TRAINING MANUAL FOR MICRO FINANCE CREDIT DELIVERY PROCESS & OPERATIONS

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TABLE OF CONTENTS

Overview

This manual has two sections: a 'Trainers Guide' which has lesson plans for all the sessions covered in the training and “Handouts” that participants take home for reference during the training and at the work place.

Goals and Objectives

The Workshop aims to introduce participants to the principles and operations of Micro-finance. Specifically the workshop is designed to:-

- Build the participants understanding of the historical background, evolution and current global status of Microfinance.
- Familiarize the participants with microfinance best practices.
- Expose participants to the design, management and operations of Microfinance products.
- Enable participants understand the importance of delinquency management and expose them to tools used in portfolio managing
- Enhance participants’ capacity to handle Micro-financial products.
- Prepare an Action Plan geared in the direction of self-sufficiency.

Course Outline

1. Introduction (SSAEFP)& Leveling Expectations
2. Microfinance Paradigm Shifts
3. Basic Principles of Microfinance
4. Business Approach vs. Social Welfare Approach to Microfinance
5. Basic principles of community Education & Communication
6. Developing Operations Policies
7. Developing operations procedures
8. Planning Operations
9. Outreach & Promotion
10. Group formation vs. Other approaches
11. Savings Mobilization
12. Savings Policies
13. Leadership & Group Management
14. Loan Appraisal
15. Field Visit & Sample Appraisal
16. Plenary session (Appraisal)
17. Loan processing
18. Role of Credit Officer (CO)
19. Documentation/ Monitoring & Supervision
20. Delinquency Prevention & Management
21. Portfolio Analysis
22. Team work & Institutional Values
23. Sustainability
24. Cash flow Projection
25. Introduction to initial feasibility study
26. Understanding basis of interest rates
27. Potential challenges of Microfinance in Southern Sudan
28. Course Evaluation & Closing

TRAINER’S GUIDE

Session 1

Introduction to the Workshop

Overview

Participants in this workshop are expected to have different views and understanding of microfinance. The individual participants will have different responsibilities within in the organization.

This session is designed to reconcile their expectations and set a learning environment in which participants and trainers interact with ease and relate as professional colleagues.

Objectives

By the end of this session, participants and trainers will:-

(i) Get acquainted with each other
(ii) Agree on common workshop expectations
(iii) Set norms to guide individual and group conduct during the workshop

(iv) Understand the objectives of the agriculture enterprise finance programme.

Materials:

Sets of common microfinance terminologies and definitions cut up on separate pieces of paper and instructions for activity (Activity Sheet No. 1), Manila papers for each participant and trainer.

Time:2 Hours

Process

1. Welcome the participants.
2. Explain the purpose of the introductory activity as outlined in the overview and objectives.
3. Issue the written instructions and ask all participants each to pick randomly, one piece of paper containing

either term or definition. Remind them that to identify a partner, each will need to find out what is written in each others' papers.

4. Allow time for participants to pair up, discuss the terminology, get introduced and list their expectations of the workshop.

5. Give each participant a piece of Manila paper and ask each one of him or her to write their pair partner's full name on the Manila paper.

6. Reconvene the participants to the plenary and let each participant introduce his/her partner, and tell the partners expectations from the workshop, at the same time, put his/her partners name in front of him/her.

7. List the expectations on flipchart as they are presented.

8. At the end of the presentations, issue the workshop timetable and objectives.

9. Go through each of the participants' expectations determine those that have not been provided in for the workshop timetable and agree how they can be accommodated or, why they will not be accommodated.

Explain the need to set certain norms in order to achieve common workshop goals. Then ask participants to state the aspects on which common norms should be agreed. List them on flip chart as they are stated. Ensure the following aspects are included:-

(I) Starting, ending and meal times
(ii) Punctuality
(iii) Social/Housekeeping issues

Session 2

Small Enterprise Development Paradigm shifts

Objectives:

By the end of this session, participants will be able to relate the current thinking and practices of Micro and Small Enterprises (MSE) to the historical evolution of MSE development.

Materials:

Handout 1 - Shifts in Development Paradigms related to Small Enterprise Development

Time: 1 Hour

Process

1. Give a lecture as outlined below:-

- Trace the earliest known initiative in small business development and discuss the Historical and Economic circumstances about it.
- Explain the concept and practice of Community Based Enterprises (CBE's). Give the outcome of this approach and why it has failed to work.
- Explain the integrated approach to small business development. Discuss its rationale, outcome and shortcomings.
- Explain the minimalist (financial systems) approach. What are the rationale, implementation, strengths and limitations? Discuss the outcomes and way ahead.
- Explain the Micro-finance Model. What is the current thinking practice and outcome? What is the way ahead?

2. For each model give examples and invite participants to share their experiences.

Conclude by relating Micro-financial services to the overall agriculture revitalization program**.**

Sessions: 3

Microfinance Best Practices

Objectives:

By the end of this session, participants will be able to know the best Practices and principles of microfinance.

Training Materials:

Handouts: Microfinance best practices and principles

Time: Lecture (1 hour)

Process

Use Lectures (Classroom session) to highlight the need for a micro finance institution to operate its microfinance products within the prescribed best practices to make sure that it operates as efficiently and effectively as it should. Highlight the best practices and principles in:-

1. Micro finance institutional Image and Philosophy
2. Client Selection
3. Loan Policies
4. Disbursement and Monitoring
5. Client Incentives
6. Culture of Zero Tolerance
7. MIS

SESSION 4

Business Vs Social Approach to Microfinance

Overview
Experience has shown that unless it is clarified from inception, there is a tendency by many practitioners to keep mixing business and social objectives without appropriate differentiation and therefore definition lack of a balance between the two. This has led to serious challenges in default management and cost recovery.

Objectives

It is envisaged that at the end of the session the, participants will be able to distinguish between a social approach and a business approach to microfinance.
They should also be able to list the pros and cons of each approach in the implementation of successful microfinance.

Materials

Flip chats, felt pens, flip chart stand, Handout

Time: 1.5 Hours

Process

1. Issue each participant two small manila papers and ask them to write headings; one social approach and one business approach.

2. Ask participants to identify and write as many related issues as possible under each heading. Give ten minutes for this exercise.

3. Ask all participants to pin their cards against the appropriate headings on the board.
4. Go through each item facilitating discussion on the same.

5. Summarize the key issues starting with definitions and relate the same to cost recovery.

SESSION 5

Basic Principles of Community Education And Communication

Overview

The credit officer's ability to clearly communicate the key aspects of the institutions products to individual community members and in public meetings is essential to successful outreach and promotion.

This session provides an overview of basic principles of non-formal education and communication that can be applied in the following situations; one-on-one interviews with opinion leaders and clients, presentations at public meetings, tutoring group members and client intake.

Objectives

Flip charts stand, flip chart, a piece of fruit (or tennis ball), felt pens, masking tape, pair of scissors Handout No.4 role of credit operations staff, one envelope for each participant containing cut strips of Handout No.6 (School Education Vs Community Education).

Time: 1 Hour

Process

Part A

1. Refer participants to (Handout No.4) role of Credit Operations Staff in micro-finance operations. Briefly explain that these tasks, (especially 2a, 2b, & 2c) are related to their roles as community educators. The session will help participants to understand some basic principles of community education and patterns of communications.

2. Give each participant an envelope containing cut strips of Handout No. 6. Ask each person to divide the strips into two groups - those that describe a school learning environment and those that describe a community education environment, then give each participant a copy of Handout 6: School Education Vs Community Education. Allow a few minutes for participants to review their work.

3. Summarize basic principles of School Vs Community Education by giving examples related to the officers'' roles in educating the communities about their institutions' products.

PART B

This exercise is a quick demonstration of basic principles and patterns of communication: One way Vs two-way communication, formal Vs informal patterns of communication. Before starting the exercise do steps 5 & 6.

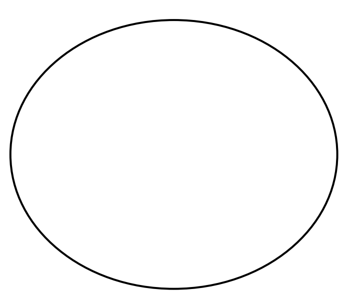
4) Arrange the chairs as in a traditional classroom (as shown below).

	()		
X	X	X	X
X	X	X	X
X	X	X	X
X	X	X	X

5) Select two members of the group to act as observers and recorders. Give each one of them a piece of paper. Ask them to draw - diagram on the paper that illustrates the same formation.

6) Ask participants to be seated in the arranged chairs, then stand in front of the participants' while holding the Ball/piece of fruit. Do not say anything. After few seconds throw the piece of fruit to someone else. Do these seven or eight times. If you are not holding the fruit the gesture to the person to throw the piece of fruit to you. Tell the observers to draw the lines, which will show the path the piece of fruit, or the direction in which the piece of fruit is thrown again. At the end of the exercise their diagrams could look similar to the above.

7) Change the sitting arrangement to a circle.



8) Repeat the exercise. Throw the piece of fruit to someone seated in the circle. After about 8 tosses stop. Meanwhile tell observers and recorders to draw lines, which illustrate directions in which the piece of fruit was thrown this time.

9) Ask the observers to draw their diagrams on the flip charts, explain how the piece of fruit simulated communication. Pose the following questions.

- Which type of communication do the diagrams illustrate? (One way or two way)
- What are some examples of one way formal communication? (radio, guest speaker, lecture, poster, book, television)
- What are examples of two-way or interactive communication? (Group discussion, role-play, conversation at the water well in a community, informal discussion among farmers about the drought and their crops).
- What are the advantages of one way communication?
- What are the advantages and disadvantages of two-way communication?
- How do you know when your message has been received?
- During an interview with a business owner? During a large public meeting?
- How can the credit operations staff utilize both types of communication to their advantage? (Give examples).

Sessions: 6

Developing Credit Policies

Overview:

Policies define and guide the delivery of credit. They define the rules to be followed, state values and set standards. On the whole they protect the interests of both the lending institutions and borrower.

This session is designed to enable the participants understand and participate in developing credit policies that will be used by the new MFI.

Objectives:

Given a set of guiding questions, participants will develop credit policies for the institution.

Materials:

Activity Sheet No. 4 flip charts, felt pens, flip chart stand, institutional credit implementation policy guidelines.

Time: 6 Hours

Process

1. Introduce the session by elaborating on the overview.

2. Give out a set of guiding question on developing credit policies (Activity Sheet No. 4).

3. Break participants into working groups. Explain the activity and allow time for participants to develop policies based on the reality on the ground, and Activity sheet No 4.

4. During the activity sit with each group and provide assistance/guidance as necessary. Explain to the participants that the set of questions will guide them to generate discussions. They are not test type questions with correct or wrong answers.

5. Reconvene the participants to plenary and lead a discussion on the policies the participants have defined for each aspect.

Sessions: 7

Developing Operations Policies

(Individual Client/Group Policies)

Overview

Borrower individuals and groups are essential components of credit systems. They are the primary administrative units of the credit delivery mechanisms. In the case of group lending, strong and healthy groups lead to healthy portfolios, while those in the opposite, result in delinquency.

In this session, participants will generate, discuss, refine and develop policies to guide in the identification of individual clients and the formation and selection of groups.

Objectives

Participants will develop policies to define and guide the identification of individual clients and the selection and formation of groups for the credit program.

Materials

Activity Sheet No. 6: (Individual Clients/Group Policies), flip charts, flip chart stand, felt pens etc.

Time: 4 Hours

Process

1. Break the participants into working groups

2. Elaborate on the purpose of groups and explain how group systems create efficiency and high productivity.

3. Distribute activity sheet no. 6: (Individual Clients/Group Policies), and request the participants to resume their working groups.

4. Allow time for the activity and attend to individual groups needs.

5. Reconvene the whole group to plenary and ask each group to share the policies developed.

6. Lead a brief discussion on the various aspects of client selection group policies and encourage the participant to seek clarification from each other.

Session: 8

Developing Operations Procedures
(PRE-LOANS)

Overview

Once the policies are defined, detailed step by step procedures have to be developed to guide the implementation. In this session participants will develop procedures that will precede the actual lending activities.

Objectives

Given a set of guiding questions, participants will develop the pre-loan procedures for the institution.

Materials

Activity Sheet No. 7: (Developing Operations & Procedures, Pre-Loans)

Time: 4 Hours

Process

1. Refer participants to the outline of the delivery process developed during session 4 and explain that in this session, detailed procedures will be developed for each aspect of the delivery process.

2. Give out activity sheet no. 7 and ask participants to resume their working groups.

3. Allow time for the activity. Provide assistance to individual groups as needed.

4. Reconvene the whole group to plenary and share your experience on how other groups have defined their procedures.

5. Ask participants to continue the activities at their own time or individually in order to refine the procedures further.

Session: 9 & 10

Developing Operations Procedures

Loan processing & monitoring

Overview

Following on the development of Pre-loans operations procedures, detailed loan processing and monitoring procedures have to be developed. This session is designed to involve participants in developing such procedures based on the situation on the ground.

Objectives

Given a set of guiding questions, participants will develop loan processing and monitoring procedures in line with credit policies developed earlier in the training.

Materials

Activity Sheet No. 8 (Loan Processing & Monitoring), Flip charts, flip chart stand, felt pens, institutional credit delivery guidelines.

Time: 6 Hours

Process

1. Draw the participants' attention to the credit policies developed in session 5, 6 & 7 and the pre-loans procedures developed in session 9 & 10.

2. Explain that this session completes the design of the delivery process and that the procedures need to be developed in relation to the previous parts.

3. Distribute Activity Sheet No.8. Explain the activity and set the participants in their working groups.

4. Allow time for the activity and give assistance to individual groups as needed.

5. Reconvene the whole group to plenary and discuss what should be provided for each aspect of the procedures.

SESSION: 11

Planning Operations

Overview

An important step towards identifying the financial resources needed for a micro-financial credit programme and sustaining operations is planning operations activity. This must be done by each loans credit officer and each branch to make an institutional operations plan that forms the basis for its cash flow.

During this session, participants will make the necessary assumptions with regards to their institutional schemes and make projections of the credit and savings activities.

Objectives

Given a sample-planning format, participants will;

(i) Identify and make assumptions pertaining to their institutional schemes.
(ii) Project Credit and Savings activity based on these assumptions.
(iii) Identify key issues in implementation of plans
(iv) Identify reasons why plans fail

Time:2 Hours

Process

1) First ask the participants to define planning and operations

2) Using the plan format drawn on a flip chart, ask participants to generate assumptions for the sample branch.

3) Using the assumptions, demonstrate how operations activities are projected. A six-month operations plan will suffice for demonstration.

4) Next facilitate a discussion in the implementation and management of operations plans.

5) Lastly ask participants to list at least six reasons why plans fail.

SESSION 12 & 13

Outreach and Promotion

Objectives

It is envisaged that at the end of the session the, participants will be able to develop a well-stipulated outreach and promotion plan.

Materials

Flip chats, felt pens, flip chart stand Handout

Time:2 Hours

Process

1. Brainstorm with the participants on what they feel outreach and promotion entails.

2. Then give a lecture on the basic guidelines of preparing for an outreach and promotion activity.

3. Highlight the most important aspects of the policy document (for outreach).

4. Then give the participants an exercise to prepare promotional message. Materials using the just developed Micro-finance delivery policies.

5. Share the presentations and inform participants that together you will expound on the development of skills required and preparation of outreach and promotion materials in the next sessions.

Session 14 & 15

Group Formation Vs Other Approaches

Overview

In many microfinance circles there has been an overemphasis on solidarity groups and the Grameen model thus curtailing credit officers' contributions to product development. It is important that credit officers know and appreciate other models of microfinance in order to be more receptive to occurring changes in microfinance.

Objectives

At the end of this Session, participants will be able to:

List different delivery mechanisms other than the solidarity group approach and summarize key features of each.

Time:2.5 Hours

Materials

Flip charts, felt pens, Handout 4.

Process

1) Divide the participants into two and ask them to identify the known models and list advantages and disadvantages of each. Give fifteen minutes for this activity.

2) Reconvene the session and ask each group to present their discussions.

3) Facilitate discussions on the presentations focusing on what has worked and known shortcomings of the various models.

4) Summarize the key issues relating to various models.

Session 16

Savings Policies

Objectives

At the end of this session, the participants will be able to;

(i) List down the purposes of having savings as a product.
(ii) Discuss and articulate the MFI's reasons for treating savings as an important product of its operations.
(iii) Define their role in the savings mobilization process
(iv) Differentiate between collateral savings and voluntary savings
(v) Develop compulsory saving polices

Materials

Flip charts, felt pens, lien on savings account (Handout No. 10)

Time: 2 hours

Process

1. Engage the participants into an exercise by splitting them into two groups and ask them to address the following questions;

    i. What are the benefits of savings'?
    ii. How do people save?
    iii. What forms of savings do people use?
    iv. What role do you see yourselves playing in facilitating the above process?

2. Reconvene the participants' back to plenary and together process their presentations.

    Note to the Trainer

    - Ensure that you help the participants highlight the positive aspects of savings and relate them to the de-motivating factors relating to savings recoups.

3. Lead the participants into a discussion by posing the question, why do you think the institution should treat savings as an important product of its operations?

4. List down the answers given on a flip chart and extend the discussion by probing the reasons further.

5. Distribute the Lien on Savings Account form to the participants and then, introduce it as an option for the institutional use.

6. Together with the participants, list down the situations that would lead to the use of the form (Agree/disagree whether it is necessary to incorporate the form into operations).

7. Agree and list down the actions to be considered when affecting re-coups, to be used as bench marks for supervision.

SESSION 17

Group Management

GROUP CONSTITUTION MEETINGS.

Overview:
In group-based lending, the group constitutes the primary agency through which credit and savings operations are implemented and managed. It is therefore imperative that the groups are managed properly. The quality of micro finance operations is directly related to the health of the groups especially as it regards their leadership.

This session will provide the participants with the fundamental principles of group management in the implementation of the micro finance operations.

Objectives:

At the end of the session, the participants will:

- Identify the types of internal policies – rules and regulations required to manage a group
- Understand the role of SSAEFI during the group meeting
- Understand the role of the clients and leaders during the group meetings

Materials: Flip charts and stand/Felt pens
Hand out --- “*Model constitution outline*”
Hand out ----“*Group meeting agenda*”

Time 45 minutes

Method: Brainstorming, presentation and field visit

Process:

1. Facilitate a discussion with the participants on their understanding of group management in the provision of micro finance activities. List down the ideas on a flip chart.

2. Ask the participants whether they know the importance of rules & regulations (constitution) in the management of a group.

3. Have the participants sit in their working groups to discuss the contents that should constitute the group constitution. They should list them down on a flip chart for discussion at the plenary session.

4. Reconvene the groups to the plenary session and ask each group to present the results of their discussion.

5. Distribute the *model constitution* and summarize the discussion on this subject.

SESSION 18:

Role of Group Leaders

Overview:
Once a group is formed, the responsibility to achieve objectives is given to a few members in consultation with others. Group leadership has a direct relationship to the quality of service to members and productivity in general. The leaders chosen must therefore be competent and fair in their dealings with the members and other interested parties.

This session will discuss the roles and responsibilities as well as the qualifications that should guide the selection of group leaders.

Objectives:
At the end of the session, the participants will be able to:

- Articulate the roles, responsibilities and qualifications of group leaders
- Explain why strong leadership is essential to the success of the group-based program
- List and describe methods of building strong leaders

Materials:
Flip charts and stand/Felt pens
Hand out --- Roles and responsibilities of group leaders
Hand out ----Qualifications for effective group officials

Time: 45 hour

Method: Case study, group discussion and presentation

Process:

- On a flip chart, draw three columns with a heading of chairperson, secretary and treasurer. Send out the participants to their discussion groups to brainstorm on the qualifications/qualities of each leader.

- Distribute the hand out entitled – Qualifications of group leaders and review it with participants highlighting what may not have been bulleted out during the discussions. Conclude the session.

SESSION 18:

Leadership & Group Management

Record Keeping At the Group Level

Overview:
An important factor for the success of any group is the maintenance of accurate and up-to dates records. These records provide a useful source of information for the management of members, meetings, savings and loans.

This session will consider some of the key records that each of the groups should maintain in order to keep track of the day to day operations of the groups.

Objectives:
At the end of the session, the participants will be able to list out the importance and purpose of each record and the group leader in charge of its maintenance.

