BUSINESS PLANNING GUIDE FOR MICROFINANCE INSTITUTIONS IN UGANDA

By The Centre for Microenterprise Finance
Kampala, Uganda

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BUSINESS PLANNING GUIDE

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TABLE OF CONTENTS

Chapter 1. Overview of the Business Planning Guide

In This Chapter
- Introduction to the guide
- Objectives of the guide
- Approach of the guide

1.1 Introduction to the Guide

As more and more microfinance institutions strive for financial self-sufficiency, they are realizing the importance of taking a business approach and being more responsive to their clients needs as well as constantly improving their management and operations With this business approach comes the need for MFIs to think about their products, markets, and operations, and to develop a plan to meet their goals in the future Many microfinance institutions underestimate the role of planning and how a good business plan can guide an MFI in the right direction, help it to raise money, prepare for the future, and measure its progress This guide is intended to prompt microfinance institutions to think about where they have been, where they want to go, and how they will get there

The Business Planning Guide provides a step-by-step procedure to assist microfinance institutions in preparing a business plan It was developed by the Center for Microenterprise Finance (CMF), which is a component of the USAID funded PRESTO Project in Uganda One of the main objectives of the CMF component of the Presto Project is to strengthen the institutions that provide savings and credit services to microenterprises within Uganda In keeping with this objective, the CMF developed this business planning guide specifically for Ugandan MFIs, and has trained them in the business planning process

1 2 Objectives of the Guide

The Business Planning Guide has the broad objective of helping managers of MFIs to plan for the development of their organizations through the creation of a business plan This guide builds on the broad foundation of microfinance best practices, including extensive outreach to the poorest of the economically active and achievement of financial self-sufficiency through use of full-cost-covering interest rates and sound delinquency management

Through this step-by-step guide, the CMF seeks to assist MFI managers to

- understand the business planning process
- develop a mission statement for their organization
- assess their current situation
- determine their base potential for development
- develop strategies for the development of their organization

- produce portfolio projections
- project and analyze financial status
- produce a comprehensive business plan
- use a business plan as a management tool

1 3 Approach of the Guide

The guide is organized into ten chapters, each of which covers a distinct part of the business plan Worksheets are included throughout the guide to assist in your analysis of your own organization Topics covered in the Business Planning Guide and a brief description of each chapter are as follows

Chapter 2 defines business planning and provides an overview of the role business planning plays in microfinance institutions

Chapter 3 is devoted to the institutional background and mission of your MFI First, the historical development of your MFI is considered Then, the development of a mission statement for your organization is discussed Before you can put together a business plan, you have to decide where you want to be in the future This chapter examines your organization's values and vision for the future and helps steer you in the right direction by establishing a mission statement

Chapter 4 discusses how to assess the current situation of your organization and identify the organization's strengths and weaknesses This chapter analyzes how well the MFI has performed so far, focusing on three key areas market, operations, and financial Several key financial ratios are introduced to analyze performance to date

Chapter 5 focuses on assessing your organization's potential to develop This chapter helps you to look objectively at your MFI's capabilities and resources to determine its base potential for development This chapter also explains how to assess the external environment in order to identify opportunities and threats facing your organization

Chapter 6 concentrates on developing strategies to achieve your organization's mission This chapter helps you look into the future and formulate a plan for achieving the mission Some alternative strategies are discussed

Chapter 7 explains how to prepare a specific marketing plan based on your strategy that addresses the target market, service delivery, and activities that will be undertaken to reach the target market

Chapter 8 discusses capacity planning by focusing on how to identiry and prioritize current and future capacity needs

Chapter 9 discusses how to use the business plan developed thus far to develop the financial plan Specifically, the chapter instructs on producing portfolio projections, income and expenditure projections, and financial statement projections Examples of these financial projections are presented Also stressed in this chapter is the importance of critically analyzing your plan by asking "what if" questions and performing sensitivity analysis

Chapter 10 discusses how to appraise and use the completed business plan

An example of a business plan format is shown in Appendix A After reading the Business Planning Guide, you should have a basic understanding of the role of business planning and how to prepare a business plan for your MFI

Chapter 2: Overview of Business Planning

In This Chapter
- Definition and process of business planning
- The business plan document
- The MFI Business Planning Framework
- Role of business planning

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2 1 Definition and Process of Business Planning

Business planning is a process that prepares your MFI for the future It increases the likelihood that down the road, your MFI will be successful Business planning is a process of

- Analyzing the performance of your organization
- Identifying your MFI's potential for development
- Deciding on business strategies that will help you to achieve your potential, sustain competitive advantage, and meet the needs of your clients
- Incorporating strategic decisions into financial projections to determine the impact on your organization's financial position

The process of business planning prepares you for what lies ahead It provides a view of the future and points your organization in the right direction The plan also describes the history of the organization, its strengths and weakness, its capacities, and its plan for the future

The process of creating a business plan involves extensive communication among board, management and staff, which will help ensure that the projections are realistic This participative process focuses the thinking of the various stakeholders, allowing each to adopt the business plan as an expression of their own vision for the organization

Business planning is an iterative process that consists of information, assumptions, and decisions The planning team must make decisions and form strategies based upon information about the past and present performance of the organization and assumptions about future performance It is important to make realistic assumptions because in the end, your business plan is only as good as all the assumptions you put into it To make sure that your assumptions make sense, much of your planning should involve trying to understand your present situation and to develop a realistic assessment of your capabilities to grow in the future

2 2 The Business Plan Document

The output of the business planning process is a document that explicitly states the planned development of the MFI over a three to five year period It is the tool by which the MFI's mission is translated into measurable targets in the context of market demand and organizational capacity All of the strategic decisions made during the business planning process have financial implications, shedding light on the potential for full self-sufficiency, taking it from theory to reality

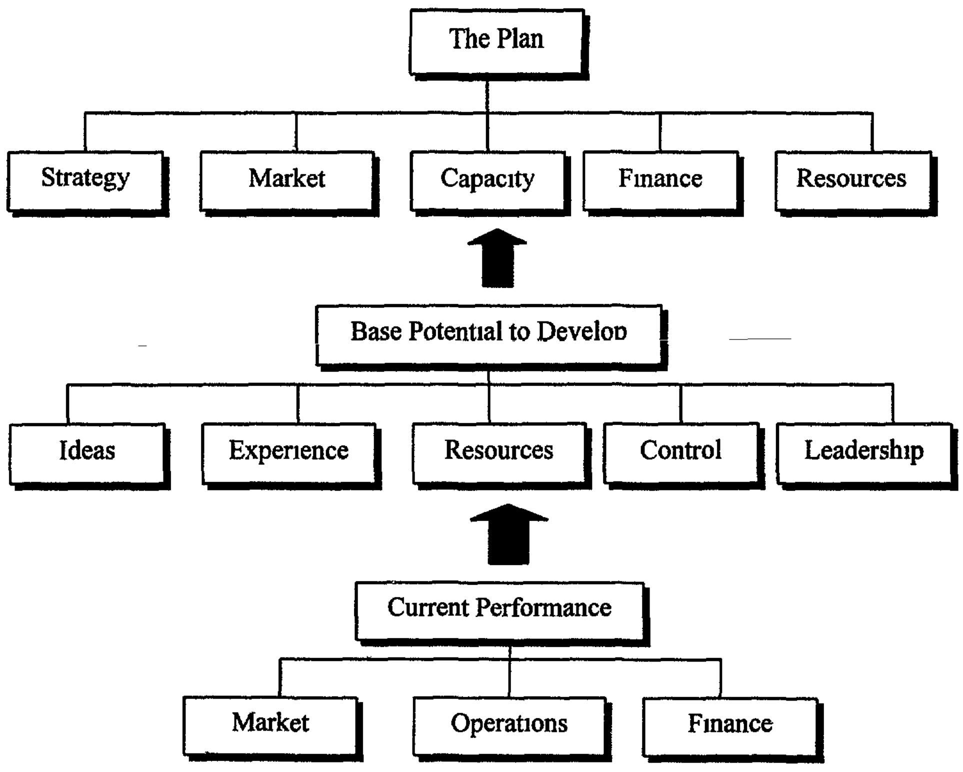
A schematic outline of the business plan is shown below See Appendix A for a detailed business plan format

Contents of a Business Plan	
Chapter	Content
Executive Summary	• 1 – 2 pages highlighting the business plan
Institutional Background and Mission	• Historical development of the MFI • Registration, ownership, leadership, governance • Organizational structure • Mission statement
Current Performance	• Analysis of the MFI's strengths and weaknesses • Description of the market products, pricing, competition • Description of operations methodology, loan portfolio, delivery system, performance indicators • Description of financial performance performance indicators
Base Potential to Develop	• Analysis of institutional capacities in the areas of ideas, experience, resources, control, and leadership • Analysis of opportunities and threats
Strategy	• Development of ways to take advantage of strengths/opportunities and confront weakness/threats
Market Plan	• Quantifiable targets in the market number of customers targeted, number of branches to be opened, number of women in the program
Capacity Plan	• Description of planned investment in facilities, information systems, and staff that would enable the MFI to achieve its targets
Financial Plan	• Historical financial statements (prior three years) • Assumptions • Loan portfolio projections • Profit and loss projections • Cash flow projections • Balance Sheet projections • Performance indicators

2 3 The MFI Business Planning Framework

The MFI Business Planning Framework, depicted below, is a three level process of business planning that embodies the key parameters of performance This framework begins with an analysis of your MFI's current performance and then leads you through an analysis of your MFI's base potential to develop Then, the framework guides you through the components of your plan for the future Each level of the framework is discussed in detail in the remaining chapters of this guide

The MFI Business Planning Framework



Level 1 Current Performance

Level 1 of the MFI Business Planning Framework addresses the question

"What business are we in and where are we now?"

If you can't remember where you've been, you probably won't see where you are going At this level, you assess the current performance of your MFI by looking at three key areas the market, operations, and in financial terms A few examples of questions to be answered at this level in the business plan are

The market What type of products and services does the MFI offer? What kind of people does the MFI target? What interest rate does the MFI charge? Who are its competitors?

Operations What methodology does the MFI use? How are the products such as training, savings, and loan applications delivered? What is the average loan size? What is the client drop-out rate? What is the recovery process?

In financial terms What is the MFI's operational self-sufficiency ratio? What is its loan loss rate? Portfolio at risk?

Level 2 Base Potential to Develop

Level 2 poses the following question

"What capabilities do we have at our disposal that will help us to achieve the MFI's mission?"

The analysis at this level assesses the base potential for development by focusing on five key areas within the MFI ideas, experience, resources, control, and leadership A few examples of questions to be answered at this level in the business plan are

Ideas What ability does the MFI have to create its vision, understand its environment, respond with innovative solutions and translate these into plans that can be implemented?

Experience How has the MFI's experience prepared it for development?

Resources Does the MFI have the resources it needs for growth? How can the MFI use these resources to develop?

Control How has the MFI ensured that appropriate structures and systems are in place to organize its resources?

Leadership Does the MFI have the appropriate leadership for growth? How can it use its leadership to develop?

At this point, the external environment is also analyzed to determine opportunities and threats facing your MFI Once you have analyzed the internal and external environment, you can develop strategies that will be the basis for the plan

Level 3 The Plan

Level 3 relates to the output of the business planning process To produce a sound business plan, you must outline the key elements that will be elaborated in the plan In order to do this, you will have to consider this set of questions

" Where do we want to go, how do we get there, and what do we need to watch to understand whether we are succeeding?"

The plan consists of strategy, market, capacity, resources and finance A few examples of questions to be answered in the business plan are

Strategy What is your plan to get where you want to go? How does this plan exploit your organization's strengths, eliminate its weaknesses, take advantage of opportunities and prepare for threats?

Market Will new products be introduced for the existing market? Should new markets be opened up for present products i e should the MFI spread to new geographical areas? Should new products be introduced into new markets? What is the expected demand for products and services?

Capacity Should organizational changes be made and why? Do you need to take on new specialized staff? What changes are needed in processes and systems Do you need to establish linkages with organizations that could provide useful technical support?

Finance What are your projected cash flows? What is the overall projected financial situation?

Resources What resources will be acquired to supported the portfolio growth? What will be the source of funding?

