Access to Microfinance & Improved Implementation of Policy Reform (AMIR Program)

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INTERIM SUSTAINABLE MICROFINANCE TRAINING PROGRAM REVIEW

Final Report

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This report was prepared by Lynn Pikholz Shorebank Advisory Services, in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

The following report divided into two sections: Big Picture Issues and Miscellaneous Notes.

1. Big Picture Issues

Overall, the feedback received from all the trainers is that the program is going very well. Feedback from the first run of the Basic Course confirmed this. Although the verdict is not out on the second run of the Basic Course, the indication is that the ratings will be very high as well. The following four challenges remain:

Leadership and future ownership of the training program:
SAS feels that a well functioning and professionally run Microfinance Association in Jordan can be a natural home for this microfinance training program. The training program's potential can only be realized with a dedicated ownership and leadership that is committed to building and strengthening it as a vehicle to build the microfinance industry in Jordan and beyond.

Financial sustainability of the training program:
Although no study has been conducted, given the dearth of microfinance capacity in the middle and near east relative to other regions internationally, there should be sufficient demand for the training program going forward. To be sustainable, however, AMIR should investigate the feasibility of raising the price of the courses at least to the level where its operating costs going forward are fully covered.[1] The price sensitivity of demand for the training is likely to be inelastic given that multilateral donor agencies and private sector commercial banks are paying for the courses. A tiered system with lower rates for NGOs and private individuals should be considered.

Marketing the Program:
A marketing strategy, as part of a wider business plan for the program, should be developed and resourced. Effective marketing of the program will help establish its reputation, as well as ensure a future pipeline of participants for the various training courses. The program's sustainability is dependent on attracting both MFI and commercial bank participants in Jordan and the wider region. With the right tweaking of the program, it is likely that banks that are interested in penetrating deeper into small business markets (vs. microfinance) will *also* find value in the course offerings for their loan officers. This could represent a new and lucrative target market for the program.

A network should also be set up for the program's alumni, as they will be the training programs publicity agents in the field. One idea is to have an annual

[1] Far higher rates by other microfinance training programs (e.g. in Boulder and New Hampshire) do not appear to deter demand. To the contrary, participants expect to pay for value.

competition for alumni to develop a case study exercise based on their 'real life' MFI experience. These cases can be adapted and used as necessary to keep building dynamism into the program's training materials. All developers of cases that get integrated into the course materials should receive recognition. A grand prize should also be awarded as an incentive for alumni to participate in the material development of the course.

Systematizing Continual Program Improvement:
This involves setting up systems to ensure continual feedback and improvement of the training program. Examples include: further developing the teaching methodology and substance skills of trainers; expanding course offerings and continual improvement of existing materials; setting up systems to capture learnings from trainers and participants; setting up systems to manage all regular parts of the program (e.g. participant selection, materials production, modification and distribution; other logistic issues; program coordination etc).

2. Miscellaneous Notes

What follows is a series of notes (in no particular order) that both report on, and respond to issues raised by my interviews with trainers.

#1: Participants of Different Levels in the Same Class

Feedback: The group of participants in the second run of the basic course was far more difficult to manage than the first group. Combining highly educated (relatively speaking) bankers who are totally skeptical of microfinance and its high interest rates with loan officers with relatively low formal education levels makes for difficult training. The loan officers from MFIs were much 'slower' on the uptake on the financial aspects of the course.

Since this is a problem that is likely to recur in the future (i.e. different levels of knowledge in classes and different attitudes towards MFIs etc), I suggest considering the following:

- Re: Selection of applicants for particular courses. Since the BASIC course is run several times a year, a group of senior bankers who want to learn microfinance may do better to have a separate training session (or one combined with more experienced loan officers). A process to ensure a level of compatibility of skill levels in the class is important.

- Two Track Option: One alternative (if the skill levels for the financial components in the class are very different) is for the class to be divided into a faster track and a slower track for module 3.2 with the 'faster' track getting more challenging questions etc.