Materials: Flip charts and stand/Felt pens
Hand out --- Group records

Time 45 hours

Method: Group discussion and presentation

Process:

i. Have the participants sit in their working groups to discuss the key records that each of the micro finance groups should maintain identifying the purpose of each record. They should list down their points/ideas on a flip chart.

ii. Reconvene the groups to the plenary session and ask each group to present the results of their discussion.

iii. Distribute the Handout on Group records and summarize the discussion, highlighting some of the key issues such as the importance of high group meeting attendance, group discipline, and participation of group members in the activities and supervision of group records in group management.

SESSION: 19 -23

Appraisal

Overview
Appraisal is a critical process in maintaining a quality portfolio, as it establishes the risk exposure levels. Furthermore the appraisal is a due diligence process that helps minimize such risk exposures. It helps the credit officer make an informed decision; to lend or not to lend.

Objectives

By the end of the session, participants will be able to:

i. Conduct a comprehensive business appraisal

ii. List all the aspects of assessment in group lending and discuss the rationale behind the above aspects.

iii. Demonstrate probing and investigative skills required to determine a group's, individuals, businesses, market's ability to repay the loan.

Materials

Loan Appraisal Handout, flip chart papers, felt pens, note pads, pens etc.

Time: 5 Hours

Process

1. Engage the participants in a discussion of what they think appraisal is.

2. List down the participants' ideas from the results of the Brainstorm, on the fundamental aspects of appraisal in group lending.

3. Discuss the listed aspects of assessment, one after the other, and agree as to whether they are relevant to the MFIs situation.

4. Wind up the session by a mock field loan appraisal. Ask each trainee to identify a business person at the market who will be the pretend

loan applicant. The participants will take turns to appraise their 'clients' while the rest of the participants act as observers.

5. Observe the participants as they conduct the mock appraisal.

6. Reconvene the session and process the observations on the mock business appraisal conducted by participants in the field and make comments/suggestions on possible aspects to be improved upon.

7. Facilitate a discussion, which will generate issues that create difficulties when appraising loans, and agree on the best practices to be followed when appraising loans.

Session 24 & 25

Lending Process

Objectives:

- To enable the trainees appreciate the lending approval process undertaken by MFIs and especially the role played by the groups in approving loans.

- To enable the trainees to be efficient and effective in processing loans.

- This session will also enable the trainees understand how loans are staggered in a group to spread the risk.

Materials: Credit polices and procedures manual

Time: 2 hours 30 minutes

Process:

6. Draw the participants' attention to the credit policies developed in session 7 & 8 and the loan processing developed in session 11.

7. Explain that this session completes the design of the delivery process and that the procedures need to be developed in relation to the previous parts.

8. In plenary the trainer guides the participants through the lending process. On a flipchart illustrate how a group starts saving and at which point the loan processing starts e.g.

WEEK	WEEKLY SAVINGS Ushs	LOAN APPLICATION	LOAN DISBURSEMENT	LOAN REPAYMENT
1	10,000			
2	10,000			
3	10,000			
4	10,000			
5	10,000			

6	10,000	8,000		
7	10,000			
8	10,000		400,000	
9	10,000			28,000
10	10,000	8,000		28,000
11	10,000			28,000
12	10,000	4,000	400,000	28,000
13	10,000			56,000
14	10,000		200,000	56,000
15	10,000			70,000
16	10,000			70,000

9. In groups the participants are given some illustrations to practice on, which will help them understand the lending process.

10. Allow time for the activity and give assistance to individual groups as needed.

11. Reconvene the whole group to plenary and discuss what should be provided for each aspect of the procedures.

SESSION: 26 & 27

Role of Loan Officer

Overview

It is important that the Loan officer understands his/her role clearly in order to be effective and efficient. This session is aimed at helping the participants determine their roles, and understand their levels of authority and accountability in the process of their work.

Objectives

At the end of this Session, participants will be able to:

(i) Describe and list the specific tasks and responsibilities that they perform in the day to day operations of the respective institutional branches.

(ii) Describe their roles, levels and limits of authority in the process of performing the credit operations job within their organizations.

Time: 2 Hours

Materials

Flip charts, felt pens, Activity Sheet No. 10, Handout 4.

Process

5) Split the participants into two institutional working groups, then ask them to list the perceived daily tasks and responsibilities (in respect to credit delivery) they perform. Ask the group to identify a reporter and a chairperson to guide their discussions

6) Give each and every member of the Group Activity Sheet No. 10 and ask them to translate their tasks and responsibilities on the activity sheet given, with regard to the credit operations process (Handout 3).

7) Assign the Group the same (as above) Activity Sheet at the Group level. This will be done on a flip chart for presentation purposes.

8) Ask the group reporters to present their results.

9) Facilitate a discussion that leads to harmonizing the presentation of the two groups, and end by summarizing key factors in credit officer role.

Session: 28 & 29

Documentation/Monitoring

Objectives

By the end of this session participants will be able to;

i. Describe the contents of the documents used at various stages in the MFIs credit operations and their use in monitoring performance.

ii. Design a checklist of activities addressed by the documents Vis a Vis the design.

Materials

Flip charts, felt pens and

- Inquiries register
- Members register
- Consolidated register
- Disbursement register
- Banking register
- Passbook
- Loan application forms
- Loans and savings ledger
- Loan appraisal form
- Loans and savings ledger
- Loan appraisal form
- Loan agreement form
- Affidavit
- Lien on savings account
- Loan documentation checklist
- Return on loan disbursement
- Defaulters Watch list
- List of bad debtors

Time:4 Hours

Process

1. Using lecture method take the participant through all the documents used in micro finance operations. Help the participants by highlighting the proposed documents for credit risk management.

2. Together with the participants classify the documents according to the credit operations process (Handout No.3).

3. Discuss each of the documents and generate explanations on the purpose of the document and the significance of the information contained in them. Capture all the information generated in a flip chart using the format in Activity Sheet No. 18.

4. Provide the participants with a copy of each of the documents discussed above.

5. Together with the participants, review the above documents, by explaining how each of the documents should be filled.

    - Encourage participants to make the necessary amendments on the documents discussed above.

6. Summarize the session and agree on the standard information to be contained in the documents, which will act as benchmarks for future supervision.

SESSION: 30 - 32

Default Management

Overview

Default management is a serious challenge to the success of microfinance institutions. Regardless of whether an MFI has a policy on zero tolerance for non payments, there is always going to be some small level of non payments, and if these are not checked could spiral into a vicious circle which can in turn lead to a waste of resources.

Objectives

By the end of the session, participants will be able to:

i. Define Default and Arrears as stipulated in their institutions' prescriptions.

ii. Understand and describe the process of Management of Default at the following stages;
   - Individual client level
   - Group level
   - Loans/credit officer level
   - Area office level

iii. Highlight in details the prescribed action taken toward curbing default.

Materials

Flip charts, felt pens, defaulters Watch list (Activity sheets), List of bad debtors Management of Default (Handout)

Time:3.5 Hours

Process

iv. Introduce a brainstorming session to help draw the definitions of:
   - Arrears
   - Default

v. Together with the participants, list down the causes of default.

vi. Using the courses listed above; facilitate a discussion on how to curb them.

vii. Ask the participants to describe their experiences in curbing default at their level:

- Loans/Credit Office level
  - Client visits
  - Exerting peer pressure
  - Monitoring and follow-up
  - Entry into defaulters Watch list

- Branch Office level
  - Team visits (with other loans/credit officers, Area Management Staff)
  - Involvement of local administration
  - Demand notices
  - Legal Action (Auctioning, Civil suits)

viii. From the above discussion, demonstrate the information generated at both levels in the management of default i.e.;

- Inform the participants what should be discussed in Branch office meetings

- Discuss with the participants how the above information, is used to generate Branch Office operations reports, which are discussed at the monthly management meetings.

- Highlight the importance of holding regular meetings.

ix. From the above, lead the participants into a brainstorming session to draw up tools used in default management i.e.:
- Consolidated register
- Defaulter's Watch list
- List on bad debtors
- Banking Register
- Receipts
- Loan status

Session: 33 & 34

Portfolio Analysis

<u>Overview</u>

Frequent portfolio analysis is important because the credit officer can use to make corrective decisions. It is used to monitor quality and quantity of work in relation to numerical targets.

<u>Objectives</u>

At the end of this Session, participants will be able to:

<u>Time</u>:2 Hours

<u>Materials</u>

Flip charts, felt pens, Handout.

<u>Process</u>

- Start the session by asking the partners to define a portfolio from a credit officer perspective. Then facilitate a brainstorming process on why portfolio analysis is critical. Note all the suggestions on a flip chart, then summarize by pointing out the following uses;
    - Monitoring progress
    - Planning
    - Review of targets
    - Informed decision making

- Ask the participants to break into their working groups to discuss and list common indicators used in portfolio analysis. Secondly they should also discuss and agree on some appropriate mode of analysis.

- Reconvene in the plenary and ask each group to present their reports. After each presentation facilitate a question and answer session on issues and comments arising from the presentations.

- Summarize by suggesting some common indicators and some ways that a credit officer can use in his/her analysis.

Session: 35 & 36

Teamwork

Objective

By the end of the session, participants will be able to:

i. Enhance the team-building process through self-disclosure, feedback and interpersonal commitment.

ii. Offer the team members an opportunity to give and receive feedback about work-related personal growth goals.

iii. Develop the team members' commitment to support one another's growth goals.

Materials

Blank papers, pen/pencils, flip charts felt pens, masking tape.

Time:2 Hours

Process

1. Introduce the session by brainstorming with the participants on what they believe teamwork is.

2. Divide the participants into two groups and assign each groups to define the characters of each and every individual in the next group, be stating:

    a. The observable behavior of the persons
    b. Their likes
    c. Their dislikes
    d. How they carry themselves in the workshop environment
    e. How much or how little do they share with the rest of the team?

Note

Clearly instruct the groups not to indicate the name of the person being described.

a. Reconvene to plenary.

b. Collect all the pieces form the participants and one by one read the characters described and ask the participants from the opposite group to guess who the character may be by name.

c. After all the characters have been disclosed by name:
   i. Ask each individual what their feelings are about the written characteristics.
   ii. Whether they think they are true. If not why?

Process the individual feelings and the group feelings about the individuals and highlight the following:

- Understanding of individual likes and dislikes and even situations, strengths and weakness
- Need to take interest on what colleague is doing (official) for the common interest of achieving organizational goals.
- Need to know one another better and informally through office parties
- Importance of teamwork as a complementary factor that would lead to achieving organizational goals and objectives.

Session: 37 & 38

Sustainability

Objectives:

- To explain the four categories of costs of an MFI.
- To define the principal income sources of an MFI.
- To introduce the variables that affect MFI income.
- To identify some measures that can help to control costs.

Time: 1 hour

Methods: Presentation
Small group exercise
Report back
Large group discussion

Materials: Flipchart: Overhead

Process:

1. <u>Definition of Self-Sufficiency:</u>

Time: 10 minutes

Ask the participants what they understand by 'self-sufficiency.' Note their answers on the flipchart (including wrong ones). Gradually guide the participants towards the correct definition and present it with the Overhead 'Definition of Self-Sufficiency'.

2. <u>Discuss the Income and Expenses of an MFI:</u>

Time: 50 minutes

1. Ask participants to give examples of the typical costs of an MFI and list these on the flipchart by category.

- The Four Categories of Costs explain the four categories of costs: operating costs, financing costs, loan loss, and imputed cost of capital.

– Defining the Four Categories of Costs, present the four categories of costs with their definitions.

2. Computation of Financing Costs and the Imputed Cost of Capital, illustrate how financing costs and the imputed cost of capital are computed. Explain the use of the inflation rate or the 90-day Treasury bill rate, whichever is higher, for imputing the cost of capital.

3. Ask participants to give examples of income in a typical MFI. List the examples on the flipchart. Then present handout on Sources of Income of an MFI, and discuss the various sources of income of an MFI.

4. Profit and Loss Structure, present the equation for the Profit and Loss Account of an MFI and explain each element. Emphasize that for self-sufficiency to occur, net income must be positive.

– Income and Cost Sides of Self-Sufficiency. Explain that the objective is to increase income and to control costs. Emphasize that each element can be influenced by management policy for better or for worse.

  Ask participants to suggest variables that affect the income of an MFI and to explain how and why these variables affect income.

– Present Overhead/Handout on 'Effect of Late Payments and Idle Funds on Income', and show how these variables affect the income of an MFI.

  Ask participants to suggest ways to control the costs of an MFI, and list them on the flipchart. Present Examples of Measures to Control Costs.

5. Financial Self-Sufficiency, explain the formula for total self-sufficiency.

– Distribute activity on Financial Self-Sufficiency. Ask participants to form groups, assign each group a place to work, and give them 15 minutes to complete the exercise.

  After the 15 minutes have elapsed, reconvene the group. Ask for one representative from one group to present his/her group's answers on the flipchart.

  Present Handout: Answer for Exercise on Financial Self-Sufficiency.

– Review the objectives of the session and ensure that participants have understood the content before proceeding to the next session.

SESSION: 39

Portfolio Build-Up

Overview:
The session will also demonstrate the process of building a portfolio and its relationship to the cash flow projections/& budget of the pilot project.
The initial processes of client intake and selection are crucial in order to ensure selection of the right clients. Each loan officer should therefore carry a portfolio, which is, on one hand, large enough to generate adequate revenue to cover the operating costs, and on the other, a manageable size to ensure effective supervision and quality of the micro finance operations.

Objectives:
At the end of the session, the participants will:
- Learn the concept of portfolio as it relates to micro finance
- List down and explain the process of intake through to monitoring and follow-up of loans.
- Learn how to do a client intake and disbursement plan in micro finance operations.

Materials: Flip chart, stand & felt pens
Handout – *"Loan portfolio build-up"*
Activity Sheet – "*Client intake and disbursement plan"*
Blank client intake chart on a flipchart paper

Time: 2 hours

Process:
1. Lead a discussion on the topic of portfolio in general and as used in the micro finance sector. Using the brainstorming training methodology, seek the participants understanding of the term portfolio and its relevance in the training of loan officers.

2. Once the overview is clear, distribute the client intake format. Discuss on the importance of planning on the portfolio build-up. Some of the assumptions to consider during the process of portfolio build up are:
    - Amount of money available for loans
    - Time frame for intake to full capacity
    - Timing required for preparation and disbursement of loans
    - Amount of the loan and loan duration
    - Re-peat loans/time frame

3. Distribute the handouts on loan portfolio build up and the client intake and disbursement plan. Explain each column and then demonstrate on its use. Subsequently, the participants undertake the exercise on Activity sheet to build up of a hypothetical case for loan officers

4. The results of the exercise will be utilized in the next session on cash flow projections so it should be kept safely.

SESSION: 40 & 41

Cash-Flow Projection

Overview: Once the loan officer has determined his or her client intake and portfolio build up levels; the next step will be to workout the cash flow projections for the branch with the manager. It is important that each loan officer understand how credit activities affect the cash flow of the whole branch/organization.

Objectives: At the end of the session, the participants will be able to translate their credit/savings activities into cash flow projections

Materials: Flip chart, stand & felt pens
Handouts -*"Cash flow projection notes"*
Activity sheets - *"Sample repayment schedules & sample cash flow projection"*

Time: 2 hours

Process:

1. Facilitate a discussion with the participants to gauge their understanding of a cash-flow projection as a tool for managing any kind of business. Establish how many of the participants have made use of the tool irrespective of the scale of operations.

2. Use the handout on cash flow projection and the sample cash flow to give an overview on what a cash flow is and its use in micro finance operations. Explain all the columns and assumptions on the cash flow.

3. Distribute the blank cash flow projection format and ask each group to prepare a cash flow with the information generated during the portfolio build up exercise.

4. Reconvene the participants in a plenary session, discuss and conclude on this assignment.

SESSION: 42 - 45

Assessing Microfinance Market

Overview:
Assessing the microfinance market is an important factor in designing the products and services of the MFI to ensure that they meet the needs and requirements of the clients.

Objectives:

The objectives of the Market Assessment are:

- To determine the size and composition of the local microfinance market by looking into its various opportunities and constraints, understanding the micro enterprise sector and types of micro enterprises in the MFI's service area.

- To select the target microfinance market segment.

- To assess the demand for and supply of financial services in the target market by determining the competitors, the products they provide, and the characteristics of the products and services the target market needs.
- To determine the MFI's marketing strategy given the information gathered from the target market.

Time: 2 hours

Process:

- In plenary, facilitate a discussion with the participants to gauge their understanding of the importance of the market assessment in designing their respective microfinance products and services.

- Using the handout on feasibility studies take the participants through the basic steps in conducting a market assessment.

- In small groups of up to four people the participants are sent to the market to conduct a mock feasibility study. The market will be segmented to correspond with the number of groups.

- The participants are then provided with the ‘summary table on number of enterprises’ to guide them as they count the enterprises. The trainers will provide on-the-job coaching and guidance to the participants as they conduct the market assessment.

- In plenary the participants will report their market research findings to the whole group for comments.

Session: 46 – 47

Interest Rate Setting

Overview
Even though empirical research has shown that small business people are not overly sensitive about credit prices, interest rates remains a mysterious subject among both MFI staff and clients, sometimes causing a lot of misunderstanding. It is for this reason that every MFI should endeavor to educate its staff on the basics of setting effective interest rates.

Objectives

1. It is envisaged that at the end of the session the, participants will be able to clearly articulate and explain the basis upon which interest rates are set.
2. Secondly they should be able to identify different types of costs considered by MFIs when setting interest rates.
3. Thirdly they should be able to calculate effective interest rate

Materials

Flip chart papers, felt pens, flip chart stand, Handout

Time:2 Hours

Process

Facilitate a brainstorming session on pricing concepts in general, and then ask the participants to apply these concepts in micro credit business highlighting the need to cover costs.

Ask participants to give suggestions on the different type of costs that should be considered in setting interests. List the suggestions on the flip chart paper. Counter check the suggestions against the four type costs listed in the hand out.
Ask the participants to identify cost items for each of these cost classifications.

Write the generally accepted formula for effective interest rates, and give a simple example, which the participants can use to calculate the effective interest.

Summarize the discussions by pointing out the need to cover costs without necessarily penalizing clients for the organization's inefficiencies.

SESSION: 48

Action Planning

Objectives:

To enable participants work out a framework for applying microfinance best practices learnt in the training.

Time: 1 hour

Method: Presentation
Individual exercise
Report back by participants and discussion

Process:

1. Individually participants are asked to formulate action plans outlining a course of action that they will take to apply knowledge and skills acquired in the training.
   The plan will be used to transfer knowledge, skills and words into action.

2. In plenary the participants present their action plans using flipcharts or overheads.

HANDOUTS

Session 1

Agriculture Enterprise Finance Program (AEFP)

The Agricultural Enterprise Finance Program (AEFP) is a key part of the 5-year, Southern Sudan Agricultural Revitalization Program (SSARP), which is managed by the USAID Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA), in close consultation with agriculture advisors based in USAID/Washington. On September 30, 2002, Chemonics International was awarded the AEFP contract, a 5-year effort to establish a self-sustaining micro-finance institution (MFI) in southern Sudan and provide access to working capital for micro-entrepreneurs.

The other SSARP components include the establishment of six agricultural training centers and a data collection and analysis center. These other activities are implemented by the Catholic Relief Services (CRS) Consortium – comprised of CRS, Winrock International, Veterinarians sans Frontiers-Belgium (VSF-Belgium), and SUPRAID (a Sudanese NGO) – through a competitively-awarded cooperative agreement.

Micro credit is perceived as one avenue of fostering expanded economic opportunity among the southern Sudanese and constitutes an added incentive for Internally Displaced People (IDPs) and refugees to return to their homes.

The AEFP contract mandates Chemonics to develop a micro finance institution, develop and pilot test a credit delivery methodologies, develop and test various loan and savings products based on both client demand and repayment experience. It is expected that the institution will be financially sustainable by the time the project comes to a close.

As highlighted in SSAFI's Memorandum of Association, ownership of the organization is regarded as being the property of all pertinent stakeholders. These include guarantors, clients, staff, donors, financiers, etc. SSAFI is supervised and governed by a Board of Directors. The Board will be limited to policy decisions and safeguarding the organization's assets. In June 2003, after undergoing a careful selection process, including consideration of gender issues, professional skills, and integrity, SSAFI formed its first Board of Directors. After an initial establishment period which may include monthly meetings, the board will meet on a quarterly basis to review the previous quarter's results and to discuss policy issues for the future.

