up and said "if we knew where these members are we would go and talk to them".

4.5 Impact Analysis

Analyzing the impact of microfinance interventions is especially important if the interventions are ultimately aimed at reducing poverty incidences. If microfinance programs do not make efforts to determine who is being reached by microfinance services and how these services are affecting their lives, it becomes difficult to justify microfinance as a tool for poverty reduction (one of the strategies adopted for achieving millennium development goals). Decisions about the degree, frequency, and depth of impact analysis involve considerations of the following factors:

- The time and cost
- The disruption to institution and its clients
- The way the results will be used

Impact measurements are at two levels i.e. at household and individual levels and a number of tools are available to carry such assessments.

The vision and mission statements of ISWFT indicate the need to improve the lives of the Swazi poor women. ISWFT envisages making an impact in the lives of its members by providing both financial and non financial services. The system used in measuring this impact is by testimonies given during the business training session by members who have participated in the program and have improved their lives as well as expanded their businesses. The testimonies are, however, not documented in any form.

The main challenge is lack of follow up mechanisms, impact assessment indicators or institutional performance measurements in place to determine the operations and how close in achieving the mission and vision.

The current business plan – strategic objective 4 indicates the need for collecting feedback from members on a regular basis as a way of improving on member retention as well as enhancing performance and quality of services, impact, outreach and visibility. This has not been accomplished due to lack of expertise in designing the relevant feedback mechanisms.

Comments and Issues to address

Impact can be viewed differently, for example there is impact of outreach, quality portfolio, efficiency and sustainability. These are at financial aspect of the institution, whereas to improve the lives of the members goes beyond financial level. It includes social aspects of the member and these have to be measured to ensure impact thereof.

Important as it is to measuring impact, it is an expensive exercise to do as an individual organization. Many MFIs collaborate with institutions such as universities or other expert organizations. However there are some tools which MFIs use in selecting their clientele. They use the same tool after a period of accessing loans and assess whether any changes have taken place (negative and positive): Such tools include:

- Wealth Ranking – used mostly by programs targeting the very poor like the SHG. Small Enterprise Foundation of South Africa also uses this tool.
- Housing Index – also commonly used. It assesses the housing status of the prospective member and is widely used in Asia and some parts of Africa including South Africa and Angola
- Means Test – also commonly used to assess the socio-economic status of the member and is widely used by Opportunity International microfinance network.

These tools are used when the prospective client joins the MFI and are periodically used to assess any differences in the initial indicators. They do not need an outsider or a special unity to administer. They can be administered quite easily during the group/LMC meetings

ISWFT is encouraged to design and develop a selection tool for members accessing loans. It does not have to be used for selection of members to participate in the program since ISWFT is membership organization, every member expects to access services. The tool can be used to take stock of members' status when joining. The reverse of same tool would be used periodically to assess any changes that might have taken place.

There are also other tools to measure the level of satisfaction and why members leave the program and therefore help to get to know clients needs better. These help to improve on service delivery, enhance performance and the quality of services, impact, outreach and visibility.

5.0 Management Information System

The management information system (MIS) of MFIs includes all systems used to generate information that guides management in its decisions and actions. The MIS can be seen as a map of the activities that are carried out by the MFI. It monitors the operations and provides reports that reflect the information that management considers the most significant to track. Staff, management, board, donors, clients, and other stakeholders rely on the reports produced by the MIS.

ISWFT acquired a management information system called Loan Performer (LP) two years ago. LP is one of the MIS systems for microfinance programs recommended by CGAP. It has been on the market for over 10 years and has the capacity to integrate the loan tracking system and the institutional accounts.

Comments and Issues to address

It has already been established that the current MIS system has some bugs that need to be sorted out through the assistance of the service provider. It would be advisable at this stage to re-assess the MIS needs by ISWFT so that when communicating with the LP service provider all the queries are dealt with at one time to avoid communication costs.

i) Data efficiency and credibility

It was observed that there are some discrepancies in the production and information contained in some reports. ISWFT is currently experiencing problems with suspected bugs in the LP that are affecting the integrity of the reports being produced. For example when you print an outstanding report as of 30th March 2007 and request the same report for the same period at a later date the data produced is different Some reports cannot be generated and this could be due to the initial configuration of the LP. For example FCO does not know how many savers and or number of members on funeral schemes there are because this information is not readily available for them. Yet this is important information for an FCO to manage his/her constituent efficiently.

ii) Report generation capabilities.

The LP generates a number of reports that inform ISWFT of its outreach and quality of its portfolio. Although the LP is capable of generating more reports such as efficiency and sustainability levels, it is currently not configured to do that. This results in lack of critical information for subsequent actions. The LP is, however, capable of producing reports which can be used by management, board and clients.

iii) Reports recommended.