- Pre Course Briefing on Participants Backgrounds and Interests: To the extent that it is possible, trainers should be advised before the training begins who the class participants are and what their level of background is. This information could be part of the application for the course where applicants are asked to fill out three quick questions:

  - The first, should cover their level on knowledge of MFI in general.
  - The second should cover their knowledge of finance and accounting.
  - And the third should cover what they want to get out of the course.

- It may also be a useful idea for the IBS training coordinator and / Mohammed Al Jafari to give the trainers a briefing, after they have feedback from the first Module, on what to expect. In fact, Qais (who taught the first module during the last course) did this informally to Mohammed who then subsequently let others know.

#2 Arabic Translations of the Materials

Feedback: There was still a problem with some of the Arabic translations for the second run of the BASIC Course. The problem was accentuated when trainers were sometimes caught off-guard when students spotted totally wrong definitions of concepts in their Arabic versions etc. There are two things we could do here:

- First, the materials modifier could make sure that he has spoken with each trainer who trained a module during the course and made all the necessary changes for the next run. To the best of my knowledge, this is already being done.

- Second, trainers should receive the Arabic versions of the material well in advance of their module so that they can read through it to make the necessary edits. The trainers will need a copy of the advanced training in Arabic (together with the English Versions) so that they can make the changes in advance of the Advanced Course, which begins in September.

3 Test Complexity and Consistency Issues

Feedback: The Basic Test and Case Study, which the TOT participants used, is too difficult for participants of the BASIC Course. The trainers / Mohammed have written up a new test and case study in Arabic by drawing on the test and case developed by SAS.

In addition, the trainers believe that since many of the participants are from the same organizations, it is important that a new test is developed for each course. This will prevent former participants from giving all the answers to current participants. This, however, raises the problem of consistency and fairness across different tests. To the extent possible, AMIR should set up a process for 'quality and consistency control' across all new materials (including the tests) that are developed.

With respect to 'certification, it makes sense to give practitioner certificates only to those participants who get a high grade for all three components of the course (i.e. a) class participation and ability to communicate and work with others around MFI issues; b) the test; and c) the case exercise.). The others should receive participation certificates only. Is there a policy for the cut-off (e.g. over 75% or 80% average for all three components)? Whatever it is, it should be consistently applied to all participants going forward. Already there is some discrepancy as the first lot of participants all received practitioner certificates irrespective of their grade. Going forward, there should be an effort for consistency in this regard—both for fairness and for reputation reasons.

4 Upcoming Advanced Course Issues

Many of the same participants who did the basic course a couple of months ago will probably be doing the advanced course. This raises a number of issues:

- First, do we want to increase the threshold for participants who are accepted into the advanced course? For example, do we want loan officers with less than one year of experience jumping into the advanced course just five months after the basic course?

- Second, the course is really designed with MFI managers in mind. MFIs should be aware of this when they send loan officers (vs. MFI managers to this course), and likewise, the trainers should be aware of this. Making the material highly relevant to loan officers will be easier in some modules than others.

- Third, it is likely that at some point, the advanced course will run into the same problems of the basic course if half of class are loan officers with relatively little MFI experience (but who have done the basic course), and highly skilled MFI managers. Planning how to manage this will be important.

- Fourth, since many of the participants would have recently done the basic course, all the energizers and games that were used for the BASIC course cannot be repeated for the ADVANCED. Trainers need to develop new ones (or use the resource books which have their home in Terri's office).

- Fifth, trainers should check in with their colleagues who taught 'matching modules' in the basic course. For example, both the basic and the advanced courses have modules on managing the loan portfolio and running savings programs. In one case, trainers supplemented their basic materials with examples from the advanced course because the Arabic version of the materials confused some participants. It is fine to use these examples again, but trainers should definitely check-in with their colleagues to see exactly what was covered in respect of those modules.