The USAID-funded Agricultural Enterprise Finance Program (AEFP) is tasked with setting up SSAFI as a new microfinance institution. As such, with input from USAID, the AEFP Technical Task Force (TTF), and other stakeholders, the

AEFP team managed the selection of five individuals to serve on the SSAFI Board of Directors:

- Jane Siama, Social Worker, ACCORD
- Martin Guya, Social Worker, Malteser
- Joyce Dusman, Manager, KAF Liaison Office
- Joseph Jibi, Field Officer, SLIRI
- Dr. Timothy Morris, Medical Doctor

Mission/Vision

The initial mission statement of the MFI is:

To offer financial services on a self-sustaining yet efficient basis to micro entrepreneurs and other business clients living in Southern Sudan, with a special emphasis on reaching the enterprising poor in the agricultural sector, especially women, reintegrated refugees, and internally-displaced persons (IDPs).

This mission statement will be reviewed, finalized and ratified by SSAFI's Board of Directors in July.

The primary objective of SSAFI's mission statement and related growth plan for the next five years will be to achieve outreach on a scale that will ensure the sustainable delivery of financial services to the Southern Sudanese population who are currently marginalized by the financial sector and that will ensure SSAFI's permanent self-sufficiency and sustainability well into the future. While a non-profit endeavor, the institution will follow a private sector-oriented, financially-sustainable business model as it develops. The four-prong strategy for achieving this objective over the next five years includes:

- Establishment of the institution;
- Capacity building;
- Geographical expansion of operations; and
- Continued product development.

This strategy will enable SSAFI to meet the changing needs of existing members and cater to the needs of additional market segments. Each component of the strategy is described in more detail below:

Establishment of the institution. The entire first year of operations will involve careful establishment of SSAFI as a viable microfinance institution. This will include fully familiarizing the Board of Directors with microfinance best practices; conducting a detailed market assessment to test business plan assumptions regarding loan product design parameters, as well as the market potential of potential branch locations; hiring and training all staff necessary to start and expand operations; refurbishing or constructing the buildings that SSAFI will occupy; conducting extensive community and stakeholder outreach; and developing and institutionalizing the required policies and operational systems.

Capacity building: SSAFI will be committed to staff development. The training provided by the USAID-funded AEFP program tasked with setting up SSAFI will include the development of an in-house training function within SSAFI for both branch level and head office staff. Increased standardization of policies and procedures, accomplished through increased training and the enhancement of policy and procedure manuals, will lay the foundation for the expansion of services. Initial training will concentrate on developing sound financial management skills and institutional management capacity, including the day to day operational systems. Subsequent training will expand the knowledge and skills of staff in market survey techniques, product development and marketing of services.

Geographical expansion: By the end of its fifth year, SSAFI will operate out of at least five branches in Southern Sudan. In fact, to achieve the desired outstanding loan portfolio level by the end of year five, it is expected that SSAFI will actually have to open at least six branches, as projected in this business plan. If even faster and broader growth is possible, the business plan will be adjusted to accommodate greater geographic expansion. However, it is important to note that each additional branch beyond the base level of five branches will be undertaken only if SSAFI is able to achieve and maintain the projected growth rate and revenue generation needed to fund additional branches as contained in this business plan.

Continued product development: SSAFI must be committed to responding to the needs of its clients. Therefore, customer satisfaction will be a key tenant of SSAFI's philosophy. Supported by AEFP-supported funding for research and development, SSAFI will be actively involved in a range of market research and new product development initiatives. SSAFI will offer at least three loan products by the end of the fifth year of operations.

With the implementation of this strategy as shown in this business plan, SSAFI is expected to reach over 6,000 active borrowers by 2007. The gross outstanding loan portfolio is projected to exceed US$2 million in nominal value. Full operational self-sufficiency is projected to be reached in 2007, with surplus revenue generated in the same year.

Session 2

Small Enterprise Development Paradigms Shifts

The small enterprise development initiative has undergone about four major shifts of focus since inception about twenty or so years ago. These include;

(a) Community Based Enterprise Paradigm

Many development efforts directed to the poor in the late 1960's and 1970's focused on assisting groups or communities to generate their own sources of income. A major justification of this model was that individually, the poor had little resources to enable them to venture and compete effectively in a market based environment and it was therefore, by pooling their resources together that they could generate meaningful income. Such efforts could be said to have been based on socialist principles because they aimed at establishing community owned enterprises, whose benefits were to be used for uplifting the communities' welfare. An important observation of this approach is that the projects did not target individual entrepreneurs. Mainly for this reasons (which inhibited innovativeness and efficient Management, most CBE's failed miserably, even though their inventions were good).
To address this concern the second generation of small enterprise development pedigree, commonly called Small Enterprise Development was introduced.

(b) The Integrated Approach To Small Business Development (SDB) Paradigm (Early – Late 80's)

The Small Business Development interventions focused on developing small businesses.
Support to the businesses includes credit; training, marketing and technical assistance to individual entrepreneurs popularly termed as integrated model to small enterprise development. Its justification was that since small enterprises are faced by multiplicity of problems, their development could only be achieved through intervention programmes that addressed all these problems (or at least the major ones).

The fundamental difference between this approach and its forerunner is that it is focused at the individually owned enterprises as opposed to community ownership of businesses. The two approaches however, had many similarities. They both lacked a clear strategy on institutionalization of the services that were developed. Issues such as institutional capacity building and self sustainability were not addressed sufficiently, or at all, another common feature of the two models is sufficiency base; they had a very low capacity of extending their services to large numbers of those in need. Their impact was therefore low.

Not surprisingly the SBD paradigm was abandoned in favor of its successor, the minimalist approach to small & micro enterprise development. The criticisms of the integrated approach, which revolved, round the cost effectiveness of delivery services helped to shape the new model.

(c) The Minimalist Approach To Small And Micro Enterprise (SME) Development Paradigm

The SME model began with a major change in the method of delivery services. It also emphasized the need to focus and separate (at least operationally and administratively) the functions of financial and non-financial services. The group approach and focus on credit become a common goal. Non financial services such as training, technical assistance and business counseling were unfortunately but perhaps necessarily relegated to secondary position until the organizations could generate surpluses to support them.

A new objective of transforming SME support projects into commercially viable institutions was introduced. This was preceded by incorporation of new concepts such as the financial systems approach. As in the SBD paradigm, the SME model focused on developing small and micro businesses and aimed at increasing incomes and employment opportunities among poor communities. The ideology remained the same, but the emphasis was placed on the private sector approach at both the client level and the support institutional strategy. It is on the basis of these new innovations that the current generation Model of Micro-Finance has been developed.

(d) Micro-Finance Paradigm

The development of the Micro-finance model explored new horizons beyond Micro-enterprises, by putting emphasis on Savings as a major intervention in itself, as opposed to being complementary to credit. This has opened the sphere of operation to all the poor people are they business operators or not. This change complements the institutionalization strategy perfectly, particularly the more for establishing Commercial banks. It also opens windows of opportunity for exploring new savings and credit products to address a wide range of financial services for poor communities. Only a few organizations in the world have reached this stage. These include Banco Sol of Bolivia and BRI of Indonesia. We all are in the process of transformation to enter fully into this stage.

Defining Micro-Finance Clients

Microfinance clients are drawn from the minimalist approach to small and micro-enterprises (SME) development paradigm. This is where a range of products are developed with the aim of developing small and micro business, with the aim of increasing income and employment opportunities among poor communities.

One common denominator the micro-finance clients have is that they have to all be "Economically Active" individuals. The rest of the factors may be as varied as the sun and moon.

It is however important to recognize that, not all institutions operating within the micro-finance sub-sector define their clients the same. Even within the sub-sector, the clients are stratified at different levels, hence, the different definitions, and loan ceilings characterizing the definition of client per institution. There are several definitions describe the micro finance clients.

- "The poorest of the poor
- "The poor, but economically active, who must be having a business with a capital base of a given minimum of amount of Ushs.
- Individuals running micro- small businesses which require loan capitals of between 0- 10 million Ushs".

The most important thing to note is just as there are structured levels within the micro-finance sub-sector. The special needs of the sub-sector. The institutions are also structured to cater for special needs of the sub-sector.

For instance;

i) "The clients catered for by YWCA & WEDCO in Kenya and UWFT, PRIDE Africa, and Faulu in Uganda may be within the lowest structure of the economically active, going by the maximum loan ceiling of KShs.5,000/=".

Whereas;

ii) "The clients K-Rep, KWFT, Faulu in Kenya and FINCA in Uganda, may belong to the middle structure, going by the amounts of loan ceilings applied to them".

iii) Then, "There is the micro-finance client, financed by Barclays, Cooperative, K-Rep, Kenya Commercial Banks in Kenya and

Centenary Bank in Uganda this is a client who belongs to the upper level of the micro-finance structure.

More often than not, the clients belonging to the two first levels i.e. (I) and (ii) are in taken, through the "group lending models", this is due to the fact that the loans they take are quite minimal in amounts hence would otherwise be not be economically viable to tie down a loans/credit officer's time dealing directly with the individual. The group approach caters for servicing the needs a group of small/medium level clients together at the same time hence, gives the credit/loans officers an opportunity to handle a bigger loan portfolio made up of small borrowers, in the most cost effect and sustainable way.

The other factor that gets them to meet as groups as opposed to individuals is to enhance peer pressure amongst the borrower; such groups do not have access to formal recognized securities, to guarantee their loans. In short, they rely on the group guarantee mechanism, as a security.

The clients at level (iii) are often individual personalities, who approach the lending institutions for monies, with specific feasibility studies and are able to provide tangible securities to cover the monies borrowed.

It is however important to note that all these clients fall under the micro-finance umbrella and that all the institutions within the sub-sector, small or big, have curved out a niche based on their special definitions of their clientele.

SESSION 3

Microfinance Best Practices

Best practices and principles, are the common practices, policies and principles followed by successful microfinance institutions (MFI), all over the world -- in providing financial services to low-income households

BEST PRACTICES is reflected in the micro finance institution's.....

- Image and Philosophy
- Client Selection
- Loan Policies
- Disbursement and Monitoring
- Client Incentives
- Culture of Zero Tolerance
- MIS

1. MICRO FINANCE INSTITUTION IMAGE AND PHILOSOPHY

Reliability and quality of service are key.

One of the most important "best practice" principles is that of the image and philosophy of the micro finance institution. Successful institutions provide good quality services that are reliable and timely.

Provision of a financial service, not a government funded loan or social service.

The institution must look at microfinance, primarily, as a profitable business, not as a social commitment. Clients must also understand that microfinance is a financial service and not a government/donor funded loan or some social service that the micro finance institution is providing. Otherwise, the staff in the micro finance institution will not be serious about loan collection, and the clients will not be serious about repayment.

Clients need to see that this is a long-term relationship with the micro finance institution.

Well-run financial institutions develop a long-term financial service relationship with their client that continues throughout the life of the client and his/her family. We are not talking about disbursing one or two loans, but about starting a process of providing full financial services of credit and savings to clients for the rest of their lives.

Provide High Quality, Appropriate & Friendly Service
Standardize and simplify product documentation & procedures

Rapid access

The first loan should be disbursed within one week after receipt of the loan application. Subsequent loans should be disbursed within a day, if not hours after the filing of the repeat loan application.

Keep it simple

Minimize the client's costs (in terms of both time and money spent when applying for a loan) by simplifying the loan application method. The process should be simple without too much paperwork. Repeat loans should be quick and easy to provide with minimal paperwork.

Spend time with clients

The institution's Loan officers should spend most of their working time out in the field, talking with prospective clients or monitoring existing clients. They should be considered as the micro finance institution's field representatives, rather than as office staff. Their role is to gather information in the field and promote the institution. They need to visit potential clients in the places where they live and work.

Make clients feel welcome

Develop a public image of being friendly and approachable by poor people. Clients need to feel welcome in the micro finance institution. Everyone is a customer and should be treated with respect and made to feel the MFI is their financial partner for savings and loans

Standardize and simplify product documentation & procedures

Another important aspect of the philosophy of an institution is to have simple and standard approaches to providing loans. Simple loan policies and procedures will make it easier for the clients and staff to understand the institution's microfinance program. Standardized operations, which involve the preparation of a lending policy and procedures manual, will ensure that the MFI's operations will be more efficient, minimize mistakes of the staff, and reduce the need to provide special training programs for the staff and the clients.

2. CLIENT SELECTION

Clearly defined client group

A clearly defined target market such as 'non-agricultural businesses with at least one year experience that have lived and worked in the community for at least 3 years' would be an example of a target market.

As much as possible, avoid lending to start-up businesses. The rate of failure among start-up businesses is high. It is believed that 9 out of 10 new businesses fail.

Clearly-defined geographic areas assigned to credit officers

It is generally much easier to assign geographic zones to loan officers to improve follow-up and the efficiency of your staff. Trying to cover too large geographic area with too few staff generally leads to inefficiency and difficulties with regard to proper supervision.

Client selection based on character assessment and repayment capacity, not collateral.

The individual's reputation in the community and the cash flow of the business are more important than traditional collateral. Examining a potential client's character and their repayment capacity is crucial. Proper client selection should be based on thorough credit investigation and background investigation (CI/BI) and analysis of the client's debt capacity or cash flow.

Over-reliance on collaterals, on the other hand, can lead to improper client selection. Collaterals tend to create a false sense of security in the lender. However, foreclosed properties could fluctuate in value or be difficult to sell when the economy slows down.

3. LOAN POLICIES

Start loans small and increase lending based on successful repayment and improvements in the client's cash flow

The step lending approach of starting out with smaller, short-term loans generally less than 6 months and usually less than 4 months (for first time borrowers) is a sound approach. Increase the amount and term of the loans gradually as the client becomes known to the micro finance institution.

Be conservative in analyzing the client's cash flow when determining how much to lend

We generally recommend that, for first-time borrowers, loan payments should not exceed 25-35% of the client's net income. This cash flow adjustment factor (25-35%) can increase overtime as the micro finance institution gets to know the client's business better. This allows the MFI time to slowly get to know the client's "real debt" capacity and reduces the risk for the MFI and the debt burden of the client.

Look at potential risks to supply, production and sales

It is also important to look at potential business risks, such as any potential risk to supplies (fish vending being dependent on good fishing - what happens when the weather is bad and fish are scarce?); production (who operates the business when the client is sick or away? This is very important for businesses like tricycles and small retail shops); sales or customers (what happens when there is more competition, a new store opening up across the street, or temporary closing of the public market?).

Focus on providing short-term, working capital commercial loans

Successful microfinance institutions generally avoid businesses with more risky ventures such as agricultural production or fishing. They concentrate their lending activity on businesses that generate regular income flows. Initial loans are generally for working capital as opposed to fixed assets. Loans for fixed asset are provided only after lending to the same client for at least one year.

Frequent and small amortization payments

The more frequent the amortizations payments, the smaller they will be, and the easier will it be for clients to pay. The frequency of payments, however, should be balanced against the costs of collecting these payments. Daily payments, for example, would have a higher cost than weekly payments.

Sufficiently high interest rates to make a good profit

Because microfinance loans are small with frequent installment payments, the transactions costs are high compared with those of regular commercial loans. The interest rate for microfinance loans, therefore, should be higher. Micro enterprise clients are willing to pay higher rates for a good service.

Most rural micro finance institutions charge a monthly interest rate of 2-3% per month and service charges of at least 2-3% deducted up front. The costs to the borrower are generally substantially less than the 8-10% interest per month usually charged by the money lenders.

4. DISBURSEMENT AND MONITORING

Make Loan Officers responsible for loans they have recommended for approval.

The next most important “best practice” is the disbursement and monitoring approach followed by successful financial institutions providing small loans. Loan officers need to be held responsible for recommending and approving loans. They should be the ones to conduct the client intake, recommend the loan, and be involved with the follow-up. This level of accountability reduces the risk of late payment. Loan officers will be more careful in recommending loans for approval if they know that they will be made directly responsible for collection, if any of the loans they have recommended become delinquent.

Involve the Loan Officers staff in the loan approval process

Successful microfinance institutions decentralize their loan approval in their branches through a branch-level credit committee made up of loan officers and their supervisor, instead of the branch manager alone. Additional information about the loan applicant can be provided by other members of the committee and made known to the branch manager, if they are involved in evaluating the loan applications. Decentralization, however, must be implemented with adequate internal controls.

Continuous contact with clients

Regular contact with the clients should be maintained by the loan officers. This practice not only enables the loan officers to regularly monitor the condition of the client’s business; it also strengthens the MFI-client relationship.

Delinquency alarm signals

Successful micro finance institutions also have in place a series of “alarm signals” that are used to follow-up and increase pressure on problem clients. These include immediate follow-up the day a payment is missed or at least the following morning. As well as follow-up visits by the supervisor and manager when payments are missed by 3 days and 7 days respectively.

Performance-based staff incentive scheme

Successful MFIs also provide monetary incentives to their staff based on their individual performance. Performance is usually measured in terms of the number of accounts supervised by the loan officer, size of the loan officer’s loan portfolio, and the quality of their respective loan portfolio, which is normally measured by the portfolio-at-risk ratio (PARR).

5. CLIENT INCENTIVES

Successful microfinance institutions provide Incentives to their good clients by providing larger repeat loans (depending on their debt capacity) and rebates on interest rates or fees. These are done to encourage on-time installment payments. On the other hand, late payments are also penalized by imposing penalty charges for late installment payments.

6. CULTURE OF ZERO TOLERANCE AGAINST LOAN DELINQUENCY

Loans with payments delayed by just 1 day is considered delinquent

Zero tolerance means that no level of loan delinquency, even how small, is acceptable. The most important aspect of the culture of zero tolerance is that the entire loan is considered to be delinquent even if an installment payment is delayed by just 1 day.

The micro finance institution must be willing to pursue delinquent clients, in some cases, whatever the cost to establish and maintain zero tolerance

The micro finance institution should be willing to show it can be tough in running after delinquent accounts, even to the point of filing cases against selected delinquent borrowers in court, however costly, if only to stress the point that the MFI is serious in collecting delinquent accounts.

The culture of zero tolerance should start with the top management

Clients should not be expected to acquire a strong credit discipline if the loan officers tolerate delayed installment payments. And loan officers cannot be strict with their clients in loan collection if the top management, itself, tolerates delayed installment payments. The top management should be blamed if loan delinquency becomes widespread due to a break-down in credit discipline.

7. MANAGEMENT INFORMATION SYSTEM

Critical for tracking the performance of the microfinance loan portfolio

The MIS should provide accurate and timely reports to management on the performance and status of the microfinance loan portfolio. The most critical information needed includes the total number of borrowers, total amount of outstanding loans, the portfolio at risk ratio (PARR), and the income generated from the portfolio.

Should be able to track missed installment payments and the loan officers responsible for their collection

A good MIS is critical for controlling loan delinquency. It should be able to track missed installment payments and the loan officers responsible for their collection so that appropriate actions to collect the payment can be instituted immediately.

Should be able to show the performance of each Loan officer

A good MIS should also be able to track the performance of each Loan officer. This is needed especially when the micro finance institution wants to implement an incentive scheme to reward good-performing Loan officers.

KEYS TO SUCCESS IN MICROFINANCE

- Good quality service
- Demand-oriented savings & loan products
- Good client selection process
- Sufficient interest rates to cover costs
- Zero tolerance against loan delinquency
- Good MIS

SESSION: 4

Business Vs Social Approach to MF Development

Defining Business approach

Business is about implementing planned and specific activities in order to make profits or surplus. The latter facilitates the business or the activities as a going concern. People do not go into business just for its own sake, but because they want to use such business to add value to their lives.
A business approach therefore emphasizes the need to fully cover costs.

A 'social welfare approach'

Social welfare on the other hand involves provision of services free of charge or at minimal cost. But if there is no surplus or profit to sustain continuity of services then the risks of discontinuity are high and real.
A social welfare approach emphasizes the *immediate* needs of the clients as opposed to the profits of the organization.

Given these two definitions, then it is obvious that there will always exist tensions between these two approaches and any MFI will have to take a stand as to the approach to take knowing the full consequences. One thing is for sure; a business approach will meets the *long-term* needs of the clients best because it ensures that the MFI will still be providing services to clients in the future.

A social welfare approach will not allow MFIs to provide services to large numbers of people in the future for several reasons;

- Because MFIs will have a continuous dependence on donors.
- Donors change their priorities from time to time and so funding may not come through for MFIs when they need.
- Microfinance is popular now among the donors, but in a few years time they may want to put their money elsewhere, either with another sector or in another country.
- Donor finance will never be sufficient to provide access to all poor people. To reach vast numbers of the poor, MFIs will have to develop policies and track records that enable them to access commercial funding.