The decisions taken during the analysis of levels one and two of the framework will form the basis for developing your business plan The process of considering the MFI's performance and potential for development enables you to develop a strategy and make the decisions that will result in a business plan The plan is the output of the planning process, serving as tangible evidence of management thinking of how the future can be made to happen

2 4 The Role of Business Planning

Business planning is a powerful management tool Its role is to

- Help you determine and define where you want the organization to go
- Force you to stop and think about what the organization is doing, examine its performance, its potential for development, and figure how you intend to proceed into the future
- Translate the mission into specific activities that can be monitored
- Act as a map, guiding your organization as it seeks to meet the needs of clients and move along the path to sustainability
- Provide insight about your MFI's operations to outside reviewers, such as investors and donors

Chapter 3: Institutional Background and Mission Statement

In This Chapter
- Institutional background
- Mission statement

3 1 Institutional Background

The institutional background provides a brief overview of the organization since its inception This section should state the history of the MFI, its form of registration, ownership, and governance and the composition of the board and management The Constitution, by-laws, and/or Memorandum and articles of Association to Plan should be included

3 2 Mission Statement

A mission statement is meant to communicate the purpose of your organization to people both inside and outside the MFI A mission statement translates the MFI's vision into a workable goal It establishes what your organization is and what it does by clearly defining the product and services offered and identifying the customer base

An MFI mission statement should

- Define what the MFI wants to achieve, for whom and how
- View the target group as active clients with rights and responsibilities and not merely as beneficiaries
- Reflect the values of stakeholders but also be compatible with microenterprise principles and sustainable MFI programming
- Be clear, concise, informative, and interesting

3 2 1 Creating a Mission Statement

When creating a mission statement, involve stakeholders who represent all aspects of your organization, such as clients, founders, financiers, board, management, and staff Each group of stakeholders have different interests and needs It is very important to reconcile the views of all these stakeholders when developing a mission statement for the MFI You must have a clear understanding of the contributions, rights and responsibilities of each stakeholder Be sure to obtain formal approval of the mission statement from the Board

The mission should drive the organization towards sustainability Achieving overall sustainability requires a balance between the interests and needs of stakeholders and business principles such as profitability and efficiency

3 2 2 The Role of a Mission Statement

A mission statement is critical because without a mission the MFI has no direction There's a common saying, "If you don't know where you're going, any road will take you there " You need a mission statement for the same reason that you need to know where you are going before undertaking a journey if you know where you are heading, you can make the right choices and avoid disappointments and shocks along the way

Plan to integrate the mission into everything the organization does Use the mission statement as a reference point for all major decisions Develop a slogan or other simple expression of the main idea that can be communicated to clients and others Incorporate the mission in staff training programs Reflect on its meaning during annual planning meetings and check its relevance to prevailing conditions

Chapter 4 Assessing the Current Performance

In This Chapter - Analyzing current performance
- Identifying strengths and weaknesses

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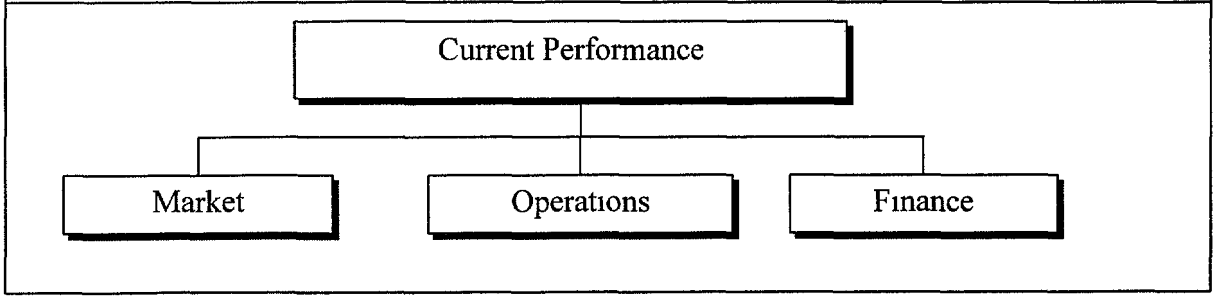
4 1 Analyzing Current Performance

Once you have developed a mission statement, the next step in preparing a business plan is to assess your MFI's performance to date This is necessary in order to meaningfully plan where you want to go A business plan is like a road map, one has to identify where one is situated before one can determine how to get where one wants to go

The first level of the MFI Business Planning Framework, depicted below, provides a structure to analyze how well an MFI has performed in three key areas market, operations, and finance

MFI Business Planning Framework Level 1



The question to answer at this level is

Where is the MFI now vs where it intended to be?

During this analysis, you should address the strengths and weaknesses of the MFI As you are reviewing your MFI's performance look for areas in which it has been strong For example, perhaps your organization has a low percentage of its portfolio at risk and charges interest rates sufficient to cover its costs These represent strengths On the other hand, perhaps your MFI has high costs and the number of active clients is declining These represent weaknesses The organization s strengths form strong capacity to expand through replication while its weaknesses need to become the focus for future improvement

4 1 1 In the Market

There are four key areas to analyze how well the MFI has performed ın the market products, outreach, prıce, and competıtıon Some of the questıons to consıder ın each area are provıded below

Products	• What type of products and servıces does the MFI offer? • How many products and servıces does ıt offer? • What are the qualıtıes of those products?
Outreach	• What kınd of people does the MFI's target? • How many actıve clıents does the MFI have? • What percentage are female? • What ıs the value of loans outstandıng? • Whıch geographıcal areas and sectors does the MFI serve? • How strong ıs the demand for products and servıces?
Prıce	• What ınterest rate does the MFI charge? • Whıch method does ıt use to calculate ınterest? • What fees does the MFI charge? • Does the effectıve ınterest rate charged by the MFI cover ıts costs?
Competıtıon	• Who are the competıtors? • How strong ıs the competıtıon?

Worksheet 4 1 at the end of thıs chapter provıdes a format for you to use to analyze the current performance of your MFI ın the market

4 1 2 In Operations

There are five key areas to analyze in operations methodology, service delivery, loan characteristics, performance, and risk management Some of the questions to consider in each area are

Methodology	• What methodology does the MFI use (i e , individual lending, solidarity group, village banking)?
Service delivery	• What is the average group size? • How many loan officers are employed by the MFI? • What is the loan officer caseload? • How many branches does the MFI have? • How are products such as training, savings, loan application delivered? • Where are disbursements and repayments made?
Loan characteristics	• What is the average loan size? • What is the effective loan term? • What is the disbursement schedule and repayment frequency?
Performance	• What is the client drop-out rate?
Risk management	• What loan appraisal methods does the MFI employ (i e , character assessment, recommendation of local authorities, business plan appraisal, group screening)? • What security does the MFI require (i e , collateral, group guarantee, co-signers, blocked savings)? • What is the recovery process?

Worksheet 4 2 at the end of this chapter provides a format for you to use to analyze the current performance of your MFI in operations

4 1 3 In Financial Terms

Financial ratio analysis is a valuable tool for assessing the current financial performance of your MFI Ratios compare one particular piece of financial information to another Changes in ratios from one period to the next are extremely useful for identifying potential or existing problems, helping you identify where your organization is strong and where it is weak Once you have calculated the ratios, you need to analyze why the ratios are as they are and identify steps to take in order to improve your MFI's financial performance In summary, timely production and analysis of financial statements is crucial for understanding the health of an MFI

Financial ratio analysis addresses four primary areas that apply to every MFI profitability, recovery performance, efficiency, and portfolio quality Some of the questions to consider in each area are

Profitability	• Is the MFI covering its personnel costs, administrative costs, and loan losses? (i e , is it achieving operational self-sufficiency?) • Is the MFI covering its operating costs, cost of funds, devaluation of its own capital, and imputed interest subsidy? (i e , is it achieving financial self-sufficiency?) • Is the MFI generating net income greater than its equity investment? (i e , is it achieving sustainable return on equity?)
Recovery Performance	• Is the amount received in payment equal to the amount due and past due? (i e , is the repayment rate satisfactory?)
Portfolio Quality	• What percentage of the average value of loans outstanding are written off? (i e , what is the loan loss rate?) • What percentage of the value of loans outstanding are past due? (i e , what is the portfolio at risk?)
Efficiency	• What are operating costs relative to the value of the loans outstanding? (i e , what is the operational efficiency?) • What is the maximum loans per loan officer?(i e , what is the caseload?)

We recommend the eight ratios defined in worksheet 4 3 as the minimum required for business planning These ratios help you evaluate the financial performance and operating efficiency of the organization as well as the quality of the portfolio When analyzed together, these ratios provide a multi-dimensional perspective on the financial health of the MFI's operations and give an indication of ongoing and long-term viability Of course, inclusion of additional ratios will strengthen your analysis

4 2 Identifying Strengths and Weaknesses

Your organization's strengths are the capabilities, resources, and skills that you can draw upon to carry out strategies and implement plans Its weaknesses are any lack of skills or a deficiency in your capabilities and resources that may stop you from acting on strategies and plans or achieving your mission As you analyze the present performance, consider the organization's strengths and weaknesses When developing your strategy, capitalize on the strengths and eliminate the weaknesses

Worksheet 4 1 Analyzing Current Performance in the Market

Use this worksheet to analyze the current performance of your MFI in the market
List information about your current market in the "Current Period" column

		Current Period	Projected Periods 1	2	3
Products	• Loans • Savings - voluntary - compulsory • Other products				
Outreach	• Customer qualities – age, education, etc • % of female clients • Number of active clients • Rate of growth per annum • Areas served (urban/rural, location) • Value of loans outstanding • Sectors by % - production - service - trade • Demand – steady, increasing, decreasing				
Competition	• Number of competitors • Strength of competition - strong - average - weak				
Price	• Interest rate % • Calculation method (flat or declining) • Fees • Cost covering? (yes or No) • Lower or higher than competitors?				

Worksheet 4 2 Analyzing Current Performance in Operations

Use this worksheet to analyze the current performance of your MFI in operations
List information about your current operations in the "Current Period" column

		Current Period	Projected Periods 1	2	3
Methodology	• Lending methodology - solidarity group - village banking - individual				
Service Delivery	• Average group size • Number of loan officers • Loan officer caseload • Number of branches • Disbursement location • Repayment location				
Loan characteristics	• Average loan size • Effective loan term • Loan type - working capital - equipment • Disbursement schedule • Whole group or staggered • Repayment frequency				
Performance	• Client drop out rate				
Risk management	• Security • collateral (assets) • group guarantee • co-signers • forced savings (% of loan)				

Worksheet 4 3 Analyzing Current Performance in financial terms

Use this worksheet to analyze the current performance of your MFI in financial terms Calculate the ratios and record them in the "Current Period" column Then, when you complete your financial projections in chapter 10, record the ratios in the "Projected Periods" column

		Current Period	Projected Periods 1	2	3
Profitability					
1 Operating self-Sufficiency	$\frac{\text{Operating Income}}{\text{Operating costs(personnel costs, administrative costs, Loan losses)}}$				
2 Financial self-Sufficiency	$\frac{\text{Operating Income}}{\text{Operating Costs + Cost of funds + Devaluation of own Capital + Imputed Interest Subsidy}}$				
3 Sustainable Return on Equity	$\frac{\text{Op income–Op costs–Cost of funds–Imputed Subs}}{\text{Total assets–Total liabilities}}$				
Portfolio Quality					
4 Loan loss rate	$\frac{\text{Loans written off in period}}{\text{Average value of loans outstanding}}$				
5 Portfolio at risk	$\frac{\text{O/S balance of loans with payments past due}}{\text{Value of loans outstanding}}$				
Recovery Performance					
6 Repayment rate	$\frac{\text{Amount received in payments – prepayments}}{\text{Amount due \& Past due}}$				
Efficiency					
7 Operational efficiency	$\frac{\text{Operating costs}}{\text{Average Value of loans outstanding}}$				
8 Caseload	Loans disbursed per month * effective loan term				

Chapter 5: Assessing the Base Potential for Development

In This Chapter
- Determining base potential for development
- Appraising strengths and weaknesses and opportunities and threats

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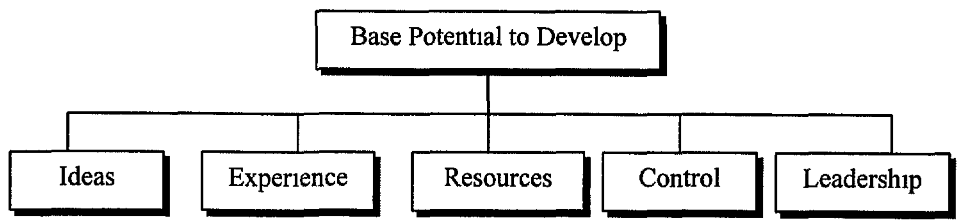
5 1 Determining Base Potential for Development

Now that you have analyzed the present situation, the next step in the business planning process is to develop a clear view of the development capabilities of the MFI, meaning its ability to grow given its current and potential capacity Many business plans skip this step and jump directly from the current assessment to developing strategies for future growth However, it is important to know what capacities your MFI possesses before developing your strategies You can't form a realistic growth plan without fully knowing your ability to achieve that growth

At this point in the business planning process you have looked at the "what" of the MFI's current position and analyzed its tangible strengths and weaknesses based on its performance in the market, in operations, and in financial terms Now you need to consider the "how" by exploring the core capacities of the MFI which have enabled it to get where it is today You can build on the assessment of the current position in the previous chapter by analyzing how an MFI can capitalize on its capacity to develop in the context of its base of ideas, experience, resources, control, leadership and external environment The second level of the MFI Business Planning Framework provides a structure to analyze potential by looking at each of these categories

MFI Business Planning Framework Level 2



The question to answer at this level is

What is the MFI's base potential to develop?