- Sixth, although I met with most trainers to discuss their lesson plan and how they planned to teach their module as well as to go through parts which they did not understand, most trainers did not have a complete version of their lesson plan done. Most did not have any version at all. To ensure that trainers are, in fact, fully prepared before the advanced module, they should definitely prepare their lessons plans at least a week ahead of the beginning of the

Advanced Training Course. They should also practice teaching all the examples which are calculations as it is here that it is most easy to stumble during class. Bill Crew from SAS will be here a couple of days before the advanced training begins and will be available for questions.

Additionally, I have prepared a set of interactive exercises, which will help to reinforce topics in the Advanced Course (See Attachment 3).

For points three through six above, it is recommended that a system is developed with someone (ie. the materials modifier) taking responsibility for coordinating and sharing lesson plans, energizers, pre course and post course briefings etc. This is already beginning to happen.

#5 Upcoming Regional Course Issues

- The regional course is scheduled to begin on August 20th . Since the growth in the training program, in part, depends on attracting participants from the wider region (the MFI industry alone in Jordan has limited capacity to sustain ongoing runs of the BASIC and ADVANCED Course), getting it 'right' will be very important.

- This will be the third time that the various modules of the basic course are being run. All trainers should have the benefit of lesson plans that were prepared by their colleagues for other modules. All corrections to the Arabic versions of the reports should also be made.

- In terms of preparation, trainers should be aware that the module on savings and group lending are each only half a day now. Also trainers should receive a briefing on the changes to 4a and 3.2.

- I have attached the schedule that Mohammed and I proposed to the IBS for the course (see attachment 1). Since the condensed Regional Basic Course is only around 10 – 12 hours shorter than the BASIC Course, it made sense to cut down the two modules which the trainers felt had been allotted too much time in the past, namely, the savings module and the group lending module, both of which will be taught for half a day only.

    - Module 3.1 (credit analysis, qualitative components, 3 M's etc) is half a day as it is reinforced and used in module 3.2, 4a, and 6 with real case studies.
    - Module 4b and Module 5 are taught for just half a day.
    - Trainers should use the field trip to a group lending project to reinforce how to design group lending programs for success and sustainability.
    - More on savings is covered in the advanced module.
    - Trainers for modules 3.2 and 4a should liaise closely with one another as the same case-materials can be used for both modules for stressing different

aspects. In 3.2 they are used to stress cash flow, in 4a, they are used to reinforce different aspects of the lending process or to structure a loan, or to present to the loan committee.

#6 New Materials and Material Modification Issues (see attachment 2 for more details)

- With respect to the Materials Modification and the role of the Material Modifier: I think that it is a really good thing that Mohammed is the materials modifier and that he is liaising with all the trainers to make the necessary modifications to the Arabic volumes.

- In terms of the changes that SAS has made to the English versions – most of these are editorial or formatting (moving paragraphs and order around as per the recommendation of the trainers from our prior visit). There are, however, also some substantive changes in the modified materials. All changes are highlighted in blue in the version that I have given AMIR. Someone should be assigned the responsibility to make these changes.

- The final version of the English materials without the edits marked is the one that should be used when giving trainers an English equivalent of their Arabic versions to crosscheck materials.

- I have produced a separate document that highlights the nature of the changes that have been made for each module. Both Mohammed and Sameera currently have a copy of it.

- In terms of new arabic materials that are being developed by some of the trainers (e.g. for the test), I recommend that a process of quality control is put in place by AMIR so that all new materials that come out under its name are 'OKAYED.'

- There are some changes that have been made in the Arabic versions that now need to get made to the English versions. Someone needs to be assigned to do this.

- Finally, if possible, it is recommended that AMIR gets a version of the Arabic materials on software that is compatible with its current system to facilitate changes to the Arabic materials getting down in-house in the future.