Some of the important management reports that are needed for the operation will include:

a. LMC - Management information system (LMCMIS)
b. FCO information system (FCOMIS) and
c. Branch Management information system (BMIS)
- The LMCMIS is a demand-driven management information system that shows the outreach and disbursements at LMC level. This will help the FCOs to know at what capacity they are operating with all their LMCs and then to strategize and develop an action plan on how together with the LMC leaders they can fulfill their planned outreach targets. The

LMCMIS will constitute the overall perspective for each a FCO Management Information System.

- FCOMIS will assist the Branch Manager to see at what level each FCO is operating both on outreach and disbursement. This will assist the Branch Manager/CEO to manage each FCO accordingly with regard to each of their portfolios. Workshops and other management interventions can be initiated to try and assist those who are struggling to perform at the required level. The summary of all the FCO Management Information System will constitute a branch level Management Information System.

- With the BMIS senior management can monitor all the Branches performance on a weekly basis and also on a monthly basis to allow management to act in time if there is any discrepancy.

All of the above reports will be reconciled to the LP report to ensure that there is no discrepancy that would allow faking of the information in their favor.

iv) Challenges

Another challenging problem is the interface of LP and the accounting system. This problem is not unique to ISWFT many MFIs experience it particularly when scaling up operations. The need for the interface lies in integrating the performance of the financial products with the accounting system. This becomes cumbersome (to integrate manually) if the financial products continue to grow beyond current levels. However the LP has an accounting system which only needs to be activated[8].

6.0 Finance and Accounts

Although the standards guiding accounting and auditing procedures vary greatly from country to country, there are almost always basic principles that determine the underlying logic of the accounting side of management information systems. The evaluation was limited to processes affecting credit operations specifically how disbursements, repayments, deposits and monitoring of expenses are done.

6.1 Structure and responsibilities

The administrative structure of the MFI affects the performance of an MFI in terms of costs and efficiency. Management and support staff create fixed overheads. It is also important to understand the policies that assist to manage and monitor finances, distribution of authority and responsibilities within the MFI.

Currently, the finance and accounting unit is comprised of 4 tellers, 1 finance clerk, 1 finance and admin officer, 2 guards and 3 cleaners. There was a Finance Manager but she left the organization at end of June, 2007.

The units' responsibilities include:
- Making payments to creditors (including loan disbursements)

[8] The consultant got in touch with the LP service provider and confirmed that the LP has an accounting system which needs to be activated. Communication has been initialized between ISWFT and LP service provider

- o Bank reconciliation (including members repayments, savings and funeral scheme deposits)
- o Managing the staff, tellers and cleaners
- o Reconcile pastel (the accounting system) and the LP (MIS interface)
- o Posting all receivables (savings, funeral scheme, loan repayments, and all related fees)
- o Reconciling payables (transport, petty cash, newspapers, teas cleaning materials etc)

All of the above have a bearing on the credit operations.

6.2 Disbursements and Repayments

When the loan applications status has been determined they go to the finance and accounting unit for disbursements. Currently for all members with bank accounts their disbursement is done through their bank. A cheque is written in their name to deposit in their account. For non account holders a cheque is written in their name and told which bank to go and cash it, (some cheques are written in the name of the supplier, depending on the use of the money)

With regards to repayments members can deposit them in any of ISWFT bank accounts, namely Nedbank, Swazi Bank, FNB or Standard Bank.

The finance and accounts unit is facing some challenges and these are detailed as follows:

a) The unit is finding it very cumbersome to reconcile with all the deposits made by the members through the various 4 banks that ISWFT does business with. For example a member may deposit with FNB this month and next month with Swazi Bank and so on. This takes longer to track all deposits made and in some cases delays the loan disbursement process, since it is a policy to verify all payments of the previous loan.

b) The banks sometimes do not put reference numbers on the deposits made by members and it becomes difficult to trace which member has made that deposit

c) IMBITA charges its members E1.00 for bank charges. This is however not sufficient to off set the actual bank charges. FNB is more expensive compared to other ISWFT accounts.

Two of the issues are internal and the other is external. With regards to the external issue ISWFT needs to discuss with the respective banks and come to some agreement as to how to alleviate such problems[9]. It appears as if the banking personnel are not doing their job properly as this, I would think, is a standard procedure.

As for the internal problem ISWFT should consider to consolidating the accounts according to use. For example:

a) To have separate accounts for separate use,
 FNB- 01 Savings
 FNB -02 Loan Fund

[9] FNB agreed this should not be happening and promised to look into it seriously.

FNB -03 Repayments
FNB-04 SHG
FNB-05 General Admin
FNB-06 Funeral Scheme
FNB-07 ISWFT staff scheme

b) To have a separate bank for a particular activity, which ever way ISWFT decides. All it means, is that, there is need for consolidation, to make it easier to track and trace financial activities.

Although IMBITA charges E1.00 for bank charges the actual expense is far too high. This however is something most MFIs battle with. Negotiating for a better rate is how most MFIs have gotten out this challenge.