You should note that this analysis consists of many of the intangible qualities of an organization, such as idea generation and leadership capabilities Some of the questions to consider during this phase of the analysis are

Ideas	• What ability does the MFI have to create its vision, understand its environment, respond with innovative solutions and translate these into plans that can be implemented?
Experience	• How has the MFI's experience prepared it for development? •
Resources	• Does the MFI have the resources it needs for growth? • How can the MFI use these resources to develop?
Control	• How has the MFI ensured that appropriate structures and systems are in place to organize and manage its resources?
Leadership	• Does the MFI have the appropriate leadership for growth? • How can it use its leadership to develop?

The chart on the following page summarizes the concepts covered by each category of level 2 Worksheet 5 1 at the end of the chapter provides a table for you to assess the your MFI's potential in each of these categories

Base Potential for MFI Development

Ideas	Experience	Resources	Control	Leadership
• Vision and strategic awareness • new market/product under appraisal • number of ideas seriously being considered • degree of innovation of these ideas • degree of development of these ideas • degree of market planning of these ideas	• age of MFI • extent of managing different products • extent of managing change • extent of opening new locations • extent of using networks and linkages	• financial – capital base including reinvested surplus/profit and access to external financing • managerial – skills, and attitude of management • staff - skills and attitude of credit officers and support staff • technological capability • relevant linkages for obtaining financial, physical, human, technological resources • physical assets	• organizational structure, reporting lines, and delegation of authority • accountability of the management team • adequacy of planning, budgeting, accounting, and management information systems • timeliness and reliability of loan tracking system • adequacy of methods used to monitor plans and strategic objectives • appropriateness and compliance with policies for recruitment, promotion, and staff development	• legal structure - NGO, bank, or company limited by guarantee • governance – the principle rules and regulations • board leadership capabilities - skills, attitudes, and ability to motivate others to commit to the vision and mission

5 2 Appraising Strengths and Weaknesses and Opportunities and Threats

The external environment in which the MFI operates presents opportunities, such as new markets, as well as threats, such as increased competition In order to successfully manage its development, an MFI must be fully aware of its base potential and stay abreast of those changes occurring outside of the MFI which affect its operations

Changes should be planned in accordance with the internal and external environment of the MFI You must identify those areas in which your MFI is strong and those in which it is weak, as was discussed in chapter 4 An MFI's strengths provide the platform from which it can develop and its weaknesses represent areas that need to be strengthened or eliminated The MFI's challenge is to implement changes necessary to exploit its strengths and eliminate its weaknesses Chapter 4 analyzed many tangible strengths, such as good portfolio quality, and weaknesses, such high client drop-out In addition to these tangible strengths and weaknesses, you need to consider intangible strengths such as dynamic leadership and weaknesses such as lack of innovative ideas

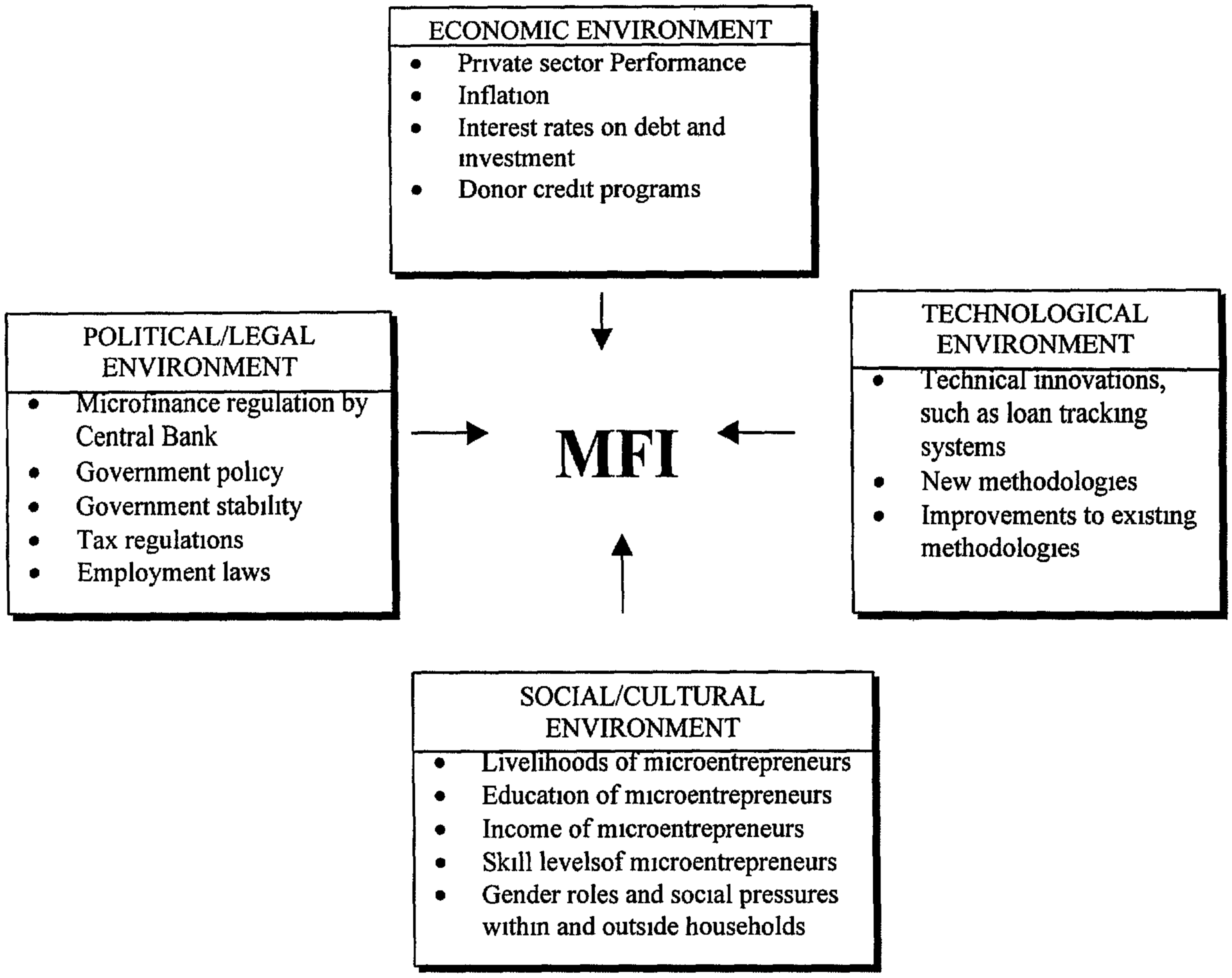
Your MFI's strengths and weaknesses can't be measured in a vacuum The environment in which the MFI operates must be considered The MFI's situation depends partly on things that are inside the organization (strengths and weaknesses) and partly on things that happen outside (opportunities and threats) Opportunities and threats come from forces, issues, trends, and events that are beyond the control of the organization They represent the challenges that the MFI has to tackle in order to be successful Your business plan should include an analysis of the external environment that points out both the biggest opportunities and the clearest threats to the MFI, so you can anticipate ways to exploit the opportunities and deal with the threats as part of the planning process

When analyzing the external environment, consider the following questions

- What external factors are affecting the organization?
- What economic, political/legal, social/cultural, and technological trends should we be aware of?
- Which of these are the most important at the present time? In the next few years?

The framework of the external environment in the box below can assist with your analysis Consider how trends in each of the categories, economic, political/legal, social/cultural, and technological will impact your MFI Analyze and explain in your business plan the varying degrees of opportunities or threats these factors represent to the MFI

Framework of the External Environment



Worksheet 5 1 Assessing the Base Potential for Development

Use this worksheet to assess your MFI's base potential to develop First, identify the MFI's strengths and weaknesses using the Base Potential for MFI Development table and list them below Then, evaluate the external environment using the Framework of the External Environment Record your analysis of external factors as opportunities and threats in the table below

Internal Factors

Ideas	Strengths Weaknesses	
Resources	Strengths Weaknesses	
Experience	Strengths Weaknesses	
Control	Strengths Weaknesses	
Leadership	Strengths Weaknesses	

External Factors

Opportunities	
Threats	

Chapter 6 Producing the Plan. Strategy

In This Chapter

- Producing the plan
- Definition of strategy
- Alternative strategies
- Developing a strategy for achieving the mission

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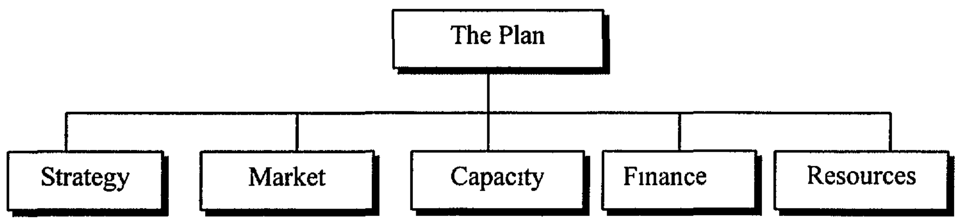
6 1 Producing the Plan

At this point in the business planning process, you have developed your mission, analyzed the MFI's present performance and its base potential for development Now you are now ready to move to the third level of the MFI Business Planning Framework producing the plan The first step in producing the plan is to formulate a strategy that is in keeping with the MFI's basic mission Once the strategy is developed, you can set targets, formulate detailed market and capacity plans, determine resource requirements, and evaluate the financial impact of your plan on the bottom-line by producing financial projections

MFI Business Planning Framework Level 3



6 2 Definition of Strategy

A strategy is the means to achieving the MFI's mission It concerns making the best choices between different alternatives Where the mission addresses the question, "where do we want to go?", the strategy addresses the question, "how will we get there?"

Strategy is about the ways and means of achieving the mission of a business, of moving it from where it is now to where it needs to be Strategy is not concerned with details of day to day management, but rather with broad intentions and the general direction in which a business is traveling For example, an organization may choose to increase profitability, quality of service etc What will constitute an appropriate strategy will vary uniquely with each MFI and will most certainly alter over time

6 3 Alternative Strategies

There are many strategies that your organization can take Four general strategy alternatives are discussed below

- **Doing nothing** This is a possibility only if everything you have learned about the business and the environment convinces you that you will continue to be successful doing exactly what you're doing now

- **Improving what the MFI does now** One example of this alternative is to focus on a few products and stable client base while growing vertically, giving bigger loans, improving service delivery Another example is reducing the number of non-performing clients or dropping a certain methodology which doesn't give results

- **Expanding the MFI** Examples of this strategic choice include taking existing services to new customers or developing new services for existing clients

- **Diversifying /innovating** Broadly, this means offering new services to new clients

Whichever option you choose, it will be appropriate if it allows you to operate more effectively or more efficiently while taking account of the environment in which the MFI operates and the resources available

Next, you need to explore risks that might be encountered while implementing your chosen strategy For example, what if

- the present management leaves?
- there is war in the districts chosen for expansion?
- donors withdraw?