If MFIs therefore choose to take the social approach they will not be able to offer financial services yet clients will continue to need micro enterprise finance services in the future. In addition, people will always need a secure place to store their savings.

In the past, many programs assumed that clients would reinvest their profits and eventually not need more loans. This has not been proven to be the case anywhere in the world. People use their earnings to cover their household expenses. Although there is a capacity to save, this is not usually enough to finance a business.

Therefore MFIs need to ensure that they will still be there in the future for their clients, and they can do this by covering their costs.

MFIs can cover their costs;

- By using a methodology that enables them to reach many people. This reduces per unit costs through economies of scale.
- By vigorously seeking to control costs.
- By vigorously seeking to control delinquency.
- By charging interest rates and fees that cover costs.

Experience has shown that the poor can pay high interest rates that enable MFIs to cover their costs. Evidence of this is visible through;

- Informal credit markets that exist in practically every society and these informal credit markets (moneylenders) lend at far higher rates than MFIs.
- Demand for loans, which is always greater than supply.
- Most people repeatedly returning for more loans.

And so it appears that *access* to loans is far more important than the *cost.*

MFI costs are normally classified into;

- Financial costs; Include interest and fees
- Cost of funds; Loan loss and inflation
- Operational cost; Salaries, rent, utilities etc

Lastly it should be noted that credit staff that are overly sympathetic to the clients may be socially inclined and by extension may have a problem implementing commercially viable microfinance. But this does not in anyway suggest credit staff should not care about client needs, but rather ensure such care does not interfere with implementation of the rule.

SESSION: 5

Community Education

Community education involves facilitating learning by adults. The majority of MFI clients are adults, and more often than not the methodologies used to deliver services will be new to them and therefore they will need to learn.

Their learning will be dependent on how the content is packaged, the language, the timing and even the venue. Because of many responsibilities, adults will not be willing to sit in a classroom for long hours. Adults cannot take in too much at a time and so the message must be passed on in small doses.

Adult education cannot be achieved through one-time instructions, but rather through repeated messages and by doing. Active participation is therefore critical. Adults cannot be coerced to learn through punishments or other methods; they learn only when they want to learn.

And whatever they learn must be immediately useful to them otherwise there will be no incentive to learn. Because of this, knowledge is not so much based on theoretical frameworks, rather on practical methods.

And so what this means is that adult education requires one to have certain virtues;

- Patience
- Consistency
- Cultural knowledge
- Flexibility
- Good listening skills
- One must never be an "expert"

Potential clients are likely to represent a cross-section of the community and a range of ages. In school, children are grouped according to age and ability.

School subjects frequently are separated form reality of students' lives. However, for those needing loans, information about the MFIs products is directly relevant tot he community members current needs.

Children must attend school up to a certain grade, depending on country's law and parental authority. Community members attend community meetings or informal discussions, based on their own interest and needs. They are not "forced" to attend as children are.

Credit operations staff should understand that they do not know everything about the community, lending programmes and how to make businesses successful. They should use community members as resources whenever possible and encourage community members to use each other as resources. Credit operations staff can promote informal exchange of learning through groups.

During public meetings and interviews with entrepreneurs credit operations staff should encourage community members to ask questions. They can also use community members in role-plays depicting critical issues or showing how to form a savings and credit group during a public meeting.

During interviews with potential clients, operations staff should encourage group members to solve their own problems. However if the groups have difficulty, the officers should lend support while remembering that final decision making authority rests with the group.

Here are a few differences between school education and adult education.

	SCHOOL EDUATION		**COMMUNITY EDUCATION**
1.	Oriented towards specific age	1.	Oriented toward a wider audience and mixed ages.
2.	The subject matter may not have direct relevance to life.	2.	Subject matter is directly relevant to their lives
3.	Participants must attend	3.	Participants attend based in their own needs and interest.
4.	The teacher knows everything and learners know nothing	4.	The community educator knows she/he does not know everything and uses the members as a valuable resource. Educator and members treat one another with mutual respect.
5.	The teacher has the authority to discipline the students to learn	5.	The Educator encourages active participant from all members.

6.	Students are not given opportunity to make suggestion or decisions about what they learn	6.	Community members are given responsibility to solve problems and to help identify what they need to know.

SESSION 6

Guide for Developing Delivery Process

1. Outreach and promotion
2. Client identification and selection
3. Client training
4. Assessment and intake
5. Savings mobilization
6. Facilitating the lending process
7. Loan monitoring and recovery process

SESSION 7

Credit Policies and Procedures

(Guide for Developing a Delivery Process)

1. ELIGIBILITY

1.1 Who is eligible for services from the scheme? Specify the eligibility criteria.

2 LOAN SIZE

2.1 What will be the maximum loan amount for the individual's 1^{st}, 2^{nd} and 3^{rd} loan?

2.2 How will subsequent loan amounts after the third loan be determined?

3 TYPE OF LOAN

3.1 For what types of activities will loans be given?

4 PURPOSE OF LOAN

4.1 For what purpose will the loans be utilized?

5 TERMS & CONDITIONS OF LOANS

5.1 Charges

i. What will the interest charged be?
ii. Is there an application fee? If so, how much will it be?
iii. What other charges will there be?

5.2 Loan Duration

i. What is the repayment period for each loan?

5.3 Mode of Disbursement

i. How will the loan be disbursed to the group and to the individual?

5.4 Grace Period

i. Will there be a grace period?
ii. How long will it be?

5.5 Collateral

i. What will the security for the loan be at the group level, and at the individual level?

5.6 Other Terms and Conditions

i. Will there be other terms and conditions?
ii. Can a loan be written-off?
iii. When, why and how will a loan be re-scheduled?

6 LOAN PROCESSING

6.1 Loan Application

i. How will the individual and the group apply for a loan?
ii. From whom shall the loan be applied?
iii. Is there a need for a loan application fee?

6.2 Appraisal, Recommendation & Approval

i. Who will appraise, recommend and approve the loan?

6.3 Security Documentation

i. What security documentation will there be?
ii. What documentation will there be for disbursement and who will be responsible for it?

6.4 Loan Collection and Recovery

i. When is the loan considered in arrears and what action should be taken in such an instance?
ii. When is the loan considered in default and what action should be taken in such an instance?
iii. Who is responsible for taking action against a defaulter who refuses to comply? What action shall be taken, and at what point?

6.5 Loan Write-Offs

i. When will a loan be considered unrecoverable?
ii. What decision and action will be taken and by whom?

SESSION 8

Individual Client/Group Policies

(Developing Operations Policies)

1. DEFINITION

- What constitutes a client/group under your institution's scheme?
- What are the essential characteristics of a client/group?

2. LOCATION

- What are the location criteria for one to become a client or belong to a group under your institution's scheme?
- What are the requirements for the individual borrower?
- Should there be a requirement for the group to have a constitution?
- What should such a constitution specify?

3. LEADERSHIP

- What will the leadership structure be in a group?
- What will be the requirements for selection/replacement of group leadership?
- How will discipline be maintained in the group?
- What will the role of savings and credit officer be in the selection of group leadership?

4. INDIVIDUAL/GROUP MEMBER QUALIFICATIONS

- What are the essential requirements for one to qualify as an individual/group member under the scheme?

SESSION 9

Developing Operating Procedures
(Pre-Loan)

Outreach & Promotion

(i) What is outreach & promotion?
(ii) Who will do the outreach & Promotion?
(iii) How will outreach & promotion be done?

Identification & Selection

(i) Who will identify and select potential client (group)?
(ii) How will they be identified?
(iii) What will be the selection criteria & Process?

Preparation for Intake

(i) Who will be responsible for preparing clients (groups) for intake/borrowing?
(ii) What preparation (training will the clients (groups) be given?

Assessment, Intake and Preparation for Lending

(i) Who is responsible for assessment intake preparation of clients (groups) for lending?
(ii) What are the intake criteria?
(iii) When and why would a client (group) be in taken, referred or rejected?
(iv) What preparation will the deferred clients (groups) be given?
(v) What preparation will the intake clients (groups) be given?

Savings Regulations & Procedures

(i) How will savings be conducted?
(ii) How, where and by who will the members savings be maintained?
(iii) How and by whom the client (members) savings by will managed?
(iv) How will interest on the group members savings be apportioned and by who?
(v) How will savings withdrawals/refunds be done?
(vi) How will savings be charged as collateral?

SESSION 10

Loan Processing & Monitoring

(GUIDE FOR DEVELOPING A DELIVERY PROCESS)

Lending

(i) Loan Application

- When does one become eligible to apply for a loan?
- To whom does one apply for a loan?
- Will an individual apply for a loan to the scheme or will the group apply for all its members?
- If the latter, how will the individual apply to the group and the group to your institution?

(ii) Loan Appraisal and Recommendation

- How will the appraisal and recommendation of individual loan applications be done?
- How will the recommendation and Appraisal of group loan application be done?

(iii) Loan Review and Approval/Deferment/Rejection

- How and by whom will the loan application be reviewed and approved/deferred/rejected?
- How and by whom will the process be documented?

(iv) Loan Agreement

- How will the loan agreement be made?
- Who will be the authorized signatories to the loan agreement?
- When will the agreement be considered to be in force?
- Under what circumstances will the Agreement be considered breached?
- What action will be taken in the even t of the breach?
- How may the contract be terminated?

(v) Loan Disbursement

- What documentation will be required before the loan is disbursed?
- Who disburses the loan?
- What will be the disbursement procedure?

(vi) Loan Repayment process

- How will the loan repayment from the individual to the group be made?
- How will the repayment from the group to your institution be made?
- In what form will the repayment be made?
- By when must payments made by individuals be banked?
- How will the group and credit officer/loans officer know that the banking has been made?

(vii) Loan Follow-up on Monitoring

- Who will monitor the loan repayment?
- How will the monitoring be done?
- What monitoring reports will be made, and by who?
- What follow-up and TA will there be after the loans?
- Who will provide the follow-up and TA.
- Who will be responsible for reviewing loan performance and decision making?

(viii) Loan Collection and Recovery process

- When is the loan considered to arrears?
- What action will be taken in the event of arrears?
- When will the loan be considered to be in default?
- What action will be taken in the event of default?
- What will the process of loan collection and recovery?

(ix) Rescheduling/Refinancing

- Under what circumstances a loan may be rescheduled or rejected?
- What will be the process or rescheduling and/or refinancing?

(x) Loan Write off

- Under what circumstances a loan may be written off?
- What will the process be for writing off a loan?
- By who and how will a loan write off be authorized?
- What actions will be taken following a loan write-off?

SESSION 11

Operations Planning

- Is a systematic and organized attempt to foretell the business outputs of the future
- Planning is important because it helps organizations anticipate changing business environment
- It provides clear objectives and direction to staff
- It facilitates effective use of resources
- Planning revolves around;
    - Reviewing the current situation
    - Developing strategies and policies for achieving the desired objectives
    - Setting objectives and targets
    - Developing indicators to monitor performance against targets

- Planning answers these questions;
    - Where are we now?
    - Where do we want to go?
    - Why do we want to go there?
    - How shall we get there?
    - How shall we know that we have reached there?

Operations is about method or procedure of work
As strategic management is about converting faith into hope, operations is about converting expectations into results. There is no use spending many hours strategizing without linkages to the implementing teams known in microfinance as the "hands on people". "The hands on people" are the "engines" without which the institution can't move. It is therefore important to get these people to be part of the planning because they must own the process for successful implementation.
Together with front supervisors, the operations people must turn senior management's hopes into concrete expectation, then into concrete results. They do this by first identifying potential areas of operations through on the job research. They must interact with the communities in order to identify the actual needs and how best to meet these needs. The product offered during the implementation period should reflect these needs.

Each member of the team then plans for intakes aiming at specific numbers for given periods. Subsequently they should plan disbursements for the same periods, because lending is the core business. As far as possible plans for savings mobilization should also be quantified in cases where savings services is part of the business

The overall aim should be to attain numbers and amounts that can sustain specific jobs otherwise there is no use filling those positions. The industry standards may be used as a guide, e.g. 300 clients per field staff. But more important the individual staff should state how they intend to go about marketing the products they will have on offer.

Many MFIs have failed because senior management loaded over targets to the field staff without proper justification. Instead they employed their authority

Plans have also failed because staff have not been held accountable to the numbers and amounts they propose. This should be part of the job performance appraisals. It is important for the staff to be ambitious in their plans, but it is even more important to proof how the ambition can be achieved. If field staff indicate in their plan that they plan to register 1000 more clients in the coming year, the managers should not be contended with that but ask how and where?

In operations planning there are always some assumptions;
- Clients will borrow and repay effectively
- Clients will actually require the services as anticipated
- Client exit will be minimal
- Political and economic situations will remain favorable.

But then experience has shown that some of these assumptions if not all, do not hold in practice, and the organizations who continue to make these assumptions fail. Good planners must therefore exercise due diligence by providing for some minimal tolerance limits as follows;
- Late payments is 3%
- 10% members will not borrow loans
- Drop out rates will remain under 3%
- Only a certain percentage of the identified market e.g. 50% will be interested in the institutions services (use market share of the institution to estimate the potential number)

IMPLEMENTING & MANAGING OPERATIONS PLANS

- Regular monitoring of target performance is critical to successful implementation, because it is in this monitoring that you discover performers and non-performers.
- Each individual staff must be personally responsible and accountable to their set targets. Good performance in target achievement should attract

commendation, while continued deviation from the targets should attract some kind of penalty

- But consistent variation overtime shows targets are unrealistic and corrective action should be taken so as not to affect the institution's finance position adversely.
- It is not enough to sit back and hold staff, management should provide backstopping support for effective implementation of plans. This can be done by studying the area of operation, determining the market share and working out realistic figures.
- Sometimes there is no need to rework targets, but assist the staff to do effective outreach. The institution should carryout broad marketing activities through radio, television, community work/charity works and public relations among other things.
- Staff must be aware of the area politics, economics and how these can be turned to the advantage of the institution.
- Market seasons and circles must be accurately established so that disbursements can be planned to coincide with these.

WHY ARE MANY MFIS NOT ACHIEVING THEIR TARGETS?

- Exaggerated ambitions
- Failure to read market signals accurately
- Inappropriate foresight and skill in forecasting on the part of the staff
- Stack lack the motivation to achieve, they do not feel a sense of belonging in their own organizations
- The economic growth levels simply cannot support institutional growth
- Inadequate monitoring and supervision, sometimes even inappropriate
- The institution is offering the right product to the wrong target group or is offering the wrong product to the right target group.

SESSION 12 & 13

Outreach & Promotion Plan

Introduction
Outreach and promotion is the process of informing the potential target clients of the MFI existence, services and procedures. Such a message should be designed in such a way as to evoke positive response from potential clients who identify that their needs will be met by the services being offered.

Sometimes the message is actually designed and disseminated in a way that resurrects dormant needs therefore forcing people to seek fulfillment of the same.

Outreach and promotion can make or break an MFI. Sometimes it is not so much the message, but the perception of the people that matters. Every care should be taken so that there is no misconception whatsoever on the part of the people because if this happens it is almost impossible to change it.

What this means is that before even designing the message, the MFI must clearly define how it wants to be perceived; for example "a trusted partner", "an organization that keeps its promises" or "an organization that does not tolerate default" etc
It is only when this is clear that the outreach message can be made clear.

It is important to note that outreach and promotion message should never be standard for all clients and all areas because of changes that occur in different people and different areas. The message should be consistently varied depending on the situation at the time.

The following steps may guide development of outreach and promotion programs I a given MFI;

Step 1: Area Survey:

- Loans Officer obtains an area Map from the concerned authorities.
- With the Branch manager and other loan officers, they divide the area among the number of Loans officers within the Branch.
- Loans officers visit their areas making an inventory of all visible businesses and taking time to familiarize themselves with the area and the people.
- If need be, the areas may be demarcated.

Step 2: Preparation of the message

The loans officer with the guidance of the Branch Management prepares the key message to communicate to potential clients. The message should encompass the following:

Introduction
- Name of Officer
- Name of Organization
- Background information on the respective institution
- Services offered by the institution
- Discussion on credit products
- Collateral/guarantee mechanism for the products
- Self selecting mechanism
- Loan sizes
- Registration of groups with relevant government departments
- Meeting frequency and their importance
- Branch/Field office contact

Step 3: Preparation of promotional materials

The loans officers prepare materials co communicates the promotional message. An important consideration to be made is the literacy level of audience.

The following are some of the materials useful for the exercise.

- Prepared flip charts and/or cards with key messages arranged chronologically
- Field not book
- Leaflets and Brochures of the respective institutions
- Rural Press

Step 4: How to call/organize promotional meetings

Public Meetings
The savings and loan officer will;
- Use relevant government agencies, local administration, and any other administration as appropriate to call meetings but make sure the difference between the institution and the political organizations is made very clear.
- Call the meetings directly using posters (English, Local languages where applicable)
- Identifies venue, time and date.

One to One Meetings

Savings and credit officer will;

- Prepare key message to communicate
- Identify the time and date to visit
- Carry leaflets and brochures
- Then make visits to a cross section of entrepreneurs to explain his/her institutional activities and use them to pass on the information to others and inform those who are interest o how to enlist, and direct them to the Branch/field office for more assistance.

Step 5: **How to deal with existing/informed clients**

- Respond to enquiries (at Branch Office Level)
- Work with existing group members and officials to outreach potential clients
- If image is dented, correct image or re-organize fragile groups
- Maintain good public relations

SESSION 14 & 15

Group Formation Vs Other Approaches

Group Approach
A group consists of two or more individuals.

It has already been pointed out that the popularity of the group approach in microfinance has been significantly improved by the paradigm shifts. It became inevitable that any MFI that wanted to increase outreach and achieve sustainability had to do it through mass numbers, which is possible through groups.

In many African societies, many poor people are already members of a group; either in the church or within their immediate community. And so the concept of groups is not new to them; but perhaps what is new is that such groups should be used more for economic benefit and less for social benefit. This is where the greatest learning must occur.

Groups consist of individuals who have something in common; they come from the same community, they worship in the same church, they are the same age group or they simply work in the same market. And so this is the first lesson in group formation; defining the common bond.

The second lesson is understanding the reasons for continued existence of such groups. Even though the MFI staff may facilitate this process, it is best when the members of the group themselves can articulate why they think existence of their group will promote their purpose. It is only in this way that the MFIs help develop long lasting groups. The reason we often see high group fragility rates is because these issues were not clearly defined, and furthermore members played a secondary role in that process.

Where groups do not exist at all then MFIs can use different ways to demonstrate to the communities the advantages of pooling together. The MFI must help the communities define some common bonds upon which new groups may be formed, and then go ahead to facilitate the group formation process. The formation process involves;

Receiving individual applications; the applications could be either verbal or written, but aspiring members must express the willingness to join and give reasons why they want to join.

Assessment of individuals; This must be based on their character and behavior, whether they are people who can easily interact with others and whether they can be relied upon to keep established rules and norms. Both group members and the MFI staff can do this vetting. Informal interaction with members of the communities will facilitate this process.
Registration of members; All those who qualify must then register by completing the appropriate documents and paying fees where necessary. Registration is a sign of commitment on the part of the member and organization on the part of the MFI.

Once the common bond is defined and agreed upon, the group operating rules must be established through brainstorming session with all members. The idea is to develop ground rules that are owned by the members, as this will make easy to implement. The rules are usually in a constitution form and would consist among other things;

- The name of the group
- Objectives
- A list of members
- Eligibility criteria
- Registration procedure
- Resignation
- Expulsion
- Disciplinary procedures
- Election procedures

Group leadership will normally be a strong determinant of group success, and so members must be educated from the start concerning different leadership roles. Below are a few characteristics of good group leaders;

- Involve all the group members
- Be firm but fair
- Understand their roles within the groups i.e.
- Chairperson, Secretary, Treasurer
- Be committed to the group's course
- **Be honest and have integrity**
- Be open to criticism
- Be compassionate

A highly cohesive group will be evidenced by;

- High participation
- **Small action committees**
- Many social welfare activities
- Participative dialogue

- Open communication

Other Approaches

It is important to note from the beginning that the group approach is not the only way to advance the course of microfinance. The MFIs that have not recognized this fact are suffering from consequences of high defaults and high client exits.

Knowledge of other approaches widens the potential for choices and will help the MFI in its internal paradigm shifts. In this way it will be easier to deal with environmental changes within the sector. However the group approach is the simplest approach so far in terms of systems and management.