6.3 Monitoring expenses

Other aspects of financial management that impact on the credit operations include administrative expenses related to credit operations. The 2006/7 fiscal year expenditure shows the top five categories of high expenses as salaries, bank charges, communication, technical support and transport. The evaluation examined transport expenses in detail, even though it is only 3% of total expenses. The reason is that transport needs close monitoring, otherwise expenses are more likely to escalaet as the fleet gets older.

Transport

ISWFT has a fleet of 6 pick up vehicles. Given the semi-centralized operative structure of ISWFT in the four regions of Swaziland transport expenses are expected to be high and therefore need close monitoring. ISWFT operates a central filling station where each vehicle fuels. Each vehicle has a log book to monitor mileage, fuel and oil.

However the log books are not monitored and analyzed at all. Therefore, it is difficult to assess usage and this is evidenced by the fact that none of the FCO knows the exact distances between head office and their field destinations.

With regards to bank charges ISWFT has negotiated and got a better rate with FNB. The same should be done with other banks

Salaries are dependent on the country salary structures for the sector. However, the other way of controlling salary expenses is to have FCOs on a basic salary and use an incentive system to boost their income.

6.4 **Budgeting process and Financial Planning**

The current budgeting process is informed by previous performance. The basis to set targets is not well articulated. For example if the FCO managed to handle a workload of 200 active loans this year it may be decided that she can handle 50 or 60. It is important to use the capacity of the FCO but more so of the area in which she is operating. The weakness with this projection is that there is no consideration given to the capital in hand as well as the financial costs incurred on a yearly basis. ISWFT is aware of the cross-section of the member's potential. This should be capitalized to enable more revenue to be earned. Coordination is needed here between the finance unit, credit operations and the CEO to ensure that the forecasting cover all the areas.

The whole budgeting and financial planning should be informed by the following:

- o Number of groups, new and old, number of cycles before moving into the next tier, etc.
- o average loan sizes for the above
- o Outstanding amount at beginning of the period
- o Planned disbursements new and old loans
- o Repayments etcetera

Comments and Issues to address

There are tools in the microfinance industry that ISWFT can use to assist in budgeting and financial planning. Microfin is a widely used tool. This tool provides the following:

- o Business Planning – This incorporates both strategic and operational planning for achieving outreach and sustainability
- o Strategic planning – This articulates broad institutional goals for the future based on an assessment of the current situation
- o Operational Planning – This projects how to pursue the goals outlined during strategic planning
- o Financial modelling – This process expresses the plan in financial terms

The budgeting and financial planning becomes more important particularly now that ISWFT is decentralizing. It is now more important than before to treat each region/branch as a cost centre. This means that each branch will have its budget and manage its own expenses. This will also assist in understanding areas that are performing well and areas that need assistance.

7.0 Financial Performance

Financial strength is the primary indicator of the overall efficiency and long term viability of an MFI. An MFI is financially sound and sustainable when it generates sufficient income from its investment activities to cover operational and financial costs and main the real value of its equity base. There are therefore a number of indicators that informs the MFI of its financial performance. What is of significance here is the ability to interpret the financial reports. What is important to remember in using indicators, is that numbers alone do not tell everything about the MFI. Indicators need to be complemented by discussions with staff, board and clients with close attention to morale and perceptions.

The evaluation focused on the productivity and profitability indicator.

7.1 Productivity and efficiency ratios

The productivity and efficiency ratios provide information about the rate at which ISWFT generates revenue to cover its expenses. Calculating and comparing these ratios over time helps management to determine whether they are maximizing their use of resources. These ratios are of more interest to management and board, particularly in understanding the best use of resources and providing services at least cost, as well as checking on possibilities of mission drift.

Productivity ratios measure how productive the field staff is and efficiency ratios measure the cost of providing services (loans) to generate income. There are a number of efficiency ratios including, operating cost, cost per unit of currency lent and cost per loan made. The evaluation looked at the performance of FCOs and cost per loan made.

Table 4: FCO's Performance

	Lubombo	Manzini	Hhohho	Shiselweni	Total
No of active loans	197	332	202	109	840
No of CFO	1	1	1	1	4
MFI avg	400	400	400	400	1600
Shortfall	203	68	198	291	720
% capacity	49%	83%	51%	27%	53%

Table 4 shows that the FCOs have not reached their maximum workload. Given the industry average of 400 per FCO, the current average of active clients, per FCO shows that the present capacity is only high for Manzini (83%), with a shortfall of 68 loans. The lowest capacity is in Shiselweni with a shortfall of 291 loans. Overall there is a shortfall of 360, which indicates that ISWFT is operating below capacity and contributes to a low operating efficiency.

The standard used has been proven in other countries such as South Africa, Zimbabwe and Zambia and other African states. However it is noted that these countries have bigger MFIs, and have been in the industry for sometime and have different socio-economic situations from that of Swaziland. No known studies of this nature have been made on similar MFIs in Lesotho, Namibia or Botswana which appear to share the same socio-economic and demographic status.