6 4 Developing a Strategy

Developing a strategy involves questioning the fundamental premises on which the whole business is built – the type of clients it is trying to serve, the products and services offered, the sources of its competitive advantage, and the availability and allocation of its resources Strategy development is also about communicating the chosen strategy to employees and seeing that it is put into practice

Developing a strategy involves

1 Identifying the mission

2 Recognizing your major strengths and weaknesses, and the opportunities and threats present in the external environment

3 Devising a way to best use your resources to serve the needs of the clients in a cost effective and sustainable manner

4 Exploring potential risks that may be encountered

Worksheet 6 1 Developing Your Strategy

Use this worksheet to develop your strategy First, write your mission statement Next, identify your major strengths and weaknesses and the opportunities and threats in the external environment Then, formulate strategies that make sense based on this SWOT analysis Select the strategies that you want to implement Finally, consider events that you may encounter which would pose risks to the realization of the chosen strategy

Mission statement	
Strengths	
Weaknesses	
Opportunities	
Threats	
Strategy options	1 2 3 4
Strategy selected	▪ ▪ ▪
Risks	

Chapter 7. Producıng the Plan: Addressıng the Market

In Thıs Chapter

- Defınıtıon of a market plan
- Components of a market plan
- Developıng a market plan

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7 1 Defınıtıon of a Market Plan

The next step ın the busıness plannıng process ıs to produce a market plan based on the key product/market strengths of the MFI, ıts potentıal for growth and the broad strategy the MFI has chosen to follow The development of a realıstıc market plan necessıtates an analysıs of the projected demand, types of savıngs, loans, and other products desıred, economıc sectors to be served, and the locatıon of the clıentele

The market plan quantıfies the perıodıc targets the MFI plans to achıeve that wıll fulfill the mıssıon and strategy The organızatıon needs to target a clıent group that can be productıvely and profitably served The characterıstıcs of the target group wıll ın turn largely determıne the type of products the MFI wıll provıde

The market plan
• Identıfies the types of clıents the MFI ıs tryıng to reach • Quantıfies the number of clıents the MFI wıll try to reach • Descrıbes the key actıvıtıes the MFI wıll undertake to reach these clıents • Identıfies the way the MFI wıll delıver ıts servıces

7 2 Components of a Market Plan

The components of the market plan are

- Targeted market sıze quantıty/qualıty
- Perıodıc sales targets
- Product/servıce development schedule
- Servıce delıvery ımprovement schedule
- Advertısıng and promotıon schedule
- Prıcıng of the product
    - competıtors prıce
    - MFI's current prıce
    - proposed prıce (based on an evaluatıon of costs)

- Method of monitoring market changes

7 3 Developing a Market Plan

When developing a market plan, the two main considerations are the MFI's products and markets Products are differentiated by their principal properties such as loan sizes, range between starting and maximum loans, loan cycles, repayment terms, and guarantee mechanisms Markets can be differentiated by demographic distributions (urban/rural), sectors (manufacturing, agro-processing, service/trade), and client qualities like age, gender, experience, and education As you formulate your marketing plan, think about how you can develop your products and markets in a sustainable way An MFI can choose to become

- ***More effective***, by developing better products or developing new markets or both

- ***More efficient***, by improving its financial service processes so that they are faster, simpler, cheaper, more accurate, more reliable

- ***More effective and more efficient***, by combining both approaches

Worksheet 7 1 Developing Your Market Plan

On a separate sheet of paper, answer the questions below about your projected market Using worksheets 4 1 and 4 2, record your projections in the column labeled "Projection Periods "

Key Considerations in Developing a Market Plan

1) Products/methods
   - What products will the MFI offer?
   - Do these products address client needs?
   - What will be the interest rate and fee structure?
   - What will be the average loan size?
   - What kind of security will be required?

2) Outreach
   - What specific customers does the MFI plan to target?
     - What are their characteristics?
     - What are their needs?
   - How will the MFI track customer needs and satisfaction?
   - What will the number of active clients be?
   - How will the number of clients grow over time?
   - What percentage of your clientele will be female? How will they be recruited?
   - If the market covers a broad geographic area, how many branches will be opened? When and how will the MFI open/acquire these branches? Where will the branches be opened? Is there a sufficient pool of potential clientele to meet targets?

3) Service Delivery
   - How are the services to be delivered?
   - What is the projected caseload per loan officer?
   - How many loan officers are planned for?
   - What is the plan to provide incentives to customers to repay?

4) Selling and promotion
   - How will potential customers know of the product? (e g , leaflets, posters, workshops, village meetings, referrals, cards, conferences, competitions, radio)
   - What is the MFI's unique selling point? What will make clients come to you and not to others?

Chapter 8: Producing the Plan Developing the Capacity

In This Chapter
- Definition of capacity development
- Definition of a capacity plan
- Developing the capacity plan

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8 1 Definition of Capacity Development

Capacity development for an MFI refers to the processes of building an institution's ability to manage its financial services activities In order to develop a realistic plan, you must analyze the resources available to the MFI, such as the amounts of lending and operating funds, the number of experienced credit officers, the existence of a skilled and knowledgeable management team, the board members with relevant background, and training programs for new staff Limited capacity presents a major bottleneck to expansion Expansion requires changes in organizational structures, redefinition of functions, additional manpower, and strengthening of management information systems You can't plan to grow your market without ensuring that your capacity is adequate to meet that growth

As a practical matter, the ability to attract new clients is usually less of a constraint than the MFI's capacity to attend to growth If the institution is overstretched, then its clients will not be satisfied, nor will its staff have the time to generate new contacts Thus, the projection of loan volume is driven more by the MFI's operational limitations than by the level of client demand

The four generic dimensions of a business operation which determine the capacity of an organization to implement its strategy are

- ***organizational set-up*** the structure, the institution type, the governance, job roles and responsibilities/authority, reporting lines, beliefs, values, style , and norms

- ***people*** skills, development potential, motivation, work ethic, management style, and ability to generate commitment to the mission

- ***systems and processes*** systems ensure that the structure operates smoothly, processes are the what and how of delivering services, for example, policies and procedures manuals, loan tracking and accounting systems

- ***linkages with other organizations*** external technical assistance, information, financial resources, and useful networks

8 2 Definition of a Capacity Plan

A capacity development plan

- Identifies capabilities needed by the MFI to implement its strategy

- Identifies the gap between existing capabilities and needed capabilities

- States the most appropriate and feasible ways of attaining the needed capabilities

- Specifies/ Articulates
    - Ways of sustaining existing capabilities
    - Sources of required capacity
    - Plan to manage, assimilate and sustain acquired capacity
    - Nature of relationship with source of external capacity
    - Is a mechanism for transfer and retention of skills sourced from outsiders

8 3 Developing a Capacity Plan

Planning for capacity in advance reduces the stress of institutional change that accompanies growth It is better to plan ahead for what the institution will need to manage its financial activities, than to suddenly find out that the institution lacks the ability to oversee and carry on along its intended growth path Operating on excess capacity is inefficient However, operating on inadequate capacity could lead to serious problems like massive loan losses and loss of credibility in the market

One approach to developing a capacity plan includes the following steps

Step 1

Based on the weaknesses identified in chapters 4 and 5, identify immediate needs Prioritize those that will affect the growth plan

Step 2

Based on the market plan developed in chapter 7, and the analysis of the current capacity, identify future capacity needs

Step 3

Determine the actions the MFI should take to fill current gaps and to create and sustain the capacity required for the planned growth Develop a new organizational structure including positions that will need to be filled in future (during the term of the plan)

Worksheet 8 1 Developıng Your Capacıty Plan – Systems Plan
Usıng thıs worksheet, develop a systems plan to strengthen exıstıng systems, polıcıes, and procedures

Systems	*Actıon Planned*	*Date of Actıon*	*By whom (management posıtıon responsıble)*	*Cost ımplıcatıons (ıf any)*
Loan trackıng systems				
Accountıng systems				
Management ınformatıon systems				
Polıcıes and Procedures manuals				

Worksheet 8 2 Developing Your Capacity Plan – Fixed Assets Plan

Using this worksheet, develop a schedule of fixed asset acquisitions and dispositions

Fixed Asset	*Date of Acquisition*	*Date of Disposition*	*By whom (management position responsible)*	*Cost implications*

Worksheet 8 3 Developing Your Capacity Plan – Staffing Plan

Using this worksheet, develop a staffing plan that indicates the number of people that will be employed by the MFI during the business planning horizon List each position in the MFI separately under the appropriate heading, management, administrative/support staff, or loan officers Although this worksheet is on an annual basis, the staffing plan should be done in monthly increments for at least the first year

Position	Yr 1	Yr 2	Yr 3
	No of Staff	No of Staff	No of Staff
Management staff			
Administrative/ Support staff			
Loan officers			

Worksheet 8 4 Developing Your Capacity Plan – Compensation Plan

Using this worksheet, prepare a staff compensation plan The compensation plan details salaries, bonuses, performance increases, and annual increases The head office and each branch should have separate compensation plans Although this worksheet is on an annual basis, the compensation plan should be done in monthly increments for at least the first year

	Salary per position		
	Year 1	**Year 2**	**Year 3**
Position			
Annual inflation adjustment (%)			
Bonuses			
Performance increases			
Total Compensation (Multiply # of employees per position as detailed on the staffing plan by the compensation per position)			

Worksheet 8 5 Developing Your Capacity Plan – Training Plan

Using this worksheet, develop a plan specifying in-house training, external training, and technical assistance over the business planning horizon

Sources	Key skills	Staff position	No of staff	Date of Training	Cost implications (if any)
In-house					
External					
Technical Assistance Or short-term skills					

Chapter 9: Producing the Financial Plan

In This Chapter

- Overview of the financial plan
- Manual vs computer projection programs
- Calculating the financial projections
- Financial projections and sustainability
- Sensitivity analysis
- Resource requirements

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9 1 Overview of the Financial Plan

The financial section of your business plan formulates a credible, comprehensive set of projections that reflect the strategic decisions made during the business planning process While the rest of the plan communicates a basic understanding of the nature of the MFI, the financial section ties your plan together by projecting the results in terms of money Financial projections typically cover a three to five year period with the first year's projections done on a monthly basis and subsequent years quarterly or annually The financial plan includes

- Historical financial statements
- Assumptions
- Loan portfolio projections
- Profit and loss projections
- Balance sheet projections
- Cash flow projections
- Performance indicators

During the financial planning stage, management must determine what is realistic for the organization to undertake without undue risk to the portfolio or to the development of the MFI The market plan, which incorporates your demand projections, and the capacity plan, which details your resource requirements, form the basis of your financial plan

Purpose of Financial Projections

- Quantify the implications of decisions made during the business planning process
- Determine if the proposed business plan is financially viable
- Identify areas of the plan that need to be changed if the plan is not financially viable
- Form a basis from which financial performance can be measured
- Help managers understand the factors that influence viability

9.2 Manual vs Computerized Financial Projection Programs

Financial projections can be done either manually or with the aid of computer programs A computer model simplifies the projections, allowing users to concentrate on the key decisions that affect financial performance, rather than the calculations needed to make the projections In addition, a computer model allows you to easily change variables in order to explore the potential impact of various decisions about your MFI operations You can examine significant variables such as interest rate and fee structure, average loan size, average loan term, and projected repayment rate, to see the effect that each has on portfolio performance If your organization has the requisite computer capabilities*, it is highly recommended that you use the BASE/CMF model, a financial projections tool designed specifically for MFIs through a collaboration between the CMF and British Aid to Small Enterprise (BASE) The BASE/CMF model is a Microsoft Excel™ spreadsheet application that produces outputs based on the assumptions and plans of the user You can request a copy of the model and a guide on using the model from the CMF The approach used in the BASE/CMF guide differs from the approach taken in this guide To accommodate those MFIs without access to computer modeling, the remainder of this chapter outlines one step-by-step approach to producing financial projections manually

9 3 Calculating Financial Projections

The approach to financial projecting in this guide centers on the branch office as the fundamental building block of MFI activity First, financial projections are done for the branch offices Then the branch offices are consolidated with the head office for total MFI projections

9 3 1 Financial background and assumptions

The financial plan should begin with the presentation of the MFI's historical performance for the three prior years and as much of the current year as is practical

The set of assumptions on which the projections are based must be stated clearly and concisely It must be evident to an outside reviewer where the numbers in the plan are derived Since the financial plan is an outgrowth of assumptions, the validity of your plan is directly related to the assumptions

* computer requirements for the BASE/CMF model 90 MHz pentium processor, 32 MB RAM, Microsoft Office 97, and Windows 95

The following assumptions and information must be clearly defined at the branch level