Other tested and proven approaches include;

- Individual approach
- Village banking approach
- Financial Services Association approach
- Cooperative Approach

Individual approach is expensive and also limiting in outreach. It is most useful when an MFI is dealing with medium enterprises.

Village banking is similar in many ways to the group system, but it is more rural focused. It is based on the concepts of the traditional rotating savings and credit associations. The contact with the client happens at a longer interval than a normal group system.

Financial Services Associations are also village based. In this system the community generates their own capital through savings, and they also manage the association. It is termed as user owned approach and is more provides more savings services than credit services. The biggest challenge so far in this approach is that of governance but is very good in outreach.

The cooperative system is one of the oldest systems and again is user owned providing both savings and credit services to its members only. It is also good in outreach, but still faces problems of management.

Sessions 16

Savings Operating Policies

Guide for Developing a Delivery Process

Do low-income groups of people save? Yes, poor people like and are willing to save. Indeed researches in many parts of the developing world indicate that more poor people do save than borrow.

- Some of the things that are of concern to the poor in regard to savings are:
- Safety for their money
- Convenience – in deposits and withdrawals
- Simplicity in management of the savings and its documentation
- Flexibility in terms of ability to save small amounts and its accessibility
- Easy documentation – they treasure, simple language, simple applications, passbooks, etc.
- Interest earnings are considered important – but not in the same level with safety and other preferences as stated above.

The following questions then need to be answered and used for the design of the delivery system:

- What are the benefits of savings?
- How do people save in South Sudan?
- Why are savings necessary?
- Who is required to save?
- When will saving begin?
- To what use will the savings be put?
- How much must one save?
- How frequently will savings be made?
- Will there be interest on savings? How will it be distributed?
- Where will the savings be kept and how will they be managed?
- Under what circumstances can one withdraw one's savings?
- What will happen to one's savings if one is incapacitated or dies?
- How much must one save in order to qualify for a loan?
- What will be the ratio of savings to the loan amount one can borrow?

Sessions 17 & 18

Leadership & Group Management

ROLES, RESPONSIBILITIES & QUALIFICATIONS OF THE GROUP LEADERS

Leader	Role	Responsibilities	Qualifications
Chairperson	Team leader	**Planning:** plans and facilitates the group meetings **Leading:** Ensures effective implementation of the group and SSAEFI programs Conflicts. Ensures the participation of each member in meetings and the group activities. **Organizing:** Oversee operations and meetings	**Should be:** Literate, Confident, Credible, Supportive, Committed, With vision, Respected & Sociable
Secretary	Records and communication manager	**Record Keeping:**, takes the minutes of each meeting, manages group records e.g. members register, keeps the attendance register; record management decisions and activities of the group **Organizing:** Plan group functions, develop agenda for meeting, schedule and manage meetings **Monitoring:** Communicate policies; observe regulations and procedures	Literacy, Good organizational skills, Good communication and facilitation skills, Good writing skills & Good report writing skills.
Treasurer	Financial Officer	**Financial management:** Receives the group collections for loans and savings and ensures that they are deposited. (There however must be a rotation system to allow members to take turns making the deposits) **Record Keeping and reporting:** Keep savings/loans records, manage the group account. Provides updates on the financial status of the group. Submits regular financial reports to the chairperson and the loan officer	Should have: Good financial analysis & Record keeping skills, Have an eye for detail, Good organizational and communication skills, Positive experience with managing community group funds, Honest, Unbiased & Dependable

GROUP RECORDS AND DOCUMENTATION

An important factor for the success of any group is the maintenance of accurate and up-to dates records. These records provide a useful source of information for the management of the members, meetings, savings and loans.

Each Loan officer will therefore need to train the group secretary on the art of taking minutes, the treasurer on the recording of financial information and all the other group officials involved in any form of record keeping to ensure that accurate and up to date records are maintained at all times.
The following are some key records that should be maintained by each group to ensure proper management of the group activities.

1. The Group Minutes Book

The minutes should include: a statement of when the meeting began and who offered the opening prayer; the members who attended the meetings and those who did not, giving reasons for non-attendance; amount collected desegregated in terms of savings, loans and any other collections plus the reports by the various officials as stipulated below.

Group chairperson • Attendance • Payments • Loan applications • Defaulters • Drop-outs/new members • Other activities	**Secretary** • Loan request letters received • Reports on the loan appraisals undertaken	**Treasurer** • Payments made by the whole group • Report on group bank balances on a monthly basis	**Discipline Master** • Lateness • Fines collected • Any misconduct in the group	**Loan Officer** • Loan disbursements – Number and amounts • Issue of loan application forms • Handling of default • Misconduct of any member • Loan appraisal results/planned

2. Attendance Register

The attendance register records all the group members. At every meeting, a roll call is done to monitor attendance of members to the group meetings. The register should note: the members present, those who are late, those absent with apologies (preferably written) and members absent without an apology: The secretary MUST always carry the attendance register to all meetings without exception

3. Treasurer's Ledger

This record documents each meeting collections both on loans and savings. Each member should have a personal ledger opened within this general ledger as soon as she/he commences the savings mobilization. The details on this ledger should be a replica of the passbook.

4. Correspondence File

This file is maintained by the group secretary and should contain all the correspondences to and from the different parties that the group interacts with. These could be letters received/replied to/from the SSAEFI, Government departments, Municipal council, meeting venue landlords etc.

5. Bank Slips File

This file is maintained by the Treasurer of the group and should have the entire group account bank statements collected and read out to members on a monthly basis.

6. Discipline Masters Record

This record should be maintained by the discipline master of the group and should have details on late attendance and the fines collected. The members must decide what they are to use the proceedings on the fines for and have it documented in the group constitution.

7. Individual Client Passbook

This record maintains details of the individual client payments in terms of savings and loans. This record is completed and signed by the group treasurer and the details must always agree with the group ledger. The client must therefore carry the passbook to the meetings to ensure that the correct details are recorded at every sitting.

GROUP MEETING AGENDA – SAMPLE

Opening prayer

Attendance register

Review of previous meeting minutes

Matters arising

Collections – savings, loans, merry go round

Reports –

- Disciplinary master
- Group treasurer
- Chairperson
- Loan officer

Any other business

Closing prayer

Session 17 & 18

SOUTH SUDAN AGRICULTURE ENTERRPRISE FINANCE PROGRAMME (SSAEFI)

MODEL CONSTITUITON

………………………. Self Help Group

Minute - Drafting Constitution

Constitution & Rules

1. Name

   The name of the group shall be ……………………….Self Help Group

2. Objectives

   Securing loans from SSAEFI to expand business.
   To carry any other social to economic related activities.

3. Membership

   (a) Any person who has a business or is intending to, shall be eligible for membership of ……………………….Self help Group subject to approval of SSAEFI.

   (b) Any member desiring to resign from this group shall submit his/her resignation to the Secretary of the GROUP but only if he she does not have a loan and all other members he/she has guaranteed have cleared all their loans.

   (c) Any member may be expelled from membership if the group so recommends and if in a meeting of this group shall resolve by two-thirds majority of the members present that such a member be expelled on the grounds that his/her conduct has adversely affected the reputation or dignity of the group or that he/she had guaranteed their loans.

Any members who resigns or is removed from the group shall receive all the savings and nay interest in the books of this group less any indebtedness owed by him/her to SSAEFI or the group.

SESSION 17 & 18

MODEL GROUP CONSTITUTION OUTLINE

1. Name of the Group
2. Year group established
3. Year group registered with SSAEFI
4. Number of the members at inception
5. Number of Members currently
6. Objectives of the group
7. Key group activities
8. Group meeting – time & venue
9. Office bearers – Executive & committee members
10. Election of office bearers – notice for calling elections quorum and representative from SSAEFI
11. Discipline of members – lateness, absenteeism, etc.
12. Bank account – bank and signatories
13. Withdrawal of membership – resignation, expulsion, etc.
14. Declaration – by all the members

SESSION 19 - 23

Loans Appraisal Guidelines

Group assessment

- Verify past group records (Watch for backdated records to avoid being cheated!)

- Verify whether the registration certificate is genuine.

- Attach list of initial and current members with the ID Nos.

- Probe further to establish stability of the group.

- Observe whether the group rules and regulations constitution are being adhered to.

- Verify past records on group activities.

    - ✓ Level of participation
    - ✓ Attendance at group meetings
    - ✓ Conducting of group meetings
    - ✓ Enforcement by the group on rules and regulations.

- Verify the existence of the following records;

    - ✓ Correspondence
    - ✓ Minutes
    - ✓ Members attendance
    - ✓ Collections: Savings
        - o Merry-go-round
        - o Fines & penalties

- Verify from the minutes and impromptu visits

- Attach list of members and their individual activities i.e. Name, type of Business, Location etc.

- Probe members randomly (not officials) and verify from past records (minutes)

- Observe how officials conduct the following:

- ✓ Handle meetings
- ✓ Enforce rules and regulations
- ✓ Roles and responsibilities of officials
- ✓ Promote individual member participation
- ✓ Handle disputes, discipline

- Investigate on positive and negative aspects on why group officials have been in office for too long (relate it to the constitution)

The Client

Name and Date of Birth – verify from available identification papers

Age: (Take caution on dangers of lending to very young and very old clients though, not all such clients in this category are risky).

Marital Status: Be careful about singles without dependants. Experience has shown that married people are more stable and reliable. Where one has many dependants, there is risk of diversion of funds, hence default.

Nationality: Where there is suspicion there is need for verification from independent sources.

Residence: Investigate and verify from group members/other sources.

Length of Residence: Length of stay in the residence will indicate stability of the client; i.e. a person, who has stayed in an area for a longer period, indicates stability.

Home district: For future reference in case a client absconds (chief, Boma/village, Payam County)

Year started business: Number of years in business will give an indication of experience of clients in business generally.

No. of years in current business: Will give an indication of business stability and experience of client. Investigate change of business and diversification to avoid experiencing new business ideas.

Ownership: Use the licenses to verify ownership of business or any other available. The same information can be obtained from neighboring businesses and also impromptu visits.

NB: Partnership may be difficult to handle in case of default

Loans from other institutions: Verify from other members or institutions in that area.

Other Relevant Information

- Repayment – 100%
- Savings - 100%
- Meeting attendance – over 90%
- (Refer to consolidated register or group records for this information

- If performance is below the indicators above, justify need for loan approval
- Relations and participation of members
- Is the member social, co-operative, time conscious, respectful etc. If not be careful.

Market Assessment

- Observe if the business has no fixed location and verify with records.

- Verify by:

(i) Probing
(ii) Investigating
(iii) Records (to establish the market share)

Verify by – investigating & probing (to establish the level of income, and buying habits, taste and even occupation of customers).

- Observation (to relate the attitude of the client towards the market and the strategy).

- Observe and Probe (to establish turnover and the cash flows of the business to enable you establish how the client will repay the loan).

- Record observation & probing whether the business information is consistent.
- Establish the inflow and outflow of cash in relation to the loan repayment requirements e.g. weekly, monthly, etc.

- Observe (to help you assess demand & growth potential).

- Verify records (this will enable the CO establish whether there is need to consider grace period and evaluate expenses incurred, procurement, management).

- This will enable the CO assess the extent of competition and determine the ability to repay loan.

- To enable the credit officer establish the frequency and period of repayment.

Business assessment

- Indicate specific business.

- Establish permanency of the business premises e.g. if rented how long and is there a lease agreement.

  - ✓ If open air, do they pay daily rates, ownership of space
  - ✓ If it's owned there should be evidence of ownership.

- Probe to establish the growth of the business and entrepreneurial capability in relation to current capital.
- Verify and relate the information given to size of the enterprise and the expenses.
- Verify whether the sales are:

  - ✓ Daily
  - ✓ Weekly; Compute into monthly sales
  - ✓ Bi weekly
  - ✓ Monthly

- Verify the above with available records and establish the fast moving products, services and relate this to purpose of loan.

- Verify frequency of purchases and relate it to sales and profits.

Profit margin: $$\frac{\text{Net profit}}{\text{Sales turnover}} \times 100$$

Net profit=Gross sales less expenses.

NB: For profit margin – relate it to your institution's interest rate and establish capability of the enterprise to service the loan.

- Probe and verify the months and amounts to establish the trends of sales, expenses, amount, overdraft, loan required and ability of the business to repay the loan (calculate the profit).

- Establish this in relation to current capital, the seasons working peaks.
- Relate the repayment period & installment, grace period to the profits and seasons.

Security

Refer to client assessment; e.g.
- Is the client honest?
- Ability of the business to repay the loan
- Credit history etc.

The Business: Refer to business management
- Ability of the business to repay the loan

Cash collateral:
- Savings requirement (%)
- Fixed deposit certificate (bearer certificate)

NB: If the pledges are not adequate the client to revise the cash collateral

The group: Refer to group assessment
- Willingness & ability, quality of the group to guarantee the client.

Pledges: Acceptable pledges (listed in the sworn affidavit or other recognized legal form).
- ✓ Tangible business assets
- ✓ Client household goods (verify ownership).
- ✓ Commercial plots
- ✓ Share certificates e.g. Shares quoted in the stock exchange.

Third Party: For third party guarantee pledges must be listed in a sworn affidavit through a deed of guarantee.
- Tangible business assets
- Household goods
- Commercial plots
- Share certificates

Session 24 & 25

Loan Processing

Members are eligible for loans on fulfillment of all SSAEFI rules and regulations. The members must also fulfill all their respective group requirements, which should not be in conflict with SSAEFI's.

SSAEFI provides loans through the following procedures:-

Members are eligible for loans after an initial period of eight weeks of uninterrupted savings of a minimum of Ushs 2,000 weekly. During this period LOs must attend all weekly meetings to supervise savings collections and prepare members by familiarizing them with the lending procedures.

(i) Borrowing Circle

Loans are lent using SSAEFI's standard policy requirement on disbursement sequence of 2:2:1 (i.e. a group of 5 members, will borrow in the following order).

After the initial eight weeks of uninterrupted savings, two members in each Cell are eligible for a loan - two of the remaining members, are eligible for loans after a further four weeks of uninterrupted savings by all members, timely repayment of loans and adherence to all SSAEFI rules and regulations.

The remaining one member (usually the chairperson) receives loans after another two weeks of uninterrupted savings by all members, timely repayments and adherence to all SSAEFI rules and regulations.

NB: A POSITIVE AND NEGATIVE INCENTIVE IS IN-BUILT IN THE LOAN REPAYMENT MECHANISM. LATE REPAYMENT BY ANY BORROWER WILL RESULT IN SUSPENSION OF FURTHER LOANS TO THE GROUP. CREDITWORTHY BORROWERS CONTINUE TO ACCESS SSAEFI 2ND AND SUBSEQUENT LOANS AS THEY QUALIFY.

(ii) Loan Application

During the fifth week of the orientation period, the LO facilitates the selection of the first and second lots of borrowers using the following process:-

- The LO requests the group members to identify one member to apply for loan in the first lot of borrowers.

NB: WHERE THERE IS NO DISPUTE AS TO WHO IS TO APPLY IN THE FIRST LOT OF BORROWERS, THE LO ADVISES THE PERSON TO APPLY TO THE GROUP IN WRITING.

WHERE THERE ARE DISPUTES, THE LO FACILITATES SELECTION OF THE FIRST LOT BORROWER, THROUGH SECRET BALLOT. THE LO PRESIDES OVER THE BALLOT BY WRITING ON A SMALL PIECE OF PAPER, THREE 'NO'S AND TWO 'YES'S'. SHE/HE WRAPS AND SHUFFLES THE PAPERS FOR THE CELL MEMBERS TO PICK. THE MEMBERS WHO PICKS THE 'YES'S' AUTOMATICALLY BECOME THE 1ST LOT OF BORROWERS FOR THE CELL, AND ARE REQUESTED TO APPLY TO THE GROUP IN WRITING.

THE APPLICATION LETTER MUST SPECIFY THE INTENDED AMOUNT TO BE BORROWED AND SIMPLE BREAKDOWN ON THE INTENDED USE.

MEMBERS, WHO DO NOT KNOW HOW TO WRITE, SHOULD REQUEST OTHER MEMBERS OF THE GROUP TO WRITE ON THEIR BEHALF.

THE APPLICATION LETTERS ARE THEN HANDED OVER TO THE GROUP CHAIRPERSON.

(iii) Appraisal

All SSAEFI loans <u>must</u> be appraised. The whole group and the SSAEFI LO carry out the loan appraisal. The appraisals are carried out INDEPENDENT OF EACH OTHER. The appraisals <u>**must**</u> be carried out at the business site.

(a) Loans Appraisal by the Loans Committee

The group schedules visits to each of the applicants.

During the visits, the group members establish what the applicant does, his/her type of business, what the applicant has to offer as security to the group for the loan, certify ownership of the pledges and hold discussion on the appropriateness and acceptability of the pledged securities, family background, etc.

The members then on consensus make their written recommendations on each of the applicants, for discussion in the sixth meeting.

The report <u>must</u> specify the member's recommendation on loan amounts, business, commitment of the applicant, pledges/security for loans, etc.

(b) Loan Appraisal by the LO

The LO:-

- Prepares a list of the selected/elected lst lot loan applicants.

- Receives copies of the member's applications.

- Schedules loan appraisal visits for each of the applicants for technical business appraisal.

- During the appraisal, the LO carries along a calculator and a field note book.

- At the business site the LO:-

- Appraises the viability of the business (i.e. products/service, sales and purchases, income, profits, etc.).

- From the funding of the appraisals hold discussions with the applicant on matters related to the repayment period, loan size and interest rate/fees.

- The information collected during the appraisal is summarized in the LO loan appraisal.

- On the sixth meeting, the LO:-

- Facilitates the discussion of the group appraisal report presented by the Chairperson to the entire group.

- Presents his/her appraisal report with recommended loan amount to the entire group. Where there are differences in the two reports, discussions are held at the group level to determine the amount to be borrowed.

- Group members are given a chance to comment on the loans, and commit themselves to guarantee the loans.

- The ultimate decision on the loan amount to be borrowed lies on the LO

- Once the amount loan amounts have been determined by the group and the LO, the applicants are given an opportunity to commit themselves.

- The LO summarizes the implications of the resolutions arrived at, and seeks the groups' commitment to the loans

- The LO informs the applicants on the fees and charges to be paid upfront both the loan application and the loan insurance fund fees. The applicants are also informed to make their own arrangements to swear the affidavit.

- Between the sixth and the next meeting, the applicants are informed to pay their fees to group treasurer. The group treasurer pays this money to the LO who issues a receipt and loan application form for each applicant during the 7th meeting.

- The loan application form is completed by the 7th meeting.

(iv) Loan Approval

The group and the LO approve the loans. During the 7th and 8th meetings, the LO facilitates the filling of the loan application forms: the guarantee by the Cell members, and approval of the loans by the officials signing on behalf of the group and the LO on behalf of SSAEFI.

Once the above has been done, the LO ensures that the LAF has the following attachments a duly completed and sworn affidavit; copies of receipts of pledged securities; and a passport size photograph.

Between the 7th and 8th meeting the LO presents the loan application to the branch loans committee made up of the branch manager, accountant and the loan officers. The application has the following attachments: a duly completed and sworn affidavit; copies of receipts of pledged securities, a passport size photograph, the group and LO appraisal reports. The loan officer must also have the entire group's loan and savings status report for reference.

The loans committee makes the final decision to approve, defer, reduce or reject the loan application.

When all the above is done, the LO initiates the disbursement processing. The following constitutes the LAF process by the branch Office:-

- The LO attaches the loan appraisal to the LAF with all the attachments presents them to the Accountant.

- The Accountant verifies the loan documents, by confirming the calculation of the installments, consistency of applicant names in all documents, cash collateral and co- guaranteeing by the group, etc.

- If satisfied, the Accountant endorses by signing on the LAF and prepares a loan repayment schedule for each loan applicant. The accountant also prepares a Voucher drawn in the name of the applicant as they appear in the passbook and all other documents.

- The payment voucher, LAF and attachments are presented to the branch manager.

- The branch manager then verifies by checking the following:-

  i) The consistency of the names in the passbook, the LAF, details in the passbook and other related documents.
  ii) The calculation of the weekly installments.
  iii) The certification and guarantee of the LO-Cell members.
  iv) The attachments on the LAF (i.e. sworn affidavit, passbook, loan appraisal, etc.).
  v) The accuracy of the repayment schedule.

- If satisfied the branch Manager authorizes by signing the LAF and payment voucher and passes them to the Accountant.