Table 5: Cost per loan

Year	**Operating costs**	**Total # of loan disbursed**	**Amnt disbursed**	**Avg loan size**	**Cost per loan**
2004	-	1165	4,749,489	4077	0
2005	673,110	894	3,926,352	4391	753
2006	702,542	840	3,894,309	4636	836

Cost per loan measure assesses credit operating cost relative to the number of loans disbursed. Table 5 indicates that in 2005 it cost ISWFT E753 to disburse a loan, where as in 2006 it was E.836. Trend is on the upward move indicating that efficiency is going down.

Cost per loan is also measured in the context of average loan size. If the cost of the loan is near the average size of the loan then the MFI is spending as much as the loan amount to disburse the loan, which would indicate that operations are too expensive. Although there are no industry absolute standards the trend over time should be downwards as staff becomes more skilled and as management information systems are developed[10].

Comments and Issues to address

Tables 4 and 5 indicate that there is room to improve on current productivity and efficiency. Section 4.3.2 above shows that ISWFT is taking too long to release subsequent loans. Therefore, one way of improving productivity and efficiency is to streamline the loan processing system, increase productivity and cut down on expenses. For example, to increase productivity by 2 groups (10clients) per month will take Manzini 7 months, Hhohho 20, Shiselweni 29 and Lumbobo 20 months. This will improve cost per loan. Another way is to implement a group lending methodology as opposed to individual lending. This will increase the number of active clients per FCO

7.2 Profitability ratios

Profitability ratios measure ISWFT's net income in relation to the structure of its balance sheet. This helps management to determine whether they are earning adequate return on funds invested, i.e. profit is stated as a % return on assets. If an MFI is to serve its clients over the long term, then achieving self sufficiency needs to be a key objective.

There are three ratios commonly used in calculating profitability and self sufficiency. These include, return on assets and equity, financial sustainability (operational and institutional) and portfolio at risk.

Table 6: Breakdown of income from 2005 to 2007

Year	Total Income earned	Interest from Loans	Interest from Bank investments	Other sources
2004	-	-	-	
2005	1,867,506,	1,245,321 (67%)	265,113	357,072
2006	1,840,527	1,179,479 (64%)	178,000	483,048
Total	3,708,033	2,424,800 (65%)	443,113	840,120

Note: other sources of income include: membership fees, renewal fees, transaction fees, application and contract fees, rent income and sale of assets[11]

[10] Principles and Practices of financial Management for microenterprise lenders, Women World Banking, 1994

[11] IMBITA income and expenditure statement 2006 and 2007

Table 6 indicates the sources of income for ISWFT. For the two years ISWFT generated 65% of its income from interest from the loan portfolio, with least generated from bank investments.

Table 7: Operational Expenses 2004 to 2007

Year	Salary	Admin	Total	Sufficiency %
2004	-	-		
2005	424,465	548,645	973,110	128%
2006	541,789	512,533	1,054,322	112%
Total				

Table 7 shows all the expenses related to credit operations (training expenses not included). There has been an increase in total expenses in 2006, particularly on salaries. This can be attributed to the hiring of two new FCOs.

The table also indicates that credit operations are self sustaining, even though the rate dropped by 16% in 2006. The increase in salaries could have had an effect on this ratio.

Table 8: Institutional Expenses 2004 to 2007

Year	Salary	Admin	Total	Sufficiency
2004	-	-		
2005	1,437,645	1,009,345	2,446,990	76%
2006	1,391,454	852,899	2,244,353	82%
Total				

Table 8 shows the institutional expenses, this includes all the head office and the branch offices. The self sufficiency rate is on the upward trend, at 82% in 2006, compared to 76% in 2005.

Table 9: Portfolio at Risk

Year	Outstanding portfolio with arrears	Outstanding Portfolio	% of PAR
2005	2,512,734	4,198,454	60%
2006	1,934,590	4,017,558	48%
2007	2,328,476	3,670,398	63%

Table 9 demonstrates the portfolio that is at risk of more than 30 days. The portfolio at risk has been fluctuating over the years and as end of March 2007 was 63%. This means more than half of the portfolio is at risk. The industry best practice is 2-5%

Comments and Issues to address

Expenses

Comparing the two expenses (operational and institutional) it appears that the credit operations are almost a third of the total institutional costs. It is generally accepted that the general admin expenses should be at least between 20-25% of the total institutions expenses.

Second largest expense are the write offs followed by the bank charges. The write offs can be improved by improving the quality of the portfolio. For the bank charges ISWFT has already negotiated for better rates, but control can be realized by rationalizing writing of cheques and other transactions.

Portfolio at risk

While previous evaluations attributed the high rate of portfolio at risk to ISWFT's inability to accurately account for repayments made by members as this was done manually, it is not the same as of now because the reconciliation system by Pastel with banks has improved a lot and a tracking system has been installed which helps quite significantly. The current situation indicates a problem of delinquency. This situation can not continue as it will erode the loan book sooner than later. The issue of delinquency will be addressed during the one day workshop prepared as part of this assignment. There is need to revisit the monitoring strategies as indicated in section 4.3.3 above

ISWFT should consider holding disbursements particularly to the business loans which have been performing badly over the years, and recoup what is owed. At the same time it should assess the type of businesses which are badly affected and find strategies of how to deal with them.