I Individual Branch	Assumptions/Information
• Loan Portfolio	• Number of loans disbursed • Drop-out and recruitment rates • Frequency of loan installment payments • Loan officer caseload • Repayment rate
• Income	• Average loan size and term • Interest rates charged • Fees charged • Loan loss rate
• Budget	• Number of branch support staff and loan officers • Salaries for branch support staff and loan officers • Administrative expenses

The following assumptions and information must be clearly defined at the MFI level

II MFI	Assumptions/Information
• Consolidated loan portfolio	• Aggregate of branch level portfolios • Rate of growth of new branches
• Head office budget	• Number of head office staff • Head office salaries • Head office administrative expenses • Fixed assets acquisition • Inflation rate
• Income statement	• Cost of borrowing • Interest rate on investments
• Balance sheet	• Sources and amount of funding

Table 9 1 on the following page shows the assumptions for the MFI projections in our example

Table 9 1

The sample MFI has one loan product, and no savings   The financial projections are done at the branch level

Assumptions for Sample MFI Financial Projections	
Average loan size	• Cycle 1 125,000 • Cycle 2 250,000 • Cycle 3 400,000
Interest rate and method of calculation	3% per month, declining
Fee structure	2% per loan
Loan term	4 months
Frequency of loan installment payments	Monthly
Underlying repayment rate	98%
Percentage of repeat loans per cycle	90% of first-time borrowers take second loans, 90% of borrowers in the second loan cycle take a third loan, 90% of borrowers in the third loan cycle take a fourth loan
Arrears distribution	50% of arrears are repaid in month2 50% of arrears are not recovered
Loan loss rate	1%
Loan officer caseload	400
Disbursement lag	1 month
Inflation	8%
Cost of borrowing	20%
Number of groups/loans added per month	Fluctuates according to projected demand

9 3 2 Loan Portfolio Projections

The projected portfolio is the backbone of the business plan, determining both the level of costs and income The first stage of the loan portfolio projections focuses on the development of the loan portfolio at the individual branch level, projecting disbursements and repayments for each loan cycle Grouping by loan cycle allows you to adjust for the rates of increase in average loan size over time If the branch has more than one loan product, then each product should be projected separately The branch portfolio projections are then consolidated at the MFI level

The key variables in projecting the branch loan portfolio size are shown below See Table 9 2 for an example of portfolio projections

Portfolio Projections	
Number of loans	Estimate the number of new loans that will be given for the first cycle based on expected growth Estimate the number of loans in subsequent cycles based on the drop-out and recruitment rates Remember to account for seasonal fluctuations when projecting demand Assume that new loans will be disbursed in the month following final repayment This allows several weeks between cycles for MFI staff to process the paperwork
Average loan size	Estimate the average loan size for each cycle based on prior experience and methodology
Disbursements	For each month, multiply the number of borrowers in each loan cycle by the average loan size for each cycle, then add to the results Assume that new loans will be disbursed in the month following final repayment This allows several weeks between cycles for MFI staff to process the paperwork
Scheduled repayments	For each cycle, divide the amount disbursed by the loan term during the period the loan is outstanding to get the expected monthly repayment For each month, calculate the repayment that will be due for each cycle, then add the results For example, in month 3 the branch will recover ¼ of the disbursement for Month 1 plus ¼ of the disbursement for Month 2 Project numbers conservatively For example, with monthly repayments assume that loan repayment begins in the month following disbursement Expected late payments should be taken into account in the cash flows Projected loan losses are provided for in the income statement under the loan loss provision, therefore the losses do not need to be removed from the portfolio projections
Arrears	Estimate the percentage of repayments that will be in arrears each month and subtract that amount from the scheduled repayment Add arrears to the scheduled repayments in subsequent months as arrears are expected to be paid
Value of Loan Portfolio	Add the prior month's current portfolio and the current month's disbursement, then subtract the current month's repayments
Number of active clients	Add the prior month's active clients and the current month's number of loans disbursed, then subtract the number of clients who paid off their loans during the current month

Table 9 2 Branch Portfolio Projections

	Cycle	Prior Month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Number of loans disbursed	1	120	126	138	145	160	160	148	167	189	200	225	267	267
	2						108	113	124	131	144	144	133	150
	3										97	102	111	118
	4													
	5													
Total number of loans disbursed		120	126	138	145	160	268	261	291	320	441	471	511	535
Average loan size	1	125 000	125 000	125 000	125 000	125 000	125 000	125 000	125 000	125 000	125 000	125 000	125 000	125 000
	2						250 000	250 000	250 000	250 000	250 000	250 000	250 000	250 000
	3										400 000	400 000	400 000	400 000
	4													
	5													
Disbursements	1	15 000 000	15 750 000	17 250 000	18 125 000	20 000 000	20 000 000	18 500 000	20 875 000	23 625 000	25 000 000	28 125 000	33 375 000	33 375 000
	2						27 000 000	28 250 000	31 000 000	32 750 000	36 000 000	36 000 000	33 250 000	37 500 000
	3										38 800 000	40 800 000	44 400 000	47 200 000
	4													
	5													
Total Disbursements		15 000 000	15 750 000	17 250 000	18 125 000	20 000 000	47 000 000	46 750 000	51 875 000	56 375 000	99 800 000	104 925 000	111 025 000	118 075 000
Scheduled Repayments	1		3 750 000	7 687 500	12 000 000	16 531 250	17 781 250	18 843 750	19 156 250	19 843 750	20 750 000	22 000 000	24 406 250	27 531 250
	2							6 750 000	13 812 500	21 562 500	29 750 000	32 000 000	33 937 500	34 500 000
	3											9 700 000	19 900 000	31 000 000
	4													
	5													
Total Scheduled Repayments			3 750 000	7 687 500	12 000 000	16 531 250	17 781 250	25 593 750	32 968 750	41 406 250	50 500 000	63 700 000	78 243 750	93 031 250
Less Arrears	1		75 000	153 750	240 000	330 625	355 625	376 875	383 125	396 875	-415 000	-440 000	-488 125	550 625
	2							135 000	276 250	-431 250	595 000	640 000	678 750	690 000
	3											194 000	398 000	620 000
	4													
	5													
Plus Arrears payments	1			37 500	76 875	120 000	165 313	177 813	188 438	191 563	198 438	207 500	220 000	244 063
	2								67 500	138 125	215 625	297 500	320 000	339 375
	3												97 000	199 000
	4													
	5													
Total Arrears			75 000	116 250	163 125	210 625	190 313	334 063	-403 438	-498 438	595 938	769 000	927 875	1 078 188
Actual Repayments	1		3 675 000	7 571 250	11 836 875	16 320 625	17 590 938	18 644 688	18 961 563	19 638 438	20 533 438	21 767 500	24 138 125	27 224 688
	2							6 615 000	13 603 750	21 269 375	29 370 625	31 657 500	33 578 750	34 149 375
	3											9 506 000	19 599 000	30 579 000
	4													
	5													
Total Actual Repayments			3 675 000	7 571 250	11 836 875	16 320 625	17 590 938	25 259 688	32 565 313	40 907 813	49 904 063	62 931 000	77 315 875	91 953 063

Table 9 2 Branch Portfolio Projections (continued)

	Cycle	Prior Month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Value of Loan Portfolio	1	15 000 000	27 075 000	36 753 750	43 041 875	46 721 250	49 130 313	48 985 625	50 899 063	54 885 625	59 352 188	65 709 688	74 946 563	81 096 875
	2						27 000 000	48 635 000	66 031 250	77 511 875	84 141 250	88 483 750	88 155 000	91 505 625
	3										38 800 000	70 094 000	94 895 000	111 516 000
	4													
	5													
Total value of loan portfolio		15 000 000	27 075 000	36 753 750	43 041 875	46 721 250	76 130 313	97 620 625	116 930 313	132 397 500	182 293 438	224 287 438	257 996 563	284 118 500
Number of Active Loans		120	246	384	529	689	849	997	1 164	1 353	1 553	1 778	2 045	2 312

9 3 4 Income projections

Once the loan portfolio projections are complete, you can determine the income earned on the portfolio The key variables in projecting income are shown below See Table 9 3 for an example of income projections

Income Projections	
Interest on loans	<u>Declining balance loans</u> Multiply the monthly interest rate by the average month-end portfolio (current month plus prior months divided by 2) The average is used to reflect the fact that the current portfolio figure is a month-end figure, yet the income is generated by an average portfolio <u>Flat interest loans</u> Interest payments are based on the amount disbursed rather than the amount outstanding However, monthly interest payments will depend upon the methodology used If interest is paid in equal monthly installments, multiply the disbursement amount by the monthly interest rate and enter this amount in the income projections for each month in which a payment is due Interest income needs to be adjusted for expected late payments, unless this is projected to be insignificant
Fees and commissions	Record as income when received Typically, this is when the loan is disbursed
Other income	Record income generated from non credit activities, such as interest earned on investments

Once you have calculated the portfolio and income projections, aggregate all of the branch projections and add other income earned at the head office level to determine the portfolio size and income at the MFI level

Table 9 3 Branch Income Projections

	Cycle	Prior Month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Interest	1	450 000	631 125	957 431	1 196 934	1 346 447	1 437 773	1 471 739	1 498 270	1 586 770	1 713 567	1 875 928	2 109 844	2 340 652
	2						810 000	1 459 050	1 980 938	2 325 356	2 524 238	2 654 513	2 644 650	2 745 169
	3										1 164 000	2 102 820	2 846 850	3 345 480
	4													
	5													
Total Interest Income		450 000	631 125	957 431	1 196 934	1 346 447	2 247 773	2 930 789	3 479 208	3 912 127	5 401 805	6 633 261	7 601 344	8 431 300
Fees and commissions	1	300 000	315 000	345 000	362 500	400 000	400 000	370 000	417 500	472 500	500 000	562 500	667 500	667 500
	2						540 000	565 000	620 000	655 000	720 000	720 000	665 000	750 000
	3										776 000	816 000	888 000	944 000
	4													
	5													
Total fees and commissions		300 000	315 000	345 000	362 500	400 000	940 000	935 000	1 037 500	1 127 500	1 996 000	2 098 500	2 220 500	2 361 500
Other income		0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Income		750 000	946 125	1 302 431	1 559 434	1 746 447	3 187 773	3 865 789	4 516 708	5 039 627	7 397 805	8 731 761	9 821 844	10 792 800

9 3 5 Expenditure projections

The next step is to determine the expenses that will be incurred in order to service all the loans included in the portfolio projections At this point all of the expenses that will be incurred to meet the objectives laid out in the market plan are quantified Specific schedules should be developed detailing the operating expenses at the branch office level and head office level The zero-based budgeting (ZBB) approach, which is based on the belief that management should justify existing activities in exactly the same way as new activities, is recommended With ZBB, established activities must be compared with alternative applications of the resources that they would use during the financial planning period ZBB takes away the implicit right of existing activities to receive a continued allocation of resources unless it can be shown that this is the best use of these resources ZBB is an important approach for MFIs because it makes sure that increases in operational efficiency lead to higher levels of financial self-sufficiency

However, ZBB is really only practical for the first year of the projections For subsequent years you should change the expenditure projections taking into consideration the following factors the estimated inflation rate, any activities to be added in future years and any activities to be deleted in future years

The key variables in projecting expenditures are shown below See Table 9 4 for an example of expenditure projections

Expenditure Projections		
Cost Level	**Type of Cost**	**Description**
Head office and branch	Staff compensation	Estimate costs for specific positions, salary requirements, the number of staff in the position, and time of hiring These estimates can be found in the staffing and compensation plan sections of your capacity development plan in chapter 8
Head office and branch	Administration	Estimate fixed costs, such as rent, and utilities, and variable costs, that are directly linked to each loan, such as loan forms Variable costs typically only occur at the branch level since loans are not usually made by the head office
Head office and branch	Transportation	Estimate the costs of transportation
Head office and branch	Training and technical assistance	Estimate the costs for training and technical assistance These estimates can be found in the training plan of your capacity development plan in chapter 8
Head office	Loan loss provision	Estimate the value of the loans that are expected to be non-recoverable The loan loss provision can be calculated as a percentage of the loan portfolio or of disbursements
Head office	Financial costs	Estimate the interest on debt, which is the total cost the MFI will pay for all the funds borrowed from commercial or concessionary sources for the loan fund, and interest on clients' savings, which is money paid to clients by the MFI as a result of holding their savings