- Once authorized, the vouchers and the attachments are sent back to the Accountant, who enters the details in the Accountant's disbursement register

- The Accountant then removes the original copy of the PV and issues the Vouchers, the LAF and attachments to the respective LO, who in turn signs the Accountant's disbursement registers.

- The LO enters the details of the loan amount in the applicants passbook and enters the same details in the Consolidated Register.

(v) Loan Disbursement

Loans are disbursed by Vouchers to individual group members. All disbursements <u>**must**</u> be done during the groups' weekly meetings **(NEVER IN THE OFFICE).**

Disbursement to the 1st lot of borrowers is done during the 8th week. The LO:

- Disburses the signed vouchers to the individual applicants.

- Each applicant acknowledges receipt of the voucher by signing on the LAF, PV and the disbursement return form.

- The LO informs the applicant of the first due date, the weekly installment and directs the applicant to the cashier at SSAEFI for cashing.

NB: IF THE APPLICANT IS ABSENT DURING DISBURSEMENT THE LO MUST NOT RELEASE THE PV TO ANY OTHER MEMBER ON BEHALF OF THE APPLICANT.

- The disbursement proceedings are recorded in the group minute register.

- The LO enters the information in the LO disbursement register.

- At the end of the meeting the LO carries the LAF/attachments, and hands them over to the Accountant.

- The Accountant attaches the original payment voucher to the LAF, updates the cashbook and files the documents in the respective group file for entry into the loan status.

PAYMENT VOUCHERS NOT DISBURSED IN THE MEETING MUST BE RETURNED TO THE ACCOUNTANT FOR SAFE CUSTODY ON THE SAME DAY.

Session: 24 & 25

AFFIDAVIT

REPUBLIC OF KENYA
IN THE MATTER OF OATHS AND STATUTORY
DECLARATION ACT CAP 15 LAWS OF KENYA

AND

IN THE MATTER OF ………………………………………………… WOMEN/SELF

HELP GROUP AND IN THE MATTER OF ……………………………………

A F F I D A V I T

I .... of Post Office Box .... in the Republic of Kenya make oath and state as follows:-

1. That I the holder of National Identity Card No. .... and that I am the deponent herein.
2. That I am an active member of .... Women/self help group, a registered group under the Ministry of Culture and Social Services.
3. That SSAEFI has agreed to extend loan facility to .... women/self help group as a group which money is to be shared to members in such portions as the members shall apply to the SSAEFI.
4. That I undertake to do all that which is under my power and ability to service such loan as may be advanced to me.
5. That I forego and surrender for sale by way of Public Auction all my properties listed on the schedule of properties duly executed by me depicting my Name, my Signature and my Identity Card and showing the amount of loan advanced to me which schedule of properties shall be in the custody of SSAEFI and copied to .... women/self help group.
6. That all which is deposed herein is true to the best of my knowledge belief and information.

Sworn by the said .... this .... day of .... 19.........

BEFORE ME

....
MAGISTRATE
COMMISSIONER FOR OATHS

....
DEPONENT HEREIN

REPUBLIC OF KENYA

SCHEDULE OF PROPERTIES

ITEM NO.	DESCRIPTION	YEAR	SERIAL NO.	ESTIMATED VALUE
1.	....	....	....	....
2.	....	....	....	....
3.	....	....	....	....
4.	....	....	....	....
5.	....	....	....	....
6.	....	....	....	....
7.	....	....	....	....
8.	....	....	....	....
9.	....	....	....	....
10.	....	....	....	....

CERTIFICATE

I ....ID Number .... of Box .... in the Republic of Kenya certify that I possess and own the above listed items and in the invent of my defaulting in payment of loan advanced to me by SSAEFI of Ushs. .... or any part thereof I give authority to either .... women/self help group or SSAEFI to dispose off the said property and service such loan any part thereof or any balance owing from me to SSAEFI.

Signed: ....

LOANEE

In the presence of:

(1) Chairperson (Name) Signature Date

....

(2) Witnessed by: Credit Officer Signature Date

....

SSAEFI

Session 24 & 25

LIEN ON SAVINGS, ACCOUNTS HELD AT SSAEFI

FROM: ……………………… …………………………

………………………

TO: (SPECIFIED INSTITUTION)

…………………………….Branch

…………………………….

LIEN ON SAVINGS ACCOUNT

IN CONSIDERATION of **South Sudan Agriculture Enterprise Finance Institution SSAEFI** (hereinafter referred to as the Lender) making credit facilities available to me .... of ....

I hereby authorize the Lender to have a Lien on and to apply the balances on my Savings Account No. …………………………… In the event of non-payment of the facilities granted to me.

Until all my liabilities shall have been fully discharged the Lender shall retain such funds as may be necessary to meet such liabilities on maturity of the facility granted to me.

……………………………

BORROWER

Session: 24 & 25

LOAN AGREEMENT FORM

Applicant's Particulars

Name ....
Postal Address ....
Town ....
Bus. Location ....
Residence ....
Boma ....
Payam...

ID Number:.......................
Membership No. ....
Enrolment Date ....
Group No. ....
Group Name ....

Amount and Purpose of Loan

Amount applied for Ushs. ....
In words ....
Purpose of loan ....
....

Business Type
Trade ....
Manufacturing ....
Service ....

I the undersigned hereby certify that the information provided above is true and further undertake to repay this loan in .... weekly/monthly installments of Ushs. .... this includes service charge of Ushs. ....

Applicants Signature ....Date ....
Name of Witness ....Date ....
Signature of Witness ....Date ....

Certification and Loan Guarantee

We the undersigned members of .... (Group name) hereby certify that the information given by the applicants true and that in our assessment this applicant is able to service the loan as indicated. We further confirm that the applicant has complied with all the group rules and regulations. In the even that the applicant fails to meet the weekly/monthly installments in repaying the loan we jointly undertake to forfeit our current and future savings as stipulated in the SSAEFI regulations.

Member No.	ID Number	Name	Signature	Date	Savings

Loan Approval
On behalf of .... group we the undersigned officials hereby approve a loan of Ushs. .... in words .... to the above applicant.

Official	Name	Signature	Date	**Authorization**	Signature
Chairman				**Loan Officer**	
Secretary				**Accountant**	
Treasurer				**Area Manager**	

Acknowledgement
This is to acknowledge receipt of Ushs .... being a loan from SSAEFI repayable in .... equal installments of Ushs .... as per attached loan repayment schedule.
Date of Disbursement .... Due Date of first installment ....

Applicant's Signature .... Date ....

Session 24 & 25

MEMORANDUM UNDER HAND TO ACCOMPANY DEPOSIT OF TITLE DEEDS TO SECURE EXISTING AND FUTURE ADVANCE

MEMORANDUM by which I, ... of ....DECLARE that I have deposited with SSAEFI (hereinafter referred to as the Lender) the documents of title specified in the schedule to secure the repayment to the Lender on demand of the sum of ....advanced by the Lender to .... (Hereinafter referred to as the Borrower with interest thereon at the rate of ....% and in the case of further advances from the respective money has been called in the fully repaid.

AND I UNDERTAKE when so required by the Lender at my own cost to execute legal mortgage of the property specified in the schedule.

THE SCHEDULE

{List of documents of title)

DATED .... DEPOSITOR

Session: 26 & 27

Role of Loan Officer

Introduction
The credit officer (CO) plays a critical role because of the multiple roles of this position. The CO is expected to be a combination of the following;

- Trainer
- Facilitator
- Counselor
- Debt collector
- Credit officer

The role of credit/loan officer cannot be emphasized enough as he/she is the link between the customers and the institutions. In other words the CO is the marketing/relationship manager and it is therefore important that the CO conceptualize this so that he/she can actualize it.

These cadres of staff are expected to know it all and often times are expected to be the "jack of all trades". Whether these staff see themselves as described above is a matter for discussion.

It is therefore important that CO has the prerequisite skills to perform his/her role effectively. While the institutions are held responsible for recruiting and developing qualified staff, the individual staff should also take the initiative to be knowledgeable and remain informed.

The role of the CO described above is usually not written and therefore is not part of the formal role. The formal role is documented and summarized in detail in what is officially referred to as job description.

The job description would normally include the following;

- Job title
- Department
- Job summary
- Specific duties
- Supervision relationships
- Working Conditions
- Job requirements
- Other attributes/Qualities

- Limits of authority
- Accountability
- Contacts

Planning the Operations
The credit officer takes part in planning process through the following activities;

- Conducting field surveys, enumerate businesses and develop understanding of operational area.
- Evaluating accessibility to support auxiliary and other services such as Banks, Police stations, Schools etc.
- Identify other development agencies/government departments for future collaboration.
- Compiling the report on survey of Area to the customer service supervisor (credit), who in turn consolidates all Branch reports to the Branch Manager. Reports must address;
    - ✓ Potential clients' feelings towards the Bank.
    - ✓ Current and future potential for Savings and Credit
    - ✓ Accessibility to the Area
    - ✓ Accessibility support and other future auxiliary services in the area.
    - ✓ Possible conflicts and constraints
    - ✓ External factors that could affect Institution's operations favorably
    - ✓ Presence of other Development agencies
    - ✓ Providing similar or other services

Outreach & promotion

The CO undertakes outreach and promotion activities by;

- Preparing promotion message
- Preparing promotional materials
- Calling and organizing meetings
- Responding to enquiries
- Working with existing clients
- Re-organizing fragile groups
- Maintaining good public relations & upholding correct image of the organization
- Organizing seminars for group leaders

Recruitment and intake of clients

The CO recruits clients;

- Respond to enquiries and make scheduled and unscheduled visits to potential clients for verification purposes
- Make assessment of clients and client business and if satisfied

Training

The groups are trained on;

- How to conduct group meetings
- How to take minutes and maintain group records
- How to open and operate a Bank account
- How to formulate a group constitution
- How to access loan application
- Good borrowing principles
- Advantages of shorter repayment periods
- Group character assessment
- Leadership roles and duties of group officials
- Group meeting formats, members rights and obligations
- Purpose and interpretation of individual member records
- Interpretation and operationalize of institution savings policies and procedures
- Security for loans

Loan processing, disbursement & loan collection

The CO facilitates the process by;

- Appraising the applicants and their groups
- Ensuring that application documents are duly completed.
- Facilitating the disbursement
- Follow up
- Ensuring loan payments are on schedule.

Reporting

Information is important to determine whether the institution is on course or off course, and so the CO must periodically prepare progress reports for his/her use and for management use as well.

Other duties

Duties as may be assigned by the manager and may include acting on behalf of the manager, presentations at conferences etc.

Session: 28 & 29

Documentation & Monitoring

CONTENTS FOR DISCUSSION IN MANAGEMENT MEETINGS

1. **Branch Office Level**

    1. No. of groups handled by individual loans/credit offices
    2. No. of newly in taken groups/clients in the month
    3. Total portfolio per loan/credit officer in amounts
    4. Group meeting attendance
    5. Amounts in Arrears
    6. Amounts in default
    7. Total No. of clients per loans/credit officer
    8. Action taken by loans/credit officer on arrearage and default
    9. Any changes in individual loans/credit officer projections
    10. Teamwork, collective assignments on defaulters
    11. Sharing of field experiences amongst Branch office staff
    12. Other Administrative issues affecting staff at the Branch Office level.

Institutional Level (Management)

1. Credit Operations Reports

- Total amounts of loans disbursed in the month by type
- Interest earned on loans in the month
- Total loan applications fees collected in the month
- Total loan insurance fees collected in the month
- Other income collected in the month
- Total savings collected in the month
- Groups/client intake during the month
- Total number borrowers
- Amounts in Arrears by type of loan
- Amounts in default
- Average loan sizes
- Reflect all the above figures to date from the beginning of the year for compensation purposes
- Compare figures with the previous month's figures
- Capture repayment rate per branch.

Consolidate all the above to give a picture of the institution

2. branch office cashflow
3. branch office profit & Loss Accounts

4. branch office balance sheet

5. All the above consolidated for Institution

6. Discuss all branch offices

- Defaulters Watch list
- List of Bad Debtors

- Consolidated No.6 to give the institutional picture

7. Discuss Management & administrative issues with regard to the institution.

8. A.O.B.
-

Session 28 & 29

ENQUIRIES REGISTER

#	Name	Gender	Date	Location	Business	Action taken
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
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25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						

Session 28 & 29

MEMBERS' REGISTER

#	Enrolment Date	Client Number	Passbook Number	Name of Client	Personal information			Physical Location of		Date of Exit	Reasons
					Year of Birth	Sex	Address	Business Location	Residence		
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											
21											
22											
23											
24											
25											

Session 28 & 29

LOANS AND SAVINGS LEDGER CARD

Savings Details Transactions in Ushs					Loan Details Transactions in Ushs					
Date	Deposit	Withdrawals & Forfeitures	Balance	Treasurer's Signature & Stamp	Date	Loan Amount Disbursed	Principal & Interest Repayment	P & I Cumulative Repayment	Loan Balance (P & I)	Treasurer's Signature & Stamp

Session 28 & 29

BANKING REGISTER

Date	Name	Receipt No.	Purpose of Payment	Amount Banked	Name of Recipient	Signature	Amount Banked	S&LO Verified	SSAEFI Accountant verified

LOAN APPRAISAL FORM

GROUP ASSESSMENT

History of the Group

1. Name of the Group: ………………………………………………………………………

2. Year of formation …………….Initial membership …………(M) …… (F)……..

3. Year of registration: ………………………………………………………………….

4. Current membership ………………………..(M) ………..(F) ……….. Total ……

5. Drop outs to date: ……………………………………………………………………

   Reasons: ……………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………

6. What were your initial objectives: (please attach rules & regulations (Constitution)

   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………

7. What are the current group activities?

   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………

8. What records do you maintain?

   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………

9. How often do you meet ? ……………………………………………………………
   Where?:……………………………………   When………………………………

10. What activities are your members involved in?

……………………………………………………………………………………
……………………………………………………………………………………
………………………………………………………………………………………

11. i. How often do you hold elections?………………………………………

ii. When were the last elections held?……………………………………..

iii. Why?………………………………………………………………………

Loan/Credit Officer's Comments:……………………………………………….
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

Branch Manager's Comments:…………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………

The Client

A. Particulars of the Applicant

1. Name:……………………………………………………………………….
2. Gender:…………………………………………………………………….
3. Address:…………………………………………………………………….
4. Group Name:……………………………………………………………….
5. Marital Status (Single, Married, Widowed, Separated, Divorced)
6. Dependants:………………………………………………………………..
7. Nationality:……………………………………………………………….
8. ID No.:…………………………………………………………………….

9. Level of Education:………………………………………………………….
   Primary [ ) Secondary [ ] Other (specify):………………………………..
10. Residence:…………………………………………………………………….
11. How long in the residence:…………………………………………………
12. Home District:………………………………………………………………..
13. Location:……………………………………………………………………..
14. Sub-location:…………………………………………………………………

15. Village:……………………………………………………………………………

16. Have you attended any training: Yes [ ] No [ ]

If so, please specify:…………………………………………………………

B. Particulars of Business

1. Year Business Started:……………………………………………………………

2. No. of years in current business…………………………………………………

Ownership

[ ] Sole proprietorship

[ ] Family

[ ] Partnership

Have you ever borrowed before? Yes [ ] No [ ]

From where?………………………… When?………………. Amount……………….

<u>Other Relevant Information</u>

Indicate and comment on the client's performance as follows:-

Repayment (%)……………………………………………………………………

Meeting attendance (%)…………………………………………………………

Savings………………………………………………………………………………

Consistency in savings (%)………………………………………………………

Comment on the client's relations with other members and participation in group activities:…………………………………………………………………………………

………………………………………………………………………………………………

Loans/Credit Officer's Comments:

………………………………………………………………………………………………

………………………………………………………………………………………………

Branch Manager's Comments:…………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

Market Assessment

(I) Type of business
(II) Main products/services

…………………………………………………………………………………………………

…………………………………………………………………………………………………

3. Business location:……………………………………………………………………

4. Who are your main customers?

…………………………………………………………………………………………

…………………………………………………………………………………………

(i) Where do they come from?

…………………………………………………………………………………………

…………………………………………………………………………………………

5. How do you attract new customers?

…………………………………………………………………………………………

…………………………………………………………………………………………

6. Do your customers buy in: (where applicable)

i) Bulk
ii) Retail
iii) How regularly do your customers buy?

7. Do your customers buy:-

(i) in cash
(ii) on credit (if on credit for how long)

8. Are there other products/services you could offer to your customers?

…………………………………………………………………………………………

…………………………………………………………………………………………

9. Who are your suppliers?

…………………………………………………………………………………………

…………………………………………………………………………………………

ii) Where are they located?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

iii) How frequent do you make purchases?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

10) How do you cope with the competition?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

11. Is your business:-

All year round [ ]
Seasonal [ ]

ii) Indicate peak and low months:

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Loans/CO comments:

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Branch Manager's Comments:

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Business Assessment

1. Type of business – specify

a) Trade [ ]
b) Manufacturing [ ]
c) Service [ ]
d) Mixed [ ]

2. Nature of business premises

a) Owned [ ]
b) Rental [ ]
c) Open air [ ]
d) Others [ ]

3. Financial information

i. Initial capital (Ushs)…………………………………………………………………

ii. Sources:…………………………………………………………………………………

…………………………………………………………………………………………………

4. Current capital (Ushs)…………………………………………………………………

5. No. of employees: (a) permanent (b) Temporary

6. Monthly sales (Ushs)…………………………………………………………………

7. Monthly purchases (Ushs)……………………………………………………………

8. Monthly expenses (Ushs)……………………………………………………………

9. Monthly net profit/loss (Ushs)………………………………………………………

(Guideline – Profit margin: $\frac{\text{Net profit x 100}}{\text{Sales turnover}}$

10. How much do you sell during peak and low seasons?
- i) How much loan do you require?
- ii) Purpose for the loan:
- iii) Working capital
- iv) Fixed assets
- v) Others (specify)
- vi) Proposed repayment period and installment amount
- vii) Do you require grace period? Yes/No

If yes, how long………………………………………………………………………………

11. (I) what are your expenses during peak and low seasons?

…………………………………………………………………………………………………

Loan/Credit Officer's Comments:

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Branch Managers Comments:

…………………………………………………………………………………………………

……………………………………………………………………………………………

SECURITY

TYPE OF SECURITIES

1. Character of the borrower
2. The business
3. Cash collateral (savings/fixed deposits)
4. The group
5. Pledges:

i)	Affidavit	[ ]
ii)	Third party	[ ]
iii)	Written party	[ ]

6. PROPERTY (CHARGED)
7. CHATTEL'S MORTGAGE ON BUSINESS ASSETS

Loan Officer's Comments:
……………………………………………………………………………………………

……………………………………………………………………………………………

Branch Managers Comments:
……………………………………………………………………………………………

……………………………………………………………………………………………

Session 28 & 29

DISBURSEMENT REGISTER

Date Month	Group Name	Client's Name	Amount Disbursed	Gender		LAF No.	Insurance Fund		Loan Series					Savings Refund	Loan Refunds
				M	F		Receipt	Amount	1	2	3	4	5		

Session: 28 & 29

SSAEFI CREDIT SCHEME
DEFAULTER'S WATCHLIST

			Unit of Analysis				Date		Month					
Sr. No.	Stat	Name of defaulter	Borrowers				Loan		Arrears	Analysis of loan balance by age of arrears (days old)				
		(Individual or Group)	Type	Tot	Def	Date	Amount	Balance		<30	31 - 60	61 - 110	91 - 120	>120
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														

KEY

Sr. No.	-	Serial No
Stat	-	Status (Improved performance regresses or transferred to list of Bad Debtors.
TOT	-	Total No. Of Borrowers in the Group
Def.	-	Defaulters in the group
Type	-	Type of Loan

Session: 28 & 29

SSAEFI CREDIT SCHEME

LIST OF BAD DEBTORS

			Unit of Analysis					Type	Tot	Def				
Sr. No	Stat	Name of bad debtors	Borrowers					Loan		Collections			Hardcore	W/off &
		(Individual or Group)	Type	Tot	Def	Date	Amount	Hard core	Provision	B/forward	This month	YTD	Residues	Back
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														
		Totals												

Session: 28 & 29

SSAEFI - CONSOLIDATED REGISTER FOR THE MONTH ………….. 200..

Loans Officer's Name: ………………………………………………….

Branch: …………………………………………………………………. Field Office: ………………………………………………………….