Productivity and Sufficiency levels

The following growth scenarios are for new loans only.

Low growth Assumptions

a) FCOs
b) groups per month per FCO(10 clients)
c) Average new loan size E.1000
d) Maintain current levels of expenses and income

Low growth	Groups	Clients	Disbursement	Shortfall income	Total income	Expenses
	152	760	760,000	228,000	2,068,527	2,244,353
Self Sufficiency	92%					

Increase production by 10% will require E.760,000 for disbursement.

Medium growth Assumptions

a) 4 FCOs
b) 3 groups for old FCOs and 4 groups for new FCOs per month per FCO(15 and 20 clients)
c) Average new loan size E.1000
d) Increased expenses and maintain current levels of income

Medium growth	Groups	clients	Disbursements	Shortfall income	Total income	Expenses
	336	1,680	1,680,000	504,000	2,344,527	2,660,353
Self Sufficiency	88%					

The 88% for the medium growth is for new loans only and will require E.1, 680,000. This will be in addition to current planned disbursements.

7.3 Capital Available

It is important to establish the capital available for ISWFT for its operations for the rest of the fiscal year

Table 10: Donor Funds 2004-2007

Year	**Donor**	**Loan Fund**	**Admin**	**Training**	**Total**
	IFAD	1,000,000	150,000	250,000	1,400,000
	KNH	180,000			
	Geneva Global	100,00	55,674		
Total		1,280,000	205,674	250,000	1,735,674

Table 11: ISWFT Capital available

Amount	Type	Where the money is?
3,670,398	Outstanding loans	With members
6,809,493	Savings	Investment account
34,985	Funeral scheme	Investment account
10,514,876		**Total**

Table 10 indicates the funding partners of ISWFT. KNH and Geneva Global have been funding ISWFT for the past two and three years respectively. IFAD is new and the funding is ear-marked start from September 2007.

The total capital available for loans in 2007/08 is E.5, 406, 072.

Comments and issues to address

ISWFT need to identify a funding partner interested in microfinance activities and develops a proposal for the next three years. This requires an in-depth planning exercise particularly on the loan portfolio.

8.0 Human Resource and Technical Assistance

Providing financial services to the poor is a complex process that requires many different kinds of skills and functions.

Over the years ISWFT received training and technical assistance through collaborations with a number of organizations notably:

a) Skills Share who provided assistance in building systems and best practices from 1991 – 1997.
b) Loan Performer who installed the MIS and provided training to staff on how to use it
c) Opportunity International who provided assistance in developing the business plan for 2002-2005 and 2005-2007

The above technical assistance has helped ISWFT to progress to where it is now. Systems and procedures are well documented and the business plans have been used as the operating management tool.
In terms of staff development programs, ISWFT participated in a number of training workshops, which included:

- o Credit rating by techno-serve, attended by 2 FCOs
- o Microfinance for Loan Officers – University of Pretoria, South Africa, attended by 1 member of staff.

While ISWFT confirms that the training was helpful, it also stressed that it is too costly to be sending its personnel outside the country.

Comments and issues to address

a) Although ISWFT has shown capacity to mobilize staff training resources, training and technical assistance continue to be a challenge. ISWFT lacks skills and expertise in the following areas:
   - delinquency management
   - portfolio management and analysis
   - financial management for MFIs
   - strategic planning and financial modeling
   - Board members long term strategic planning and sustainability

b) ISWFT's business plan for 2005-07 indicated the need for training in order to improve on performance and organizational development. The training that ISWFT personnel received so far has not been as part of a staff development plan. Instead it was more of reaction to invitations to participate. The previous evaluation 2000-2001 and the business plan indicated that the board would benefit from an exposure to microfinance good governance, experiences and best practices. No board member has had any training apart from attending conferences, which in itself is also good exposure. The lack of participation can be attributed to a shortage of financial resources restricting ISWFT from building the capacity for its personnel.

c) There is need to focus on internal human and intellectual capacity and this entails hiring, mentoring and training the necessary personnel including board members. There is a challenge however on hiring as there is generally a shortage of experienced microfinance people in Swaziland and indeed in the region. Therefore ISWFT will have to invest into mentorship and to train on the job so as to build the required capacity.

d) ISWFT needs to fill in the position of the finance manager as a matter of urgency.

e) ISWFT also has to have one officer specifically to manage MIS.

f) To get trained on how to use the Microfin – a financial modeling tool for microfinance. It would be helpful to assess the need for microfin training by other MFIs in Swaziland and pull resources together for a joint training[12].

9.0 Stakeholders analysis

Stakeholders' analysis in this report refers to the analysis of key service providers in the microfinance sector of Swaziland. The analysis helps to assess what products and services are being provided, how they provided the provisions and most importantly the capacity within the sector are. The analysis was informed by meetings which were held with some of the stakeholders and literature review.