Table 9 4 Branch Expenditure Projections

		Prior Month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Financial Costs														
Interest on debt		0	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Interest on clients' savings		0	0	0	0	0	0	0	0	0	0	0	0	0
Total Financial Costs		0	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Loan loss provision	1%	0	37 500	76 875	120 000	165 313	177 813	255 938	329 688	414 063	505 000	637 000	782 438	930 313
Staff Compensation														
Branch Manager	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000
Credit Officers	250 000	250 000	250 000	250 000	500 000	500 000	750 000	750 000	750 000	1 000 000	1 000 000	1 250 000	1 500 000	1 500 000
Administrative assistants	200 000	0	0	0	0	0	0	0	300 000	300 000	300 000	300 000	300 000	300 000
Security, housekeeping	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000
Employee benefits	5%	40 000	40 000	40 000	52 500	52 500	65 000	65 000	80 000	92 500	92 500	105 000	117 500	117 500
Staff training		25 000	35 000	50 000	45 000	45 000	30 000	30 000	50 000	25 000	25 000	20 000	20 000	20 000
Total Staff Compensation		865 000	875 000	890 000	1 147 500	1 147 500	1 395 000	1 395 000	1 730 000	1 967 500	1 967 500	2 225 000	2 487 500	2 487 500
Other Operating Expenses														
Administrative expenses														
Office rent		60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000
Telephone and faxes		50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000
Courier and postage		20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
Travel		35 000	30 000	25 000	50 000	35 000	35 000	45 000	45 000	50 000	50 000	30 000	30 000	30 000
Depreciation		15 000	25 000	40 000	50 000	50 000	50 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000
Motor vehicle running expense		65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000
Total other operating expenses		245 000	250 000	260 000	295 000	280 000	280 000	305 000	305 000	310 000	310 000	290 000	290 000	290 000
Total Expenses	0	1 110 000	1 187 500	1 251 875	1 587 500	1 617 813	1 877 813	1 980 938	2 389 688	2 716 563	2 807 500	3 177 000	3 584 938	3 732 813

9 3 6 Profit and Loss Statement Projections

Information from the portfolio, income, and expenditure projections provide much of the data needed for the projected Profit and Loss Statement A Profit and Loss Statement summarizes all income earned and expenses incurred during a specified accounting period and shows the net profit/surplus or net loss/deficit earned over that period * Profit and loss projections can be done at the branch level and at the head office level Projections start with the Profit and Loss (P&L) Statement because it is the basis for the Cash Flow, and provides information that is transferred at year-end to the Balance Sheet

The key variables for projecting the Profit and Loss Statement are shown below See Table 9 5 for an example of monthly profit and loss projections

Profit and Loss Projections	
Income	Transfer the interest income, fees and all other income related to credit activities for the projected period from the portfolio income projections Also, include any other income, such as interest on investments
Financial costs	Transfer financial costs from the expenditure projections
Gross financial margin	Subtract the total financing costs from total income
Loan loss provision	Transfer the loan loss provision from the expenditure projections
Net financial margin	Subtract the loan loss provision from the gross financial margin
Operating costs	List the operating costs from the expenditure projections
Net profit (loss) or surplus (deficit)from operations	Subtract the operating costs from the net operating margin
Grant revenue	Estimate the anticipated grants in the projected period
Excess/deficit of revenue over expenses	Add grant revenue to the net profit (loss) from operations

* The term Profit and Loss Statement (P&L) is used for shareholding companies whereas Income and Expenditure Statement (I&E) is used for non-profits

Table 9 5 Branch Profit and Loss Projections

		Prior Month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Income														
	Interest	225 000	631 125	957 431	1 196 934	1 346 447	1 437 773	1 471 739	1 498 270	1 586 770	1 713 567	1 875 928	2 109 844	2 340 652
	Fees and commissions	300 000	315 000	345 000	362 500	400 000	940 000	935 000	1 037 500	1 127 500	1 996 000	2 098 500	2 220 500	2 361 500
	Other income	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Income		525 000	946 125	1 302 431	1 559 434	1 746 447	2 377 773	2 406 739	2 535 770	2 714 270	3 709 567	3 974 428	4 330 344	4 702 152
Financial Costs														
	Interest on debt	0	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
	Interest on clients savings	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Financial Costs	0	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Loan loss provision		0	37 500	76 875	120 000	165 313	177 813	255 938	329 688	414 063	505 000	637 000	782 438	930 313
Net Financial Margin		525 000	883 625	1 200 556	1 414 434	1 556 134	2 174 961	2 125 802	2 181 083	2 275 208	3 179 567	3 312 428	3 522 906	3 746 839
Operating Expenses														
	Total Staff Compensation	865 000	875 000	890 000	1 147 500	1 147 500	1 395 000	1 395 000	1 730 000	1 967 500	1 967 500	2 225 000	2 487 500	2 487 500
	Administrative expenses													
	Office rent	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000	60 000
	Travel	35 000	30 000	25 000	50 000	35 000	35 000	45 000	45 000	50 000	50 000	30 000	30 000	30 000
	Telephone and faxes	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000
	Courier and postage	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
	Depreciation	15 000	25 000	40 000	50 000	50 000	50 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000
	Motor vehicle running expense	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000
	Total Operating Expenses	1 110 000	1 125 000	1 150 000	1 442 500	1 427 500	1 675 000	1 700 000	2 035 000	2 277 500	2 277 500	2 515 000	2 777 500	2 777 500
NET INCOME FROM OPERATIONS		585 000	241 375	50 556	28 066	128 634	499 961	425 802	146 083	-2 292	902 067	797 428	745 406	969 339
GRANT REVENUE		1 000 000	500 000	100 000	150 000	100 000	0	0	200 000	750 000	0	0	0	0
EXCESS OF REVENUE OVER EXPENSES		415 000	258 625	150 556	121 934	228 634	499 961	425 802	346 083	747 708	902 067	797 428	745 406	969 339

9 3 7 Cash Flow Projections

While a thorough knowledge of your organization's profitability is vital, it is even more important to know the state of the cash flow, in other words, where your money is coming from, and where it is going The cash flow forecast is a tool that helps you monitor your cash position It indicates the future financial resource requirements and enables managers to forecast how much funding is required to support the MFI's planned operations and when the funding will be needed Moreover, it clarifies the implications of any funding shortfalls It is important to forecast cash needs accurately to decrease the amount of idle funds yet have enough cash available for operations

When producing cash flow projections, use the P&L as a starting point (total operating income less total costs) and then makes adjustments for non-cash costs (depreciation and loan loss provision) and balance sheet changes (loan disbursements and repayments, savings, investment in fixed assets, short-term investments and debt) The balance sheet changes can be derived from the portfolio projections, which project loan disbursements and repayments, and the capacity development plan, which details investment in fixed assets

Only actual cash items are included in the cash flow forecast Examples of cash inflows are loan repayments, savings collected, interest and fees paid by clients, and interest paid by banks on deposits Examples of cash outflows are loan disbursements, client savings withdrawals, and repayments on bank debt

When projecting the cash flows of your organization, begin with the cash flows over which you have limited control, such as liabilities For example, scheduled repayments on bank debt are not negotiable Once you have considered all of the required cash flows, then you can estimate the amount of cash available for more "flexible" purposes, such as investing in fixed assets or short-term investments

The procedure for producing monthly cash flow projections is shown below See table 9 6 for an example of cash flow projections

Cash Flow Projections	
Net profit (loss) or surplus (deficit) from operations before grant revenue	Transfer this figure from the projected profit and loss statement for the same month If the figure is positive, add the profit/surplus to the opening cash balance If the figure is negative, subtract the loss/deficit from the cash balance
Non-cash items	Deduct non-cash items (depreciation, loan loss provision etc) on the projected Profit and Loss Statement from the excess/deficit of revenue over expenses
Loan disbursements	Subtract anticipated client loan disbursements
Loan repayments	Add client loan repayments
Investment in fixed assets	Add decreases in investment in fixed assets and subtract increases in investments in fixed assets according to the capacity development plan For example, the purchase of a fixed asset is an increase in investments in fixed assets The purchase is a cash outflow, so you subtract the amount of the purchase from the cash balance Likewise, the sale of a fixed asset is a decrease in investment in fixed assets The sale is a cash inflow, so you add the amount of cash received from the sale to the cash balance
Short-term investments	Add decreases in short term investments Subtract increases in short-term investments For example, purchasing treasury bills is an increase in short-term investments The purchase is a cash outflow, so you subtract the amount of treasury bills purchased from the cash balance Likewise, the sale of treasury bills is a decrease in short-term investments The sale is a cash inflow, so you add the amount of cash received from the sale to the cash balance
Liabilities	Add increases in liabilities Subtract decreases in liabilities For example, receiving a bank loan is an increase in liabilities The loan is a cash inflow, so you add the amount of the loan to the cash balance Likewise, repaying a bank loan is considered a decrease in liabilities, so you subtract the amount of the repayment from the cash balance
Grants	Add anticipated grant funding
Net cash deficit/surplus	The above calculations result in a net cash deficit or surplus for the period
Opening cash balance	Transfer the opening cash balance from the prior month
Closing cash balance	The above calculations result in the closing cash balance for the period

Table 9 6 Branch Cash Flow Projections

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Net Income	258 625	150 556	121 934	228 634	499 961	425 802	346 083	747 708	902 067	797 428	745 406	969 339
Depreciation	25 000	40 000	50 000	50 000	50 000	65 000	65 000	65 000	65 000	65 000	65 000	65 000
Loan loss provision	37 500	76 875	120 000	165 313	177 813	255 938	329 688	414 063	505 000	637 000	782 438	930 313
Cash flow after adjustment for non cash items	321 125	267 431	291 934	443 947	727 773	746 739	740 770	1 226 770	1 472 067	1 499 428	1 592 844	1 964 652
Cash flow from operations												
Loan disubursements	15 750 000	17 250 000	18 125 000	20 000 000	-47 000 000	-46 750 000	51 875 000	56 375 000	99 800 000	104 925 000	111 025 000	118 075 000
Loans repayments	3 675 000	7 571 250	11 836 875	16 320 625	17 590 938	25 259 688	32 565 313	40 907 813	49 904 063	62 931 000	77 315 875	91 953 063
Net cash flow from operations	12 075 000	9 678 750	6 288 125	3 679 375	29 409 063	21 490 313	19 309 688	15 467 188	-49 895 938	-41 994 000	33 709 125	26 121 938
Cash flow from investment												
Investment in fixed assets	250 000	250 000	500 000	0	0	500 000	500 000	0	0	0	0	0
(Increase) decrease in short term investment	1 150 000	1 050 000	950 000	150 000	500 000	1 100 000	400 000	300 000	-200 000	600 000	200 000	500 000
(Increase) decrease in long term investment	0	0	0	0	0	0	0	0	0	0	0	0
Net cash flow from investment	900 000	1 300 000	450 000	150 000	500 000	1 600 000	900 000	300 000	200 000	600 000	200 000	500 000
Cash flow from debt finance												
Increase (decrease) in short term debt	0	0	0	0	0	0	0	0	0	0	0	0
Increase (decrease) in long term debt	0	0	0	0	0	0	0	0	0	0	0	0
Net cash flow from debt finance	0	0	0	0	0	0	0	0	0	0	0	0
Grant Funding	10 750 000	10 755 000	5 650 000	3 200 000	28 200 000	22 200 000	17 600 000	14 470 000	48 680 000	39 900 000	32 300 000	24 200 000
Net cash deficit/surplus	103 875	43 681	103 809	114 572	18 711	143 573	68 917	70 417	56 130	5 428	383 719	457 286
Opening cash balance	125 000	21 125	64 806	168 616	283 188	301 898	158 325	89 408	18 991	75 120	80 548	464 267
Closing cash balance	21 125	64 806	168 616	283 188	301 898	158 325	89 408	18 991	75 120	80 548	464 267	6 981

9 3 8 Balance Sheet Projections

The balance sheet provides a "snapshot" of the MFI's assets, liabilities, and equity at a particular point in time Most of these accounts have already been developed in the other financial projections Information from the portfolio projections, profit and loss projections, and cash flow projections are used to project balance sheet figures When producing balance sheet projections, begin with the balance sheet from the prior month and add or subtract changes that occurred in each account during the period

The procedure for producing balance sheet projections is shown below There are a couple of acceptable balance sheet formats that are commonly used in Uganda An example of one balance sheet format is shown in Table 9 7 An alternative format is displayed in Table 9 8 Regardless of the format, the method of producing the projections and the figures are the same in both examples For further explanation of balance sheet terms, refer to the CMF's Accounting Guidelines