#7 Systematizing Feedback Loops

It is very important to learn from our experience as the course goes forward so that start-up glitches and modifications to the materials get made. As mentioned above, it is important we get this feedback both from trainers <u>and</u> participants. One trainer suggested that AMIR should go out to each of the four MFIs and talk to their participants about what they liked and did not like about the training. This will give AMIR a far more comprehensive set of information than the in-class evaluation as it moves forward to refine and improve its courses.

ATTACHMENT 1

Provisional Schedule for Regional Training Course for Microfinance Practitioners. August 20 – Sept 1, 2000 (not yet modified and approved by the IBS)

MODULE	DATE	SUGGESTED TRAINERS
Module 1 and Module 2 (1.5 days)	Sunday Aug 20 and Monday Aug 21 am	Qassim and Reem
Module 3.1 (half day)	Monday Aug 21 pm	Sahar and Ghassan
Module 3.2 (one day)	Tuesday Aug 22	Niveen and / M. Al Jafari (B/S and IS and BEP)
Module 3.2 (1 days)	Wednesday Aug 23	Mohammed and Kholoud (Cashflow).
Module 4a (1 day)	Thursday Aug 24	Mahdi and Sameera Q (lending process). Case exercises revise the cash flow and 3 M's learned in the previous two days
Module 4b (one day)	Sunday Aug 27	Majdi and Wasan (pm is field trip)
Module 5 (old mod 3.3 for 1 day)	Monday Aug 28	Mahdi and Ghassan
Module 6 (old mod 5 for half a day)	Tuesday Aug 29 am	Ayman and Sahar
Revision (half a day)	Tuesday Aug 29 pm	Trainer depends on the material that the trainees want covered.
Module 7 (old mod 6 for 1 day)	Wednesday Aug 30	Dr Younes and Qassim
Test	Thursday Aug 31 am	IBS – Dr Younes and Ayman
Round Table and Close	Thursday Aug 31 pm	Rula (??)

ATTACHMENT 2

Basic Course Module Notes

The modules that SAS has edited / revised are on the G: drive / Work in Progress / Lpikholz AMIR Work.

There are two large folders:

- Folder # 1 called Revised Basic 0700, which contains the edits to all the modules one through six etc. This contains the new versions of 3.2 and 4a which has the restructuring of cash flow from 4a into module 3.2.
- Folder # 2 called Old Versions 3.2 and 4a.

What I did was to make all the changes for the Regional Basic Course consistent with the changes for the usual Basic Course. So, in essence, they are the same set of documents.

Each module has a marked up version so that a translator can see where changes were made, and a version with no edits showing. The changes are all shown in BLUE.

Note:

- Many of the changes IN BLUE are formatting or cut and paste jobs with no substantive changes. This is particularly true for modules 3.2, 4a, 4b, and 5. For example, much of what was formerly 'content' of module 4b, now appears as attachments. This shows us as a huge blue deleted section in one place and another huge blue section in the attachments.
- In other cases, based on feedback from trainers last time we were here, substantive changes have been made.

Module 1

- Most of the changes made in this module were editorial (not substantive).
- In the first training of the BASIC course, the handouts were not translated into Arabic. This has probably happened since, but I am just checking.

Module 2

- Most of the changes made in this module were editorial (not substantive).

Module 3.1

- Most of the changes made in this module were editorial (not substantive).

Module 3.2

- Most of the changes made in this module were editorial (not substantive) except for Um Ali case where a number of changes were made.
- Major change is the merging of cash flow section of 4.a into merged into 3.2.
- Additional cash flow slides added to end of 3.2
- There are now 6 separate documents (handouts/exercises) in addition to the trainers, slides and student manuals.

Old Module 3.3 now Module 5

- Most of the changes made in this module were editorial (not substantive).

Module 4a

- Most of the changes made in this module were editorial (not substantive).
- Substantial change was made as the cash flow section of 4.a was merged into 3.2.
- Cash flow slides are taken out of 4a and objectives slide is amended, and objectives slide is amended.
- Same handouts as module 3.2 for module 4a, except for Um Ali.