Annex 4, shows some of the key players in the microfinance sector. In Swaziland, there are several types of institutions that provide financial and non financial services to the poor. These are commercial microfinance, savings and credit cooperatives, government financial programmes, NGO-lenders of financial and training programmes (where ISWFT falls under), and informal lenders often referred to as "shylocks".

Both commercial banks admitted that they are not reaching to the same level of microentrepreneurs as do the NGO-MFIs. The reasons given for not scaling down to that level included the high risk associated with micro-entrepreneurs, lack of tangible collateral and that the average loan sizes are too small for the banks. FINCORP on the other hand did provide financial and non financial services for the microentrepreneurs targeting the same clientele as the NGO-MFIs. However over the time it has moved to the top of the ladder. Currently the initial average loan size is E.10, 000 and it does not provide training anymore.

As far as training and technical assistance most of these stakeholders do benefit from their networks. For instance World Vision sends its staff for training organized for World Vision microfinance staff. Most of the training is held outside the country. World Vision confirms, it does not have the capacity to provide microfinance training internally. It does not provide BDS.

Section 2.3 above, indicates that the sector is dominated by SACOOs, micro-lenders and a few NGO-MFIs. The snap survey done by UNDP in 2000-2001 identified well over 50 SACOOS in Swaziland. However observations made during the evaluation indicate that not many are still in existence. Reasons for closing shop included, delinquency problems, bad management and lack of funds.

Given the situation above three main issues emerge. These are:

- Firstly, ISWFT remains relevant to the sector and
- Secondly its services are in demand
- Thirdly, there does not seem to be any viable opportunities for collaboration particularly on microfinance training and BDS for clients.

[12] This training is usually held in South Africa - CapeTown for the SADC region

10.0 Emerging issues

The above analysis has shown that ISWFT is growing and becoming more sophisticated. With growth there are some challenges that it has to address. The following are some of the challenges and opportunities observed:

10.1 Decentralization and MIS network

Decentralization is very important particularly in increasing outreach efforts, making impact and moving towards financial sufficiency. Decentralization in the microfinance industry is associated with the horizontal expansion which entails opening up of branches where the desired clientele are. This means going where the clients are and it helps the MFI to:

- Build up relationships
- Acquire information
- Speed up transactions,
- Enforce compliance, and most importantly to know its clients better

Opening up a branch comes with related costs and MFI should consider whether opening up a branch is more cost effective than before. This means there should be a resource plan. A typical branch structure that has potential to be sustainable has the following features:

- Branch manager
- Credit officers (6-8)
- Teller
- Finance Clerk
- Clear/guard

ISWFT has now two regional offices - Siteki and Pigg's Peak (which are being treated as branches) but they are not yet functional as staff members are still based at the head office.

Comments and Issues to address

There are a number of challenges that ISWFT needs to address.

Firstly, is the challenge of the branch structure as given above. Given the demographic situation of Swaziland ISWFT can plan to gradually add on an FCO as and when needed, because operating a branch with 1 FCO is not viable. This means that ISWFT has to develop an expansion plan that takes cognizance of this situation, thus addressing issues of recruitment, training and financial plan. The challenge is the capacity of the credit officers to generate enough business to offset the portfolio short falls as identified in section 9 above.

Secondly, ISWFT needs to treat each region/branch as a cost centre as indicated in section 7 of this report. Each region/branch should now be responsible for its member mobilization, loan processing, income and expenditure. To do this, it means the board, management and staff require sensitization and good understanding and appreciation of the new roles and responsibilities. This can be done by strengthening the knowledge base in microfinance operations, particularly in:

- o Financial management
- o Portfolio management
- o Budgeting process and financial planning
- o Group lending fundamentals
- o Marketing
- o Resource mobilization

Thirdly, for decentralization to be effective and improve on efficiency there is need to put MIS on a network system.

10.2 Self Help Groups

ISWFT is collaborating with the Kinder Not Hilfe[13] development program in Swaziland. KNH works through local NGOs and in Africa its presence are in Swaziland, Ethiopia, South Africa, Uganda and Rwanda. In Swaziland the program is focusing on self help groups (SHG), the passive poor with the aim to assist them to develop their lives. to ensure homogeneity

KNH-SHG does not provide welfare assistance. The thrust of the KNH-SHG is in group formation and to use these groups to realize each others potentials.

The KNH-SHGs is currently working in the remote areas in all the regions of Swaziland. The process starts with the understanding of how groups work and how effective they are. The KNH-SHG work through a number of levels as follows:

- first level is the SHG groups of 15-20, dealing mainly with micro issues
- the second level is the Cluster Level Association (CLA) formed by 8-10 SHGs, dealing mainly with meso issues

Role of ISWFT

Since 2005 when the program started operating in Swaziland it has been housed in ISWFT. The program has a manager (seconded by KNH) and a coordinator (a Swazi).