Balance Sheet Projections	
Cash	Transfer the closing cash balance in the projected cash flow statement for the period The projected cash balance is not estimated but rather it is the by-product of all other projections as outlined in the cash flow projection
Loan portfolio	Transfer the value from the loan portfolio projections
Loan loss reserve	Add the loan loss provision for the period (from the profit and loss statement) to the opening loan loss reserve balance for the period Account for any write-offs made during the period
Fixed assets	Add purchases of fixed assets in the period to the fixed assets opening balance and subtract any sales of the fixed assets The increase/decrease in fixed assets is found on the cash flow projections
Accumulated depreciation	Add the depreciation expense for the period (found on the profit and loss projections) to the accumulated depreciation opening balance Subtract accumulated depreciation of the fixed assets that were sold during the period (found in the capacity development plan)
Investments	Add planned new investments in the projected period to the investments opening and subtract any investments that will be liquidated
Liabilities	Add any new liabilities in the period to the liabilities opening balance and subtract the amount of liability paid off in the projected period Grant revenue for operating costs is treated for as a different liability
Equity	Equity reflects contributed capital and retained earnings Transfer the profit or loss at the end of the accounting period from the P&L to the retained earnings accounts of the Balance Sheet Add any grant revenue for loan capital or fixed asset acquisition Consider each component of capital individually and study the movements in each in conjunction with the projected profit and loss statement and the cash flow projection

Table 9 7 Branch Balance Sheet (Format 1)

	Prior Month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Current Assets													
Cash and bank balances	125 000	21 125	64 806	168 616	283 188	301 898	158 325	89 408	18 991	75 120	80 548	464 267	6 981
Short term deposits	1 800 000	650 000	1 700 000	750 000	600 000	100 000	1 200 000	800 000	1 100 000	1 300 000	700 000	500 000	1 000 000
Net loan portfolio	15 000 000	27 037 500	36 639 375	42 807 500	46 321 563	75 552 813	96 787 188	115 767 188	130 820 313	180 211 250	221 568 250	254 494 938	279 686 563
Total current assets	**16 925 000**	**27 708 625**	**38 404 181**	**43 726 116**	**47 204 750**	**75 954 711**	**98 145 513**	**116 656 595**	**131 939 303**	**181 586 370**	**222 348 798**	**255 459 205**	**280 693 544**
Long Term Assets													
Fixed Assets	500 000	750 000	1 000 000	1 500 000	1 500 000	1 500 000	2 000 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000
Less accumulated depreciation	15 000	40 000	80 000	130 000	180 000	230 000	295 000	360 000	-425 000	-490 000	555 000	620 000	685 000
Net Fixed Assets	485 000	710 000	920 000	1 370 000	1 320 000	1 270 000	1 705 000	1 140 000	1 075 000	1 010 000	945 000	880 000	815 000
Long term investments	0	0	0	0	0	0	0	0	0	0	0	0	0
Total long term assets	**485 000**	**710 000**	**920 000**	**1 370 000**	**1 320 000**	**1,270 000**	**1,705 000**	**1 140 000**	**1 075 000**	**1 010 000**	**945 000**	**880 000**	**815 000**
Total Assets	**17 410 000**	**28 418 625**	**39 324 181**	**45 096,116**	**48 524 750**	**77,224 711**	**99,850 513**	**117 796 595**	**133 014 303**	**182 596 370**	**223 293 798**	**256 339 205**	**281 508 544**
Current Liabilities													
Short term debt	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000
Short term savings	0	0	0	0	0	0	0	0	0	0	0	0	0
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Total current liabilities	**500 000**	**500 000**	**500 000**	**500,000**	**500,000**	**500 000**	**500,000**	**500 000**	**500 000**	**500 000**	**500,000**	**500,000**	**500 000**
Long term liabilities													
Commercial loan	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000
Concessionary loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	995 000	995 000	300 000	650 000	1 050 000	1 550 000	2 050 000	2 350 000	500 000	1 500 000	1 200 000	1 700 000	2 200 000
Total long term liabilities	**1 995 000**	**1 995 000**	**1 300 000**	**1 650,000**	**2 050 000**	**2 550,000**	**3 050,000**	**3 350,000**	**1 500 000**	**2 500 000**	**2 200 000**	**2 700 000**	**3 200 000**
Total liabilities	**2 495 000**	**2 495 000**	**1 800 000**	**2 150,000**	**2 550 000**	**3 050 000**	**3 550 000**	**3 850,000**	**2 000 000**	**3,000 000**	**2 700 000**	**3 200 000**	**3 700,000**
Equity													
Loan fund capital	13 000 000	24 000 000	35 200 000	40 500 000	43 300 000	71 000 000	92 200 000	109 500 000	125 820 000	173 500 000	213 700 000	245 500 000	269 200 000
Capital grant (fixed assets)	1 500 000	1 250 000	1 500 000	1 500 000	1 500 000	1 500 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000
Other capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained profits (prior periods)	0	415 000	673 625	824 181	946 116	1 174 750	1 674 711	2 100 513	2 446 595	3 194 303	4 096 370	4 893 798	5 639 205
Retained profits (current period)	415 000	258 625	150 556	121 934	228 634	499 961	425 802	346 083	747 708	902 067	797 428	745 406	969 339
Total Equity	**14 915 000**	**25 923 625**	**37 524 181**	**42 946 116**	**45 974 750**	**74 174 711**	**96 300 513**	**113 946,595**	**131 014 303**	**179 596 370**	**220 593 798**	**253 139 205**	**277 808 544**
Total Liabilities and Equity	**17 410 000**	**28 418,625**	**39 324 181**	**45 096 116**	**48 524 750**	**77 224,711**	**99 850 513**	**117 796 595**	**133,014,303**	**182 596,370**	**223 293 798**	**256 339 205**	**281,508 544**

Table 9 8 Branch Balance Sheet (Format 2)

	Prior Month	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Long Term Assets													
Fixed Assets	500 000	750 000	1 000 000	1 500 000	1 500 000	1 500 000	2 000 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000	1 500 000
Less accumulated depreciation	15 000	40 000	80 000	130 000	180 000	230 000	295 000	360 000	425 000	-490 000	555 000	620 000	685 000
Net Fixed Assets	485 000	710 000	920 000	1 370 000	1 320 000	1 270 000	1 705 000	1 140 000	1 075 000	1 010 000	945 000	880 000	815 000
Long term investments	0	0	0	0	0	0	0	0	0	0	0	0	0
Total long term assets	**485 000**	**710 000**	**920 000**	**1 370 000**	**1 320 000**	**1 270 000**	**1 705 000**	**1 140 000**	**1 075 000**	**1 010 000**	**945 000**	**880 000**	**815 000**
Current Assets													
Cash and bank balances	125 000	21 125	64 806	168 616	283 188	301 898	158 325	89 408	18 991	75 120	80 548	464 267	6 981
Short term deposits	1 800 000	650 000	1 700 000	750 000	600 000	100 000	1 200 000	800 000	1 100 000	1 300 000	700 000	500 000	1 000 000
Net loan portfolio	15 000 000	*27 037 500*	36 639 375	42 807 500	46 321 563	75 552 813	96 787 188	115 767 188	130 820 313	180 211 250	221 568 250	254 494 938	279 686 563
Total current assets	**16 925 000**	**27 708 625**	**38 404 181**	**43 726 116**	**47 204 750**	**75 954 711**	**98 145 513**	**116 656 595**	**131 939 303**	**181 586 370**	**222 348 798**	**255 459 205**	**280 693 544**
Current Liabilities													
Short term debt	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000	500 000
Short term savings	0	0	0	0	0	0	0	0	0	0	0	0	0
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Total current liabilities	**500 000**	**500 000**	**500 000**	**500 000**	**500 000**	**500 000**	***500 000***	***500 000***	***500 000***	***500 000***	***500 000***	***500 000***	***500 000***
Net Current Assets	**16 425 000**	**27 208 625**	**37 904 181**	**43 226 116**	**46 704 750**	**75 454 711**	**97 645 513**	**116 156 595**	**131 439 303**	**181 086 370**	**221 848 798**	**254 959 205**	**280 193 544**
Total Net Assets	**17 410 000**	**28 418 625**	**39 324 181**	**45 096 116**	**48 524 750**	**77 224 711**	**99 850 513**	**117 796 595**	**133 014 303**	**182 596 370**	**223 293,798**	**256 339 205**	**281 508 544**
Long term liabilities													
Commercial loan	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000
Concessionary loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	995 000	995 000	300 000	650 000	1 050 000	1 550 000	2 050 000	2 350 000	500 000	1 500 000	1 200 000	1 700 000	2 200 000
Total long term liabilities	**1 995 000**	**1 995 000**	**1 300 000**	**1 650 000**	**2 050 000**	**2 550 000**	**3 050 000**	**3 350 000**	**1 500 000**	**2 500 000**	**2 200 000**	**2 700 000**	**3 200 000**
Total liabilities	***2 495 000***	***2 495 000***	**1 800 000**	**2 150 000**	***2 550 000***	**3 050 000**	**3 550 000**	**3 850 000**	**2 000 000**	**3 000 000**	**2 700 000**	**3 200 000**	**3 700 000**
Net Worth	**14 915 000**	**25 923 625**	**37 524 181**	**42 946 116**	**45 974 750**	**74 174 711**	**96 300 513**	**113 946 595**	**131 014 303**	**179,596 370**	**220 593 798**	**253 139 205**	**277 808 544**
Financed by													
Capital													
Loan fund capital	13 000 000	24 000 000	35 200 000	40 500 000	43 300 000	71 000 000	92 200 000	109 500 000	125 820 000	173 500 000	213 700 000	245 500 000	269 200 000
Capital grant (fixed assets)	1 500 000	1 250 000	1 500 000	1 500 000	1 500 000	1 500 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000
Other capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained profits (prior periods)	0	415 000	673 625	824 181	946 116	1 174 750	1 674 711	2 100 513	2 446 595	3 194 303	4 096 370	4 893 798	5 639 205
Retained profits (current period)	*415 000*	*258 625*	*150 556*	*121 934*	*228 634*	*499 961*	*425 802*	*346 083*	*747 708*	902 067	*797 428*	*745 406*	969 339
Total Equity	**14 915 000**	**25 923 625**	**37 524 181**	**42 946 116**	**45 974 750**	**74 174,711**	**96 300 513**	**113 946 595**	**131,014 303**	**179 596 370**	**220 593 798**	**253,139 205**	**277 808 544**

9 3 9 Performance Indicators

Performance indicators, such as portfolio quality and progress towards financial self-sufficiency, complement the historical and projected financial statements Performance indicators should reflect a range of key variables from those that affect productivity (e g , operational efficiency) to portfolio quality measures (e g , delinquency levels) to bottom-line results (e g , sustainable return on equity) The 8 key ratios introduced in chapter 4 should be calculated using the financial projections to analyze expected performance

9 4 Financial Projections and Financial Self-Sufficiency

Making financial projections in the context of business planning is an iterative process If the results of the first analysis show that the MFI is not reaching the desired level of financial self-sufficiency, then some of the assumptions may need to be changed Of course, these assumptions will translate into real-life policies, such as the policy on the level of interest rates and fees to charge Basically, there are three ways to increase the level of financial self-sufficiency

- increase income by increasing the interest rate and/or fees
- increase income by increasing the caseload per loan officer
- decrease costs, either absolutely or as a percentage of the overall costs

Two examples of the last strategy are

1) absolutely reduce the number of support staff,

2) as a percentage keep the same level of support staff but add loan officers to increase the size of the portfolio and consequently the income (note that additional funding is needed for this option)

9 5 Sensitivity Analysis

The business plan is based on information and assumptions about the future, which the MFI believes are likely to occur However, many of these assumptions are beyond the direct control of the MFI and the realities will differ from the assumptions made by the MFI The uncertain future which makes the financial projections so important in the first place, poses risks and requires constant attention to keep abreast of changes

Management must consider how these risks will impact the MFI s performance and how it plans to address these issues Although the future is hard to predict, it is possible to get a sense of what may happen by thinking about potential risks such as these and what they mean for a business plan The best business plans go beyond taking one perspective in planning and consider the relationship between the MFI and the environment from multiple angles They offer a plausible story of what lies ahead and unfold possibilities of action and reaction The plan must confront the risks ahead - in terms of the MFI, its people, and the opportunities and threats present in the environment