No.	Name	Brought Forward	Disbursement for the Month	Paid to Date B/FWD			Week 1			Week 2			Week 3			Week 4			Week 5			Paid to date C/FWD	
1				A	S	L	A	S	L	A	S	L	A	S	L	A	S	L	A	S	L		
2																							
3																							
4																							
5																							
6																							
7																							
8																							
9																							
10																							
11																							
12																							
13																							
14																							
15																							
16																							
17																							
18																							
19																							
20																							

KEY

A - Attendance
S - Savings
L - Loan Repayment

Session 30 - 32

Delinquency Management

Delinquency is a deviation from the expected behavior, and in the case of credit it starts when the amount due is not settled in full. It is a direct measure of risk exposure for the lender. All lenders would wish to keep delinquency at zero levels, but this may not be possible all the time because of various factors within the organizations and/or their environments. It is a major challenge facing many MFIs today.

Delinquency is normally calculated as a ratio of outstanding loan balances or the total number of borrowers with outstanding loans.

i.e. $\dfrac{\text{amount past due}}{\text{amount outstanding}} * 100$

Although this measure is the one most commonly used among microfinance programmes, it understates the risk to the portfolio because it only counts the payments as they become past due, not the entire amount outstanding (balance) of the loan actually at risk. For example, suppose a borrower with a six-month loan of $300, with monthly repayments, misses the first four monthly payments, totaling $200 in principal. According to formula a), only $200 would be in arrears, or at risk. What about the remaining $100 of the loan that has not yet come due? Should it be treated as part of a healthy portfolio? Is it not really at risk as well?

In addition, if the portfolio is growing rapidly, a delinquency problem will be hidden because the denominator reflects the entire balance of new loans immediately, whereas the numerator reflects only the amount of payments as they gradually become past due. A similar effect occurs if loan terms are long, making the payments relatively small. Each payment past due has a small effect on the rate of delinquency, even though the amount of risk to the portfolio might be increasing. If the $300 loan described above were a 12-month loan with monthly payments of $25, then after four months with no payments, only $100 would be in arrears, with the $200 outstanding balance considered as part of the healthy portfolio.

The *portfolio at risk* formula, which is used by banks and other formal financial institutions, corrects for many of the weaknesses described above.

b. % delinquent = $\dfrac{\text{outstanding loans with payments past due}}{\text{amount outstanding}}$

This formula measures the percentage of the portfolio at risk or contaminated by late payment. Whereas the *amount past due* formula measures the amounts that are actually past due, the *portfolio at risk* formula considers that the entire outstanding balance of a loan that has any payment past due is at risk. As soon as the first $25 or $50 payment of the $300 loan described above becomes past due, this arrears formula regards the entire outstanding balance of $300 as delinquent, or at risk.

An accurate picture of the level of risk in a portfolio is not provided by the *amount past due* formula. Instead, credit institutions should use the *portfolio at risk* formula to calculate their arrears rate. The example in Box 1 illustrates one main advantage of the *portfolio at risk* formula.

An important issue in calculating delinquency rates is defining "past due": is it one day after the due date of a payment, 30 days after this due date, or one day past the final due date of the loan? The definition should reflect the time frame in which risk increases, considering the type of loan (working capital, fixed asset, commerce, manufacturing, and so forth), loan term, payment schedule, and the institution's past experiences. For example, a borrower with a six-month loan and monthly payments may fall 10 days behind on a payment without the delay signifying any real risk to the recovery of the loan. Including that loan as part of the contaminated portfolio would exaggerate the actual level of risk to the portfolio. If a market vendor with a two-month loan and weekly payments falls behind by 10 days however, that probably indicates a problem that puts the recovery of the payment in doubt, and increases the risk of not recovering the outstanding portion of the loan. In the latter case, the loan should be considered past due.

One rule of thumb is to consider loans past due when a payment completes one entire cycle without being made or, in most cases, when two payments are past due. Thus, loans with weekly payments are considered past due seven days after a missed payment, and loans with monthly payments are past due after 30 days.

Having delinquency figures right is just one part of the story for the MFI, but determining the effects of delinquency and making the appropriate decision is the most crucial part.
Some of the effects include;

- Reduces net cash flow
- Lowers profitability through lost revenues
- Raises cost of lending
- Reduces customer's or client value

And so given the damaging effects of delinquency the MFI should focus efforts in preventing it as its treatment is more difficult. Prevention would be achieved through;

- Provision of total quality services
- Careful screening
- Detailed orientation of loan officers and clients
- High disincentives for defaulting
- Proper implementation of policy & procedures
- Accurate and timely information

In cases of serious defaults try the following;

- Check levels of compliance with policies & procedures
- Review credit system
- Design incentives and tolerance levels for MFI expectation
- Separate bad and performing portfolio for easier tracking and decision-making
- Set deadlines
- Reshuffle and/or retrench loan officers
- Discontinue bad clients as they complete loans
- Review information system

Signs of Delinquency

Delinquency is a process that starts long before it becomes evident. Depending on how it is handled, delinquency can be averted. If not well combated, delinquency leads to myriad problems for the institution.

Some of the signs that can indicate possible onset of delinquency are listed below. The list is not exhaustive but gives some examples of signs that may, if not dealt with, result in delinquency. The institution, particularly the field staff, should be vigilant and watch out for these signs, so that they take requisite action to stem their evolution into full-fledged delinquency.

- ***Lateness or absenteeism***: This is a red flag and credit staff should be watchful of clients who are routinely late or absent from meetings. These clients demonstrate weak commitment to the institution and have the potential of defaulting on their loans. Credit staff should also ensure that the group constitution clearly spells out the penalties for lateness or absenteeism, as well as giving guidelines for how long this situation can be tolerated.

- ***Irregular Loan Repayments or Savings Contributions***: When a client begins submitting loan repayment installments irregularly, or makes incomplete payments, this is another warning sign of potential delinquency. Similarly, if a client makes partial payments on mandatory savings contributions, this is an indicator that there may be something amiss. When this situation arises, field staff need to begin immediate investigation to establish whether the client is encountering any problems that might compromise the performance of the portfolio.

- ***Poor Group Leadership****:* Weak group leadership can contribute to delinquency, because those holding offices in the group will not have will to follow-up on their delinquent colleagues. In other instances, poor leadership may result in the leaders themselves taking actions that result in delinquency. At the group formation and the pre-credit training stage, the field staff have to carry out thorough training on group management to ensure that clients completely understand and internalize the roles and responsibilities of their leaders. Clients will also understand the key leadership qualities they should look for so that they elect effective people to leadership positions.

- ***Conflicts in the Group****:* Group conflict points to weak group cohesion. If group cohesion has been compromised, then the peer pressure mechanism, which is the primary mechanism that field staff rely on for follow-up at the group level, is compromised. If clients fall into arrears in a situation where there is group conflict, it becomes almost impossible to follow-up on the problem clients and the loans in arrears almost always become delinquent loans. In other instances when there is conflict, some clients will deliberately refuse to repay their loans to punish the colleagues with whom they may be in conflict.

- ***Refusal to Participate in Other Group Activities****:* Many groups that are funded by MFIs have other activities that they run, e.g. merry-go-rounds. Field staff are aware of these activities and will be able to gather information related to how these activities are going on. If some group members stop participating in group activities without explanation, this is an indication that these clients may not be altogether committed to the group or its activities, including its relationship with the MFI. This again calls into question client commitment and compromises group cohesion, which both can contribute to delinquency.

- ***Late Disbursement of Loans****:* The institution itself can contribute to delinquency. MFIs place a lot of emphasis on client discipline in adhering to the policies and procedures of the institution and meeting eligibility criteria to access financial services. However, the same MFIs sometimes fail to uphold their end of the bargain when it comes to loan disbursement. Because of institutional inefficiencies, loans are sometimes disbursed late. This sends a very negative signal to clients, who feel betrayed when they do not receive their loans on time. Clients often do not feel obligated to repay their loans on time if the funding institution has not upheld its end of the bargain.

- ***Poor Record Keeping***: When a group's or CO's records are not up to date there is cause for concern, and the CO or CO's supervisor should be vigilant and insist on bringing records up to date, cross-checking against their own records to see whether entries tally. Records that are not well kept could be hiding delinquency or the onset of delinquency. It is therefore critical that field staff insist on up to date records and make a special effort to ensure record keeping is carried out routinely and accurately.

Causes of Delinquency

Delinquency is now a universal problem for established and upcoming MFIs and therefore identifying its causes is part of a critical process of dealing with it. Experience has shown that there are three major causes of delinquency:

i) Institution-related causes
ii) Client-related causes
iii) Externally driven causes

While there are three major causes of delinquency, the MFIs themselves are mostly to blame for the delinquency that they have to deal with. Most cases of delinquency are caused by institutional failure to operate professionally and their reluctance to develop policies and procedures that define their business operations and that are geared to client needs. As a result, institutions cause more than 80% of the delinquency, which they deal with, while about 15% of delinquency emanates with clients. Only about 5% of delinquency is caused by exogenous factors.

The problem of delinquency continues to persist because many MFIs have either deliberately or by default chosen to focus on external causes, ignoring the internal causes over which they have more control. For effective management of delinquency, it is critical for institutions to understand and focus more on the internal causes delinquency, seeking practical and achievable solutions to redress these problems.

Institution-Related Causes of Delinquency

- Some of the upcoming and even established MFIs do not have a clear vision and mission, and therefore have no clear focus on their objectives and the activities needed to achieve them.

Consequently they have no clear policies and procedures to guide them in their objectives, creating room for default to creep in.

- Outreach and promotion is the beginning of the marketing process for the institution and it is critical that potential clients understand the institution's products and services, their benefits and the relationship with the institution. For example, clients should understand that the funds they access from MFIs are loans not grants, and should be paid back according to a schedule. Client failure to uphold their obligation to the institution will lead to penalties both for the individual and the other members of the group. If this information is not communicated clearly, there is ample opportunity for clients to misinterpret the information relayed to them, which in turn could lead to delinquency.

- This problem may be further compounded by inadequate group preparation. Once an institution has in-taken groups, they usually take them through training, which is supposed to focus on the institution's policies and procedures vis-à-vis the financial services that clients can access, and the obligations and responsibilities of the client. Many institutions' operations staff view this training as a one-shot deal to be carried out when groups are in-taken, but subsequent to that, no continuous client training is really required. Training must be seen as a continuous process, which reiterates the key aspects of the institution's services and keeps clients abreast with any new developments that may be relevant to the business relationship between the institution and its clients.

- Many MFIs leave the responsibility of business and loan appraisal to their clients. These clients do not have the requisite skills to carry out proper appraisals and in many cases will recommend loan amounts that the individual's business is not able to absorb. MFIs should take on the responsibility of carrying out appraisals. The cost of dealing with bad loans falls squarely on the institution and MFIs should invest in training their staff to carry out appraisals, because many operations staff also do not have the requisite skills to carry out business appraisals.

- There is a great deal of institutional pressure for operations staff to reach more and more clients and a lot of emphasis is placed on numbers. In striving to reach these quantitative targets, little attention is paid to the quality of those numbers. Microfinance operations need to balance numbers with quality, and where targets have been set at unrealistic levels, staff should point this out giving justification for their stance. This will introduce a more professional way of operating in the industry.

- As institutions strive to become sustainable, many institutions have stretched the sustainability concepts beyond the normal expectations and as a result, have marginalized the staff development process. This has resulted in recruitment and maintenance of inefficient staff hence increases in delinquency.

- In many cases, management information systems is the most important tool for managing operations and so the lack of it or inefficient systems in others has led to inaccurate and/or late information leading to wrong decisions. As a result, opportunities for default have been created.

- Lack of sharing of information among credit providers has created loopholes for clients to cheat and obtain multiple loans, which later become burdensome in payback. This means clients will be forced to make choices to pay to other institutions while they default in others based on perceived threats or benefits.

- Even though few practitioners admit that rapid expansion is a serious cause for default, experience has shown that it leads to poor marketing, inadequate preparation of clients and minimal time for follow-up hence increase in arrears and defaults.

- Even though it is clear that external factors such as political and economic instability and cultural inhibitions can cause serious defaults, it is important to remember management is about that which is within the institution’s control and ability.

SESSION 33 -34

Portfolio Analysis

Overview
Accessing credit to the disadvantaged communities is not only for its own sake, but to achieve specific objectives. One such objective is about the sustainability of the organization without which it would be difficult to promise service delivery in the future.

Experience has shown that when clients know that they can always access services in the future they would like to build long term relations with the organization through timely payments.

Therefore in order to monitor whether the credit officer is making his/her contribution in meeting the organizational objectives there is need to undertake analysis of the portfolio frequently.

Portfolio analysis is a crucial activity undertaken not only by the credit officer (CO) but the organization's management team. This is because the analysis informs the CO decision making; but specifically facilitates good planning on the part of the CO. The CO can decide whether he/she will focus on outreach or follow up in the coming month.

Indicators for Analysis
In order for the CO to analyze his/her portfolio effectively, the performance should be clear from the on set. Some of the performance parameters would include;

- The number of clients reached
- The amount of loans disbursed
- The number of outstanding loans
- The total amount outstanding
- The number of clients in default
- The repayment rate

Even though individual organizations do set their own targets based on their environments, it is advisable to do benchmarking with industry standards because it is only in this way that best practices are developed and widely shared. Further more basing performance on best practices will allow for meaningful comparisons with other similar players in the field.

The optimal numbers are achieved overtime such that the COs who have been in the organization the longest should have higher numbers than new COs. But care should be taken so that numerical numbers are not unduly overemphasized.

The CO on analyzing their performance against set standards can then decide if they think they need help in specific areas, and therefore ask for such help at the appropriate time.

The credit officer must be able to justify their earning from the portfolio that they are handling, and the analysis process therefore helps separate the earning portfolio and that which is not earning. For example sometimes a CO may have up to 300 clients but only 150 have a loan. A situation like would call for further analysis of the situation to determine whether “we are offering the right product in the right way”.

It is good to note that even though repayment rate is very popular with many COs as a measure of their performance it does not tell the whole story rather it gives an historical perspective of the loan recovery. Further increased disbursement will positively affect the repayment rate but in actual fact the arrears or default situation may not be improving. Portfolio at risk however will give a better indication of exposure and fragility levels. No one indicator should be used in isolation.

The idea of portfolio analysis is a base for continuous improvement not only for the CO but for the whole organization. Micro credit has no expert because the environment is constantly changing. Further an approach like this will empower the COs to make simple decisions without the benefit of the organizational bureaucracy.

Portfolio analysis should be used to correctly diagnose problems and take corrective action not to explain inefficiencies.

Approaches to portfolio Analysis

- Producing and studying periodic reports
- Client interviews
- Focused group discussions
- Formal discussions with the manager
- Informal discussions with colleagues.

Lastly it should be noted that portfolio analysis is not a side activity, but part of the CO job.

SESSION 35 -36

Teamwork & Institutional Values

A. TEAM WORK

Definition

A team is a group of two or more people working together for a common purpose. Teamwork therefore is about unity of purpose in achieving a common objective. For example, in a football game, the common objective is to score goals. But in order to achieve this objective various players; "forwards" and "full backs" must work together that the passing of the ball is smooth and coordinated, and also ensuring that they are moving with the ball towards the competitor's goal. In this situation, everyone is aware of their specific goals from the beginning.

Likewise teamwork is an essential ingredient for successful microfinance. The credit officer plays a critical role, but management and technical staff must consistently provide backstopping support.

Building a strong team

- ❖ Cultivate a culture of respect and appreciation. Like the human body, all team members play a crucial role in the achievement of the team's objectives. For example no one can say that 'because I have legs, I do not need hands'.
- ❖ Develop and nurture an open communication system right from the start. Let communication flow both horizontally and vertically among team members without any sense of threat. A member's contribution or question's must therefore not be used to ridicule or penalize him/her.
- ❖ Make deliberate efforts to share field experience and debate issues without personalizing them. It is advisable that sharing of experience or debates is kept as informal in order for these to be useful learning experiences and not 'doctored' sentiments.
- ❖ Identify activities in which all team members can participate jointly on periodic basis, such as group formation, or even loan appraisal. In this way members learn to support one another and appreciate different work situations so that they could easily empathize with one another's positions.
- ❖ If and when issues arise, involve all team members in brainstorming sessions to try and articulate the issues together, and then suggest solutions for the same. One rule of thumb about brainstorming session is that 'there is no expert and as such there may not be a right or wrong answer'.

- ❖ Try to minimize functional end results and ensure that overall organizational results are optimized so that it is not about accounting staff producing 'smart reports on time or the CO reaching the optimum number of clients', rather the focus should be organizational level of self sufficiency. In this way wasteful competition is minimized.
- ❖ Team members should not only be colleagues, but friends as well for after all members spend eight of the possible day hours with these colleagues. For friendship to exist there must be mutual trust and trust has to be developed and nurtured. It is important to remember that teams do not just fall into place without challenges.
- ❖ Lastly the responsibility of teamwork belongs to all team members; but managers facilitate by ensuring there exists the appropriate environment for team building.

B. INSTITUITONAL VALUES

Introduction

Values are about beliefs, norms or culture of an organization. These beliefs influence how individuals of an organization behave. People's thoughts and practices revolve around such beliefs. Values are developed through learning to cope with internal and external challenges to survival and growth.

Each organization's values will be unique depending on its circumstances and history, and therefore a microfinance institution in South Sudan may have unique values compared to MFIs elsewhere. For example because of the war, people may have developed a culture of tolerance, a sense of togetherness that may be difficult to notice with other African people living in peaceful surroundings. Therefore team work may quickly emerge as a value shared by all staff within a South Sudanese MFI.

Values are not about empty public relations slogans, but really a silent code of behavior by which the MFI can be identified; for example transparency, zero tolerance for corruption and/or professional work ethics. The publics themselves can be able to identify these values without being told in the way the institution goes about its work.

Values and beliefs are often expressed in work ethic code, and this guides decision making and behavior in specific situations. For example, 'SSAEFI is committed to satisfying its client's needs completely' and the philosophy underlying this statement may be summed up as follows;

- Every job activity starts with the goal of satisfying the customer in mind
- Document critical incidences and use it to improve delivery processes
- Empower the employees to take charge of their work
- Foster teamwork

However it is not uncommon to find that many organizations including some MFIs have explicit value statements such as; "we belief in fairness and justice for all", but the philosophy behind such a value is not documented. In this way values may lose their meaning with influx of new employees. Whenever possible therefore, it is advisable to summarize the philosophies behind the stated values.

Developing good organizational values

An organization exists to serve a specific purpose, and so development of values should start by reexamining this purpose.

Secondly, it is worth noting that an organization is made of different individuals with different backgrounds. These individuals may have different value systems and these must be reconciled with the institutional goals.
The basis of reconciliation should be in answering the question, "how does the organization want to be perceived by the publics?" The publics would include clients, competitors, government agencies and suppliers among others.

Because institutional values have to be held in common by all within the institution, then the natural way to develop values is to involve all team members. Each member should be asked to state ways in which he/she would like the institution perceived.

The most frequent occurring suggestions are picked and reconciled to the goals of the institution. Philosophies for each item are defined and documented along side the specific value statements.

Values enhance unity of purpose in addition to providing a guide to standardized decisions. Team work is also developed through a shared value system. Fairness, professionalism and honesty are introduced in the work processes again through a well developed value system, and this can endear the public closer to the institution.

SESSION 37 – 38

Sustainability

THE ROLE OF THE LOAN OFFICER – SUSTAINABILITY

This session looks at the role of the loan officer in enhancing the efficiency and sustainability of the MFI. Efficiency can be looked at from the perspective of the MFI as a whole, from the branch level and from the loan officers' level. While the focus will be at the Loan officers' level, this session will also look at how it affects the branch and the MFI as a whole.

Loan officers are at the front-line of an MFI operation since they handle client operations and basically generate most of the revenue in an MFI. The main responsibility of effective client intake and loan repayment rests with loan officer. The LO officer's role is critical for the survival of an MFI and if problems occur at their level, the entire MFI will be affected. Efficiency at the loan officer level is therefore critical to the overall efficiency of the MFI.

Defining efficiency, effectiveness and self-sufficiency

Efficiency focuses on establishing and measuring the costs that go into providing a service. Efficiency is concerned with rate at which an MFI generates enough revenue to cover its expenses.

At the institution level, efficiency of operations can be analyzed by looking at operating costs as a percentage of the MFI's portfolio outstanding.

At the branch level, efficiency is limited to the activities of the branch and the portfolio size of that particular branch. Thus, in assessing the efficiency of the branch, one looks at the branch operating costs as a percentage of the outstanding branch portfolio.