Comments and Issues to address

The KNH-SHG is providing all the training required to strengthen groups and to ensure group mutual guarantees. This entails ensuring that all the necessary resources are planned for so that when the program with KNH ends the IISWFT – SHG program will continue operating in Swaziland. This is an opportunity for ISWFT needs to capitalize on particularly to adopt expertise in working with groups. Experience has shown how SHGs contribute to the empowerment of individuals, communities and the nation as a whole.

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[13] KNH is a Germany based organization operating in 27 countries supporting the development of children and youth and the poor.

10.3 Good Governance

During the exercise two observations were made on issues pertaining to good governance. These are:

a) It is ISWFT's practice that the serving board can also access loans. While it is good practice to have a board from within membership it is equally important to consider policies which are not in conflict with individual interest[14]. For example accessing a loan especially when the same board is also a credit committee for loans beyond E5000, this creates conflict of interest. It would be encouraging to stipulate that serving board members cannot access loans.

b) The current board is comprised of banker, training manager and three entrepreneurs. The main concern is lack of microfinance skills and expertise in the composition of the current board. This is also evidenced by lack of long term strategies to achieve sustainability. One of the recommended policies for microfinance serving boards is to have a mixture of experiences and expertise to ensure an intelligent direction of the organization towards achieving its mission and vision in a sustainable manner. It would therefore be desirable to incorporate at least two microfinance experts to serve on the board. This means opening up participation to include outside experts.

11.0 Conclusions and Recommendations

ISWFT has remained a small organization, growing steadily, and has doubled its staff from 7 in 2000 to the current 14. Its mission is to improve the lives of low income women and indeed over the past 16 years has build a track record of providing financial services to the low income households of Swazi women. ISWFT elects its board of directors from its membership and has a well documented constitution which governs its activities.

Management of the ISWFT is under the directorship of a CEO with the support of 13 members of staff. ISWFT has three main operative units i.e. credit operations, general administration and finance, and training.

ISWFT's program is characterized by:

- Provision of multiple financial services
- Individual lending methodology
- Access to repeat and larger loans (E500 to E160000) based on repayment performance
- Presence in both urban and rural areas
- Meeting 112% of its operational and 82% of its institutional cost

ISWFT has staff that are committed and motivated to see ISWFT move on to the next level. It's lean and thin organizational structure has potential to make effective and efficient use of its management and staff members. Since its inception ISWFT has enjoyed financial and technical assistance from several organizations and this indicates that it is strong at networking and developing relationships with key

[14] This issue was not delved into because the SOW excluded such a topic

stakeholders who have a deep seated interest in poverty alleviation through economic development.

However, ISWFT has some weaknesses which threaten its sustainability efforts. Even though it has good networking abilities the lack of adequate financial resources restricts the institution from building capacity of its staff, board members and members. A skills gap exists among the staff and the board to be able to move ISWFT to the next developmental level. In addition to that the outreach mechanism of LMCs is weak to assume some responsibilities that would improve the quality of the portfolio.

There are three common stages of growth i.e. start up, expansion and sustainable stage. The scaling up or expansion stage is defined in terms of outreach, portfolio quality, cost recovery and the sustainability stage means an MFI demonstrated capacity in all of the other two stages.

Given the indicative time tables guiding principles for achieving sustainability ISWFT should be sustainable since it has been in operation since 1991. However the analysis above shows ISWFT to have moved from start up stage and is somewhere in the scaling up stage. The analysis indicates some of the challenges that ISWFT has been facing over the years. These include capacity building, innovation, funding, outreach and sustainability. One of the reasons cited for this state of affairs include, high cost structures, shortages of experts, low population density and remoteness, and difficulties in achieving high repayment rates.

ISWFT has potential to be a leading player in the microfinance sector. It still has to battle with developing a viable operative and strategic plan and implement it accordingly.

The recommendations provided below are meant to address some of the weaknesses identified in the credit operations of ISWFT and contribute to move a step further towards sustainability.

11.1 Recommendations

For microfinance programs to be sustainable, they require technical assistance in a variety of areas. These include training staff and clients, improving lending policies and procedures, developing effective means tests to target the poor, developing strategies for improving self-sufficiency, improving financial management, developing effective financial and management information systems, and establishing effective and independent governance structures. ISWFT has accomplished in some of these areas and would require assistance to move towards sustainability.

The above analysis highlighted a number of areas that ISWFT needs to consider. The recommendations below follow in more detail on those aspects that ISWFT has to address to improve on current operations and to plan and project beyond 2007.

a) Products and services

Financial products

The current loan products are sufficient and are in demand. There is no need to develop a new product other than to consolidate by updating processes and procedures involved in accessing. However, HIV/AIDS is a concern.

Recommendation:

As a long term plan, ISWFT needs to develop an insurance scheme to safe guard against the consequences of HIV/AIDS. The design and development include assessing key factors, such as market, product and institution. ISWFT will require an expert in product development to assist in the development of an insurance scheme.