Since projected financial analysis will be to some extent uncertain, it is advisable to calculate more than one financial scenario, even if all of these scenarios are not presented in the formal business plan The financial plan might include several sets of projections - for example, one based on a conservative set of assumptions and another reflecting the MFI's full potential This process is referred to as a sensitivity analysis

In a sensitivity analysis each important assumption underlying a particular option is questioned and changed to determine how sensitive the outcome is to each of these assumptions Sensitivity analysis helps management develop a clearer picture of the risks of making particular strategic decisions and the degree of confidence it might have in a given decision Looking at different financial assumptions shows you just how far off your forecast can be if things happen to turn out a bit differently than you expected

Sensitivity analysis involves determining the impact of several "what if" scenarios For example, what if The executive director leaves the MFI? The main donor pulls out of the MFI? Drought limits the MFI's customers access to supplies and they can't repay their loans? Inflation jumps 50%? You should consider the impact these events would have on your operations

9 6 Resource Requirements

The financial plan indicates the amount of funding required to support the MFI's planned operations A section of your business plan should be devoted to how you plan to fund the projected growth of the portfolio There are two types of funding internal and external Internal funding refers to retained earnings and external funding refers to debt and equity In your business plan, show the level and breakdown of retained earnings, shareholder capital, concessionary loans, commercial loans and/or deposits that will finance the planned development Consider whether these resources are diversified so that the MFI could survive the loss of any one of them Also, consider whether the MFI can really acquire these resources given its current position and plan for the future

Chapter 10: The Completed Plan

In This Chapter
- Business plan format
- Reality checks
- Using the plan
- Monitoring the plan

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10 1 Business Plan Format

The planning process does not stop at analyzing uncertainty and risk The content of the business plan must be well communicated to all stakeholders This means that the plan must be written out using a layout that is well thought out and consistent

Format is a question of individual style The sample business plan format provided at the end of this chapter is just one example of many different formats You could choose to use the different blocks of the MFI Business Planning Framework as a basis for their business plan format

You should not feel obliged to conform your business plan to a "standard" format but one that embraces all aspects of the MFI Business Planning Framework introduced in this guide This guide has equipped you with skills to flesh out all the sections outlined in the sample business plan format shown in Appendix A

10 2 Reality Checks

The process of business planning does not stop at writing out the plan Business planning is not a one-time mechanistic process, it is dynamic and creative Therefore, it is important to proceed a step further by performing a series of reality checks This reality checking or appraisal of the proposed plan is an important step which you should not omit

You should aim at producing an excellent business plan Checking the business plan for realism and viability is an important step in the MFI Business Planning process

Reality check

- Review Assumptions
    - Make realistic rather than ambitious assumptions
    - Pay close attention to the assumptions you are less certain about
- Address other deficiencies in the plan
- Adopt a more modest plan if necessary i e scale down targets

Refer to worksheet 12 at the end of the chapter for a guide to appraising your business plan

10 3 Using the Business Plan

Your business plan is a valuable tool, so use it! Don't just put the completed plan on a shelf Your business plan should serve the following purposes

Uses of the Business Plan

- **Point of Reference**
  - ✓ Helps to keep an organization running smoothly
  - ✓ Tests the planning process
  - ✓ Basis for MFI day-to-day programming
- **Management tool**
  - ✓ Helps managers to control the organization
  - ✓ Basis for allocation of responsibilities
  - ✓ Sets priorities, an action agenda and standards of performance
  - ✓ Measure against which MFI can monitor progress
  - ✓ Points the need for special action when targets are not met
- **Sales Document**
  - ✓ Basis for establishing linkages with donors, financiers, investors, etc
  - ✓ Basis for stakeholders' commitments

10 4 Monitoring the Plan

The plan has to be monitored The plan should not cause problems for management and prevent them from succeeding The business plan is a guide and its value is only as good as the process behind it The quality of the business planning process is very important Your business plan is not set in stone

After the plan is complete, remember to

- Monitor the financial situation
- Revise parts of the financial forecast that change with circumstances
- Review and update the plan regularly
- Communicate revisions to stakeholders

Worksheet 12 Appraising the Plan
Using this worksheet, appraise your business plan

Reality Check points	**Excellent**	**Good**	**Fair**	**Poor**
➢ Is the institutional basis for development at a level which could support implementation of such a plan?				
➢ How modest is the jump from our current situation to what the plan requires us to do?				
➢ Does the MFI have the management competence to cope with the challenges inherent in the plan?				
➢ Are the <u>assumptions</u> correct, realistic and justified? • Products vis a vis market needs • Caseload • Pricing of products • Cost structure • Targets • Ease of accessing financial and non-financial resource requirements • Ease of managing acquired resources • Ease and pace of eliminating current weaknesses				
➢ Deficiencies in the business plan	None	A few	Many	Very Many

Appendix A: Sample Business Plan Format

Sample Business Plan Format

1 Executive Summary

Two page summary of Sections 2, 3,4 and 5 of the Business Plan

2 Institutional Background

2 a Historical Development of the MFI

2 b Institution

- Registration How is the MFI registered?
- Ownership Who owns the MFI?
- Leadership What is the composition of the Board? Who is the Executive Director and how long has s/he been in this job?
- Governance What are the principle rules and regulations governing the MFI? (Attach Constitution and/or Articles and Memorandum of Association to the Plan)

2 c Mission/Vision

- What are the MFIs values and priorities?
- Who are the stakeholders of the MFI and what are their interests?
- What is the mission of the MFI?
- What strategies will be adopted by the MFI to enable it achieve its mission?

3 Present Performance

3 a The Market

- What products does the MFI currently offer?
- What is the MFIs current outreach in terms of target group, number of active clients, value of loans outstanding, percentage of female clients, areas served, sectors, and demand?
- Pricing
    - What is the interest and fee structure?
    - What is the method of interest calculation, What percentage of operating costs are being covered by income generated from interest and fees i e is the effective interest rate cost – covering?

- Is the pricing lower or higher than competitors?
- What competition is the MFI facing, how many competitors does the MFI have, how strong are the competitors?

- Does the MFI have comparative advantage over similar organizations? i e What are the MFIs strengths and weaknesses compared with other similar institutions?

3 b Operations

- What lending methodology(ies) does the MFI use?
- Describe the methodology
- What are the principal loan characteristics? e g for loans, what are the loan sizes, repayment frequency, loan type, loan term? How are loans secured?
- How well has the methodology worked?
    - Has the MFI reached the customers identified in the mission conveniently and efficiently?
    - Is the MFI reaching a significant number of the poor?

- Existing Portfolio
    - How many loans are outstanding now?
    - What is the total value of the portfolio?
    - What are the loan maturities?
    - What is the customer drop-out rate?
    - To date, what has been the growth pattern of average loan size over time?
    - What is the repayment rate?
    - What percentage of the portfolio is at risk?
    - Have the arrears been aged?
    - What has been the experience with loan losses?
- How many branches does the MFI have, where does disbursement and repayment of loans take place?
- Is service convenient and not imposing heavy transaction costs on customers?
- Are products delivered to customers efficiently, that is, at the lowest possible cost?
- Does the MFI know what kinds of product customers want? How was this determined? What is the client drop out rate?

3 c Financial performance

- Historical operating costs analysis
    - Staff productivity ratios How many loan officers does the MFI have, what is the loan officer caseload, What is the average portfolio per credit officer? What is the ratio of customers and portfolio value to number of Branch and Head Office staff?
    - What has been the trend in staff salaries, benefits and % annual increases?
    - What administrative costs does the MFI incur? Does this include asset depreciation?
    - Is the policy on provisioning for bad debt realistic based on historical performance?

- Capital costs What are the actual costs that the MFI has paid for capital?
- Highlight the Profitability indicators Operating Self-sufficiency, Financial Self sufficiency, Sustainable return on equity
- Highlight the MFIs Portfolio Quality indicators Loan loss rate, Portfolio at risk
- Highlight the MFIs Efficiency Indicators Operational efficiency

4 Base Potential For Development

- What are the MFIs current and potential capabilities? Does the MFI have potential in terms of innovative ideas, managerial experience, dynamic leadership, sufficient resources, and good control systems?
- What external factors are affecting the MFI, which of these are the most important at the present time and in the next few years?
- What opportunities and threats do external factors present?

5 The Plan

5 a Strategy and Objectives

- What are the objectives for the plan?
- What is the strategy for achieving the mission?
- What are the riskable steps towards achieving the mission/
- Will the strategy really achieve the mission?
- Is the strategy realistic in the context of the base potential for development?

5 b The Market Plan

- Products Does the MFI need to alter its 'product mix' (loan sizes, terms, etc) to meet the needs of customers?
- Goals should quantify the number of customers the MFI would like to reach within the period of the Business Plan
- Given the type of customer the MFI is trying to serve, how large is the customer base? Where are these potential customers located? Can these customers be reached with the existing branch structure or will this need to be altered?
- Methodologies Does service delivery need to be modified to provide customers with products they want and need in a convenient and efficient way?

5 c The Capacity Development plan

- What capacity do we need to develop in the context of where we want to go?

- Ownership Is a different ownership structure necessary for the growth and development of the MFI?
- Changes in registration Is a change in registration necessary to enable the MFI to attract needed resources or to become more accountable to customers?
- Composition of Board Does the Board have a mix of knowledgeable professionals who can help the MFI successfully navigate the development process?
- Structure Does the MFI have an adequate organization chart? (Attach)
- Policies
    - Does the MFI have an incentive plan for staff?
    - Does it have a policy on promotion?
    - Does it conduct regular performance appraisals?
- Management and Staff
    - Are the qualifications of the senior managers adequate?
    - What are the roles of the Managers in implementing the plan?
    - How will management and staffing structures need to change in order to accommodate the envisaged growth in customers?
    - Staffing What are the essential elements of the staffing plan?
- Information systems
    - How are loans tracked?
    - How is the MFIs financial status planned and reported?
    - Are these systems adequate to meet the MFIs information needs?
    - What systems are required to ensure that the MFI is managing the change process?
- Linkages
    - What networks, affiliations, memberships and donor partners does the MFI have?
    - Do these provide sufficient exposure to learning from others?
    - How does the MFI plan to manage and sustain capacity acquired through external assistance?

5 d Portfolio and Financial Projections

The MFI could refer to the Business Planning guide and/or BASE/CMF Dynamic model to work through this section

- Portfolio Given the projections of customer growth (indicated in Section 5b), the performance to date of the existing portfolio (Section 3b) and planned changes in products and methodology (Section 5b), project the portfolio over the life of the Business Plan
- Financial Given existing cost and pricing structures (Section 3c), portfolio projections (Section 5d) and planned changes in staff and systems (Section 5c), prepare a projected Profit and Loss Statement, Balance sheet, and Cash Flow Statement for the life of the Business Plan
- Analysis Analyze the P&L, Balance Sheet and Cash flow using ratio analysis Use the Financial Statements to analyze the MFIs anticipated progress towards sustainability

- What external assistance is needed in the short-term (1-3 years) and medium-term (4-7 years) to assist this progression to sustainability?
- Do cost and pricing structures need to be fine-tuned to enable the MFI to reach full financial sustainability within 7 years? If yes, explain the changes and produce a new projection showing the impact of these decisions Explain how these changes will be implemented by the MFI

5 e <u>Priority Projects</u>

Some projects merit separate treatment in the business planning process Examples include the introduction of savings services, the creation of a formal financial intermediary or modernization of the institution's systems A section in the business plan on priority projects should outline

- Project Objectives description, background, the problem to be addressed and the benefits to be gained, both qualitative and quantitative
- Costs In addition to the impact on operating costs, the plan must account for special costs associated with these projects such as the staff training required to operate a new system
- Time frame for investments A detailed plan of tasks and timeline for their accomplishment outlines the process for purposes of control and to identify points when funds will be needed to finance the project
- Sources of financing for the project Precise knowledge of the possible sources of funds for the project is essential to guarantee results Identify the sources, their characteristics, conditions, terms, and process by which to secure funds

5 f <u>Resource requirements</u>

For growth of portfolio, excluding priority 'projects' identified above

- Sources of funds
    - Internal Will retained earnings help to finance development?
    - External Show level and breakdown of donations, shareholder capital, soft loans, commercial loans and/or deposits that will finance the planned development
    - Are these sources sufficiently diversified so that the MFI could survive the loss of any of them?
- Given where the MFI is and where it wants to go, can it really get these resources?
    - Assess prospects for obtaining each source of funds

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