At the Loan officer level, efficiency is measured in terms of his/her operating costs vis-à-vis his/her outstanding portfolio.

The lower the cost in relation to a given volume of output, the more efficient the MFI/branch/Loan officer is said to be.

An efficient MFI/branch/credit-officer aims at maximizing services with a minimum level of expenditure.

Although efficiency focuses on minimizing costs and controlling them, this should not be done at the expense of quality and volume of service.

For the MFI to grow and to have an impact, it must have high levels of efficiency.

The ultimate aim of the MFI is to become self-sufficient. Self-sufficiency is when an MFI is able to meet all its costs with the income it generates from its activities.

The costs that are likely to emanate from the activities of the loan officer are salary of loan officers, transport, stationery etc. the cost of providing services is reflected in the operating expenses that appear on the profit and loss statement.

Efficiency ratios measure the cost of providing services with the hope of generating revenue. Some of the commonly used ratios include:

<u>Cost per loan/currency lent:</u> This ratio compares the cost of the lending operation to the number/amount of disbursed loans in the currency of operation in a given period. It highlights the efficiency of the loan disbursement process. The lower the ratio, the higher the efficiency. As an MFI grows these ratios decrease.

This ratio can sometimes be misleading. For example, even if the size of the portfolio remains the same, the cost per shilling lent could decrease. This would happen if more short-term loans were made during the period and, therefore, the turnover of the portfolio was higher. Although the ratio would be reduced, it does not necessarily indicate increased efficiency.

One also needs to be careful when using this ratio especially when using the value of loans to measure efficiency, because an MFI giving big loans may register a very low efficiency ratio. In a case like that it maybe useful to also check the ratio of number of loans/costs.

This ratio is particularly sensitive to lending conditions and methodologies and despite its popularity it should be used with caution in cross program comparisons.

This ratio need to be looked at over a period of time to determine whether operating costs are increasing or decreasing relative to the number of loans made.

<u>Number of active Borrowers per loan Officer (the Case Load):</u>
Efficiency can also be measured by taking the average number of

active borrowers and dividing that number by the average number of loan officers at the same point in time.

This ratio varies according to the experience of the Loan officer and on the methodology adopted by the MFI.

An increasing number of borrowers per loan officer are positive, but at some point, it will reach an optimum level. For individual lending the caseload should be at least 150 clients, and for group methodology it should be at least 300 clients.

SELF-SUFFICIENCY

"Sustainability refers to a situation whereby an MFI is able to cover ALL costs with the income earned as a result of providing services to micro-entrepreneurs."

THE FOUR CATEGORIES OF COSTS

1. OPERATING COSTS

2. FINANCING COSTS

3. LOAN LOSS

4. IMPUTED COST OF CAPITAL

Defining the four categories of costs

Operating Costs:

- Costs incurred in the day to day operations of an MFI.
- Examples: rent, salaries, office costs, maintenance and depreciation of equipment, motor vehicle running expenses.

Financing Costs:

- Costs incurred by borrowing funds to finance the loan portfolio.
- Includes actual cash paid for interest and other charges on money borrowed by the MFI and any interest paid on savers' deposits.
- These costs are directly related to how the loan portfolio is funded and the size of the portfolio.

Loan Loss Provision:

- The amount of money expensed by an MFI to cover loss on loans that are believed to be non-recoverable.
- Estimated annually using the experience of the MFI. The best practice is normally not more than 5% of the value of the loan portfolio.

Imputed cost of Capital

- The cost of maintaining the value of equity in an inflationary situation and the cost of the subsidy on capital provided to an MFI at below-market interest rates.
- Represents an additional cost to the financing costs of the MFI.
- The inflation rate or the 90-day Treasury bill rate, whichever is greater, is used by USAID to impute the capital subsidy.

The cost of commercial credit can also be used to impute the capital subsidy.

How Methodology affects Sustainability

Program methodology affects program viability. Methodology is the determination of the services to be provided by the program and how these services will be delivered.

Ask participants for examples of methodological decisions. In each example, they should explain briefly how the methodological choices could affect program viability.
Other factors besides methodology that affect viability are costs and pricing.

> **Costs:** The lower the costs, the greater the level of self-sufficiency for any given set of interest rates and fees.
>
> **Pricing:** The higher the interest rates and fees, the more income the program can generate.

The model shows that income can be easily projected for any credit program, regardless of methodology, by using these seven variables:

- Number of loans per month per agent
- Effective loan term
- Average loan size
- Repayment conditions
- Number of agents
- Annual interest rate
- Commission

Decisions about methodology affect the client caseload and subsequently impact on income and costs.
The decisions reached about services, costs and pricing may have to be reviewed and changed if it is determined through the model that self-sufficiency cannot be reached.

LINKAGE BETWEEN METHODOLOGY AND SUSTAINABILITY

Methodological Choice	Potential Impact on sustainability
Scale of program	• Larger program can utilize economies of scale, thus lowering per unit costs
Type of client (e.g. poor/very poor; urban/rural)	• Very poor clients need very small loans, which are expensive to administer • Rural clients are harder and more expensive to reach
Type of services (e.g. credit only; credit & training; credit & education)	• Credit only ('minimalist') is cheaper to administer than credit with training or education
Type of loan (e.g. large/small; working capital /fixed asset)	• Large loans are less costly to administer than small loans (100 loans of $100 = 10 loans of $1000) • Fixed asset loans require longer payback periods which can have a negative effect on on-time repayment rates
Repayment period (e.g. short/long; use of grace periods)	• Short repayment periods enhance repayment; also yield greater income • Grace periods extend the repayment period; can increase likelihood of default
Delivery mechanism (groups/individual)	• Group loans are cheaper to administer because many people can be reached at one time; the groups can do much of the appraisal; peer pressure increases repayment
Security (e.g. group guarantees/collateral/ co-signers)	• Collateral is expensive to administer: e.g. verification, mortgage documents • Co-signers

PRINCIPLE CHARACTERISTICS OF THE VIABILITY MODEL

The viability model. . .

- Enables an MFI to project future levels of self-sufficiency based on an analysis of methodology, program income and costs.
- Follows a static approach, showing where the program will be when it reaches a 'steady state.'
- Links methodology to viability and thus permits the user to determine the potential impact of program decisions on viability.
- uses only 7 variables:

    1. number of loans per month per loan officer
    2. effective loan term
    3. average loan size
    4. repayment conditions
    5. number of agents
    6. annual interest rate
    7. commission rate

- permits the user to balance conflicting objectives:

    - the desire to provide clients with the maximum quality and quantity of services
    - the desire to become a self-sufficient organization

- Is simple and easy to use, but effective (it really does work!)

SOURCES OF INCOME OF AN MFI

- ✓ Interest Income
- ✓ Fees
- ✓ Investment Income

PROFIT AND LOSS STRUCTURE

	Interest Income:		xxxx		
+	Fees and Commission:		xxxx		
+	Investment Income:	xxxx			
=	Total Income:	xxxx			
-	Financing Costs:		xxxx		
-	Loan Loss Provision:	xxxx			
=	Net Financial Margin:		xxxx		
-	Operating Costs:		xxxx		
=	Net Income from Operations:			xxxx	
+	Grant revenue for Operations:				xxxx
=	Excess of Income over Expenses			xxxx	

VARIABLES AFFECTING INCOME OF AN MFI

➢ Loan Volume	Increased loan volume results in increased income
➢ Interest Rate and Fees	Increased interest rates and fees result in increased income
➢ Method of Interest Rate Calculation	Flat rate results in more income than declining balance
➢ Late Payments	Late payments lead to postponed income
➢ Loan Losses	Loan losses result in lost income
➢ Idle Funds	Funds on deposit generally earn less than funds invested in

EFFECT OF LATE PAYMENTS AND IDLE FUNDS ON INCOME

Examples based on a Portfolio of Ushs 200,000,000, 36% interest rate per annum

Late Payments:

With 100% repayment for the year, interest income = 72,000,000

With 90% repayment for the year, interest income = 64,800,000

Idle Funds:

With no idle funds, interest income = 72,000,000

With average 50,000,000 on deposit earning 5%, interest income =

$(50,000,000 \times .5) + (150,000,000 \times .36) = 56,500,000$

EXAMPLES OF MEASURES TO CONTROL COSTS

- Introduce zero-based budgeting and a budgetary control system.
- Introduce performance-based remuneration packages for staff.
- Introduce a motor vehicle/motorcycle policy for both administrative and credit staff.
- Introduce an effective delinquency management policy.

FINANCIAL SELF SUFFICIENCY

$$\frac{\textbf{Operating Income}}{\textbf{Operating Costs + Loan Loss + Financing Costs + Imputed Cost of Capital}}$$

SESSION 39

Portfolio Build-Up

A loan portfolio of a micro finance institution could be described in terms of amount, number of clients or the number of loans. A loan portfolio is referred to as the total loan balance with borrowers that the lending institution expects to be repaid as it falls due. In other words, loan portfolio is the total outstanding loan balance with borrowers at any one time.

In managing a loan portfolio, the following performance parameters must be observed at all times right through the planning to the management of the loan portfolio. You will therefore need to draw some specific performance parameters to act as assumptions for the build-up of a loan portfolio. Below are some of the subject matters that will help in coming up with these parameters and consequently the assumptions that can assist in drawing-up achievable portfolio build up projections for all the loan staff.

- *Determine the number of clients to be managed by a per loan officer.*
- *Determine the loan portfolio build up period to maturity for each loan officer*
- *Determine the number of loans that each loan officer should disburse in a period of 12 months once the maturity period is attained*
- *The amount of loan to be disbursed by each loan officer as above*
- *The number of groups that each loan officer should handle at the maturity point. The average group size*
- *The ratio of productive clients to the total clientele (investment percentage)*
- *The fragility ratio (rate of drop out) that the MFI can tolerate in each of the loan officer's portfolio*
- *The delinquency rate that the MFI can tolerate on each of the loan's officer portfolio*
- *Lastly the acceptable variances vs. the set parameters*?

During this session, we shall undertake a loan portfolio build up exercise, using the following parameters as assumptions on Activity Sheet – *“client intake and disbursement plan”.*

CLIENT INTAKE AND DISBURSEMENT PLAN

In session each Loan officer is given the following parameters to plan for their respective portfolio build up. The same would be used to measure their productivity and overall performance.

- 24 months to build a mature portfolio: 60 groups with 300 clients
- Average size of group – 5
- Intake 5 groups every two months
- Loan sizes- 1st loans Ushs 200,000; 2nd 300,000, 3rd 500,000 & 4th 750,000 5th 1050,000
- Loan duration – 1st loan, 4 months; 2nd – 4 months, 3rd – 6 months & 4th -6 months, 5th - 9 months
- Savings - a minimum of Ushs 2,000 per week per client
- Loans are paid weekly
- Maintain 100% repayment on all first loans
- Disbursement sequence 2:2:1
- Loan application fee – 2 % of the loan amount
- Loan insurance fee – .5 % of the loan amount
- Registration & pass book fees per client – Ushs. 3,000
- Assume that the branch has enough funds

Q1. Prepare a client intake and disbursement plan for the 24 months

Q2. Determine how much capital you will require for your operations

R*epayment schedules are provided*

SESSION 40-41

Cash Flow Projection

A cash flow projection is a financial statement, which shows the cash receipts and payments of a particular concern or activity over a certain period of time.

Usually cash flow statements are written on a monthly basis and categorized by each main receipt and payment line item.

Cash flow projections are very important planning tools. They are used at the initial stage to determine the level of capital injection, and/or loan needed to finance the intended activities and management. The actual flow of cash is used as a tool for controlling the activities and revising implementation plans so as to achieve desired results.

Cash, in a way, may be considered to be the blood of your program. If there is a shortage of cash, then the activities of the program cannot be carried out.

Unlike the credit design of traditional NGO programs, self-sustaining credit programs require greater attention to and management of funds because the programs depend on the cash they generate to finance their activities.

Credit is the main activity of your program. Cash revenues entirely depend on the level and timing of client intake, loan disbursements and repayments. Any extreme situation will seriously affect the cash situation. Credit activities, therefore, need to be carefully planned so as not to strain or underutilize the financial resources available.

Overstraining financial resources may result in serious problems. If you over commit your program by accepting more clients than the resources you have, or by not spreading the intake of clients, it may not be possible to extend loans to all the clients. If clients do not receive loans as promised, they will lose faith, and the scheme will lose credibility.

On the other hand, if the number of clients is significantly low, revenues will be reduced, and sustainability not attained.

SSAEFI CREDIT SCHEME Branch

CASHFLOW PROJECTION FOR 200…. (Template)

	B/F	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Total
Intakes													
No. of loans Officers													
No. of Group/Clients													
No. of members													
Loans disbursed													
1st Loans													
2nd loans													
3rd loans													
Cumulative loans													
Outstanding loans													
Cash Inflows													
Operating grant													
Principal repaid													
Interest paid													
Loan Application fees													
Sale of Passbooks													
Membership fees													
Interest on Bank													
Balances													
Deposits on Treasury Bills													
Loan insurance													
Sundry Fees													
TOTAL INFLOWS													

CASH OUTFLOWS													
Loan disbursement													
Salaries													
Staff training & Development													
Office Rent													
Security													
Telephone													
Communication													
Water & Electricity													
Office expenses													
Travel & Transport													
Hotel Accommodation & per diem													
Repairs & Maintenance													
Vehicle running Expenses													
Meetings and Conferences													
Licenses & Service Charge													
Insurance													
Audit Fees													
Professional & Legal fees													
Bank charges													
Overhead Allocation													
Purchase of furniture (FA)													
Purchase of Equipment (FA)													
TOTAL CASHFLOW													
NET CASHFLOW													
BALANCE B/F													
BALANCE C/F													

SESSION 42 -45

Assessing Microfinance Market

Determining the Size and Composition of the Local Microfinance Market

1 There are two approaches in determining the size and composition of the local microfinance market: the rapid market appraisal (RMA) and the market research.

2 **Market Research** consists of three activities: (a) secondary-data gathering; (b) area mapping; and (c) interviews of micro enterprise operators. Results of the survey are used in business planning and designing the MFI's products. It also provides the MFI with an understanding of the business opportunities in the area.

3 **Secondary-Data Gathering.** This activity aims to get information on the population and other basic information of the MFI's service areas; loans and deposit services of competing microfinance providers.

4 **Area Mapping**. The area mapping should be conducted within a "30-minute" walk (2-3 km radius) of the MFI office. This is going to be the MFI's initial area of coverage during the pilot testing of its products. With good team coordination and cooperation, a team of 4-5 members should be able to complete the area mapping within half a day to one day. A guideline on area mapping is provided.

5 **Micro enterprise Survey.** Interviews with micro enterprise operators are conducted using a structured survey questionnaire. A sample of at least 100 entrepreneurs would be recommended.

6 After collecting the secondary data, completing the area mapping, and the micro enterprise survey, then you can now proceed to analyze the results. Below are guide questions in analyzing the data:

6.1 What is the primary reason for getting a loan for most entrepreneurs? What type of loans they want; short-term or long term loans?

6.2 Do micro entrepreneurs prefer to pay daily, or weekly, or monthly?

6.3 What features does the MFI need to incorporate in the product design so that the MFI products can suit practices and needs of micro entrepreneurs?

6.4 What are the saving habits of the respondents? What is the main reason for saving - school expenses, additional capital or social expenses?

6.5 What factors are important to the micro entrepreneurs in deciding to save with a particular financial institution?

7 The team will also need to collect information on other microfinance support services like, the court system (debt recovery services), functioning of the local administration, and economic activities in the area.

8 Three outputs are expected from this activity:

- Micro enterprise survey results;
- A market research report wherein conclusions and recommendations are drawn on which market segment the MFI should target. This is also forms the basis for the business planning and product development activities.

- An area map of micro enterprises in the locality and their classification by type. The map is drawn based on the result of the 30-minute walk.

MARKET RESEARCH
GUIDELINE ON AREA MAPPING

1. **Where do you conduct area mapping?** Conduct the area mapping within a "30-minute' walk (2-3 km radius) of the branch. This is going to be your team's initial area of coverage during the product pilot testing period.

2. **Get a map of the town/city.** The survey team should have a copy of the map of the town and if possible a street map of the town's commercial centre. In the Sudan scenario owing to the civil war that has gone on for several years, there are town plans. This means that the team may have to sketch a map for survey purposes. The map should show the major roads and markets where a lot of businesses are found. The map doesn't have to be to scale.

3. **Distribute the area among the members of the team.** If 5 staff persons (Supervisor and 4 loan officers) will do the area mapping, divide the area into 5 sections – one section per staff person. Try to distribute the workload per staff person evenly.

4. **How long does it take to do area mapping?** With good team coordination and cooperation, a 4-5 member team should be able to complete mapping the area within the 30-minute walk radius of the bank in half a day to one day.

5. **Do a head count; mark it on your map.** In the area assigned to you, walk through each street, including smaller streets, which have a good number of enterprises. In your map, mark every business establishment you see, big or small. Identify the types of business. To do this, use numbers coding, shown below, or color-coding.

Trading	1
Production/Manufacturing	2
Service	3
Others (Specify)	4

6. When a public market is within the "30-minute" area, which is likely, go in there and count the number of vendors, shops, eateries, etc. Further classify the market vendors according to the nature of the goods and services they sell using the classification in # 5 above.

7. Make a headcount of the enterprises marked in the map. Present the data in a table like the one you see below.

SUMMARY TABLE: Number of Enterprises

Within 30-Minute Walk Radius of the MFI

As of ____________ 2003

Types of Enterprises	Along the Streets (A)	Within the Public Market (B)	Total Number (A+B = C)	Distribution (% to total)
TRADE				
Retail: general				
Retail: ready made clothes				
Retail: agric products				
Retail: Fish/meat/poultry				
Retail: fuel & charcoal				
Retail: hardware				
Retail: pharmaceutical				
Retail: spare parts				
Retail: other				
Wholesale trade				
Trade in livestock				
SERVICE				
Street Restaurants				
Hotel & other restaurants				
Repair: clothes & shoes				
Repair: machines & motor vehicles				
Barber & beauty salons				
Transport services (Matatu, pick-up, bicycle, truck)				
Human & animal health				
Postal & Telecommunication				
Banking & other financial				
All other services				
PRODUCTION/MANUFACTURING				
Food processing (Bakery, juice Parlors, flour mills)				
Tailoring shops				
Leather & footwear				
Wood and cane products				
Metal works				
Handicrafts				
TOTAL				

Session 46 & 47

Interest Rates Setting

Pricing is an important aspect of product design, and therefore a balance should be found between what clients can afford, and what the MFI needs to earn in order to cover its full costs.

It has been widely proclaimed that MFI clients are not price sensitive, but a counter argument to this is that the reason for their insensitivity is because of limited options to credit access. So there is need to ensure that clients are not made to pay for inefficiencies just because they will not complain.

But as MFI clients continue to be empowered, they are certainly going to be concerned about the prices they have to pay for services, and hence it is important that MFIs start to strategize in advance.

Good pricing must be based on actual cost structures, and it is therefore important to identify the different type of costs, and these would normally include;

- ✓ Financing costs
- ✓ Operating costs
- ✓ Loan loss provision
- ✓ Cost of capital

Financing costs are incurred when an MFI uses borrowed funds to finance its loan capital.
Operating costs include salaries, rent, utilities, transportation etc.
Loan loss costs are made up of bad debt provisions.
Cost of capital is made up of loss of money value caused by inflation

Pricing can be used as a strategy to gain a competitive edge over other competitors especially now because of the increasing competition from new and upcoming MFIs.

Pricing in an MFI sense is about setting interest rates and determining other fees.

Effective interest rate (R) setting is based on five elements that "are expressed as a percentage of average outstanding loan portfolio" - *Ledgerwood*

These elements are administrative expenses (AE), cost of funds (CF), loan losses (LL), capitalization rate (K), and investment income (II), such that;

$R = (AE + CF + LL + K) / 1 - LL$

Administration expenditure includes all recurring expenditure.

Cost of funds includes the actual charge on borrowed funds, and if the MFI is operating on grant the "supposed" charge on the grant should always be estimated in order to accurately determine sustainability performance.
Cost of funds may be calculated by totaling all financial assets and multiplying it by the inflation rate.

Capitalization rate represents the net profit that the MFI would like to achieve. This rate varies from one MFI to another, but "*to support long-term growth, a capitalization rate of 5 to 15 percent of the average loan portfolio is suggested." – Ledgerwood*

Investment income comes from such financial assets as term deposits, and/or other investments etc.