Training

The pending funding from IFAD (for both credit and training programs) gives ISWFT an opportunity to rationalize the training program.

Recommendations:

1. Immediate term plan is to refine current training arrangement. This includes:

a. leaving the orientation of the new members to FCOs
b. Designing and developing the training plan of the training unit.
c. The training plan focusing on the provision of business development services (BDS) and leadership skills to the women entrepreneurs
d. Program to be demand driven
e. Charging a nominal fee
f. Designing and developing a needs assessment instrument

2. Long term plan

Success in delivering BDS will inform the need to further develop training programs to include training for staff and board members and MFI sector

b) Loan Processing

Recommendations:

a. To streamline the loan disbursement process particularly for members applying for a subsequent loan
b. To design and structure loan terms so that it is easier to track performance and assist with financial planning and targeting. Such a structure include 3 months, 6 months, 9months and 12 months
c. To include the LMC structure in loan appraisal and monitoring processes[15].
d. To restructure the group lending methodology by training the LMCs on group lending fundamentals.

[15] Training already provided

e. To maintain the individual lending for consumer loans only
f. To design and develop a graduate tier for those reaching a E5,000
g. To design and implement a group lending methodology[16]
h. To pilot group lending methodology starting with 1 group per branch.

c) **Management information system**

Recommendations:

a. To make a list of all the problems that ISWFT is having with the Loan Performer and communicate with the service provider.
b. To communicate with the service provider with regards to the integration of the loan tracking system and the accounts as this is possible with LP system.
c. To put MIS on a network system

d) Financial Management and performance

Recommendations

a. To identify a funding partner who can fund for at least 3 years ona continuous basis
b. To develop a funding proposal that encompasses all that is required to move ISWFT towards sustainability
c. To implement a group lending methodology
d. To focus on getting the arrears on loans reduced
e. To control expenditure by monitoring and analyzing the expenses periodically
f. To use Microfin for budgeting and financial planning purposes.
g. To implement one of the following growth scenarios

e) Human resource and technical assistance

Although ISWFT has shown the capacity to mobilize resources for staff and client development through training and technical assistance, there are still some challenges being faced as indicated above.

Recommendations:

1. To build capacity through mentorship particularly for management. It would be ideal if the mentor is an all rounder so that on job training takes place. An all rounder would be someone conversant with all areas of institutional development particularly in microfinance. Ideally it should be someone with hands on experience in implementing scaling up of microfinance programs and has implemented a successful group lending methodology. Expert areas to be included are:

- MIS, interpretation and analysis of quality portfolio
- Financial planning, modeling and management at both branch and institutional level
- Strategic planning and
- Budgeting processes

[16] ibid

- Human resource management
- Funding proposal writing
- Marketing of products and services

2. To get trained on how to use Microfin financial modeling

3. There is need to diversify skills set of board members. Industry professionals are needed to strengthen internal capacity

Emerging issues

Self help Groups

Recommendation

ISWFT to capitalize on this opportunity

Good governance

Recommendation

To develop a policy that stipulates that any serving member on the board is not to access loans.

Annex 1: Eligibility criteria

Business Loans

Eligibility

- Must be a member of IMBITA for a period of three months
- Must save regularly with IMBITA beyond the initial three months
- Must have saved 20% of the loan
- Must have a viable business
- Must fill in a business application form
- Must be over 18 years of age
-

Criteria

- Only one loan at a time
- Initial loan size not to exceed E.5000

Consumption loans

Eligibility

- Must be a member of IMBITA for a period of three months
- Must save regularly with IMBITA beyond the initial three months
- Must have salaried employment and produce proof of monthly amount earned
- Must fill in a consumptive loan application
- Must have a current bank account and set up a stop order for loan repayments to coincide with salary date
- Must be over 18 years of age
- Must have a guarantor (includes either a husband, father, sister, son, daughter, friend)

Criteria

- The loan repayment must not exceed 30% of the net monthly income
- The maximum loan term for all consumptive loans is 24 months
- Maximum consumptive loan amount is E.25,000.00
- The loan cheque is made to the supplier of the goods, where possible

Annex 2: Loan Policies

Policy	**Description**	
Loan Sizes	a) Consumption loans up to E25,000.00 depending of amount saved b) Business loan initial loan up to E5,000.00. c) Agricultural loans	
Loan Terms	a) Agricultural loans Repayment periods = lump sum as follows	
	Grains = 6-7 months Vegetables = 3 months	Poultry = 6-8months Cotton = 8 months Legumes = 5 months
	b) Business and Consumption loans up to 24 months	
Collateral	20% savings 80% household assets	
Interest rate	Business Loans	Consumption Loans
	Flat rate	Flat rate
	E.1000-E10000 = 30% yr E.10001-E15000 = 25% yr E.15001-E20000 =20% yr E.20001-E25000 = 15%	2.5% per month regardless of amount.
Write Offs	A loan is written if its more than 120 days in arrears	

Figure 1: Loan Application Process