Module 4b

- Substantial changes were made to this module. Mainly by reordering some sections and taking out other large sections and making them into attachments. The result is a shortened version of the actual module with more in the attachments. This is in line with the recommendations of the trainers to shorten this module.

Old Module 5 now Module 6

- Substantial changes were made to this module, mainly by reordering some sections

Old Module 6 now Module 7

- Most of the changes made in this module were editorial. Check substantive changes in Sami Eid Case Study.

Test and Case

- No substantive changes

Additional Notes:

1. Module 3.2 has been lengthened to include all the cash flow material that was in 4a, as well as the material on the income statement, balance sheet and cash flow. Module 4a has been shortened and now includes: the lending process (for individual businesses, loan structuring and loan monitoring).

2. The Um Ali exercise is only for module 3.2. The Wafa mini-market cash flow case is used for BOTH modules (different aspects are stressed). The Sword and Daggers case is primarily for module 3.2, and the Spectacles Case is primarily for module 4a. However, they can be used for both modules for different purposes but the trainers must make sure that they talk to each other so that they know what was covered.

3. As I mentioned to Mohammed and Sameera, not all the PowerPoint changes are reflected in the edited versions as there was no tracking key. There were very few, though (e.g. slide 16 in the savings module). Also note that cash flow slides were subtracted from the 4a module and added to the 3.2 module. The objectives slide for both of these modules were edited to reflect the changes.

4. The numbering of the modules following the old course outline is identical to the 'new one' up to module 3.2.

   We then have the new module 4a and 'old' 4b (numbering can stay the same).

   However, module 3.3 (portfolio), should now be called Module 5

   Module 5 (savings) should now be module 6

   And Module 6 should now be Module 7.

ATTACHMENT 3

Memorandum

To: All Trainers and Terri Kristalsky

CC: Jim Whitaker, Jamil Wheidi, Sameera Qadoura, Hanadi Derhalli, Michele Giddens

From: Lynn Pikholz

Date: 10/15/00

Attached please find a series of additional interactive exercises that might be useful to use during the advanced training.

I have written them down fairly briefly as I have already discussed them at length with most of the trainer/s of the specific modules of the advanced course. Please feel free to contact me with any questions.

The Regional Course (beginning August 20th) is by far the most important MFI course that you would have taught so far. It is this training that will determine the program's reputation nationally and internationally. As always, very thorough preparation (like the brilliant job you have all done in the past), is even more vital.

Please note that some of the basic course modules for the Regional Course have been restructured (like 3.2 and 4a) and others have been given a shorter allocation of training time (like savings and group lending), so care should be taken to make sure all the crucial points from these modules are included. There will be a field trip to a group lending program as well as a panel discussion for this run of the First Regional Basic MFI course.

Also note that Regional Course Trainers who are training modules 1, 2, 3.1, 3.2, 4a, 4b, and Module 6 (now the savings module), are especially welcome to send me their lesson plans to share ideas etc., as these modules have either been restructured or given less time than previously.

Also…to let you know that I am leaving Amman tomorrow…so just wanted to say bye and all the best for the advanced and regional training. I really enjoyed meeting most of you again and was sorry that others were out the country and hence unable to reconnect.

Warm Regards,

Lynn Pikholz
(lpikholz@aol.com for the next 3 weeks, and then lynn_pikholz@sbk.com (for when I am back in the US).

Advanced Module 1: Lesson Planning Aid

Additional Activities for Module on Introduction to Sustainability.

Activity #1: Day 1 (possible warm-up)

As a creative way to get students to think begin to think about sustainability, the trainer could bring three cans or bottles of Pepsi Cola or Coca Cola into the room (or anything that has been around for as long as anyone in the class can remember – CAMEL Cigarettes is another one).

The trainers could even go the local advertiser for Pepsi or Coke (or CAMEL) and get a recording of some of the adverts on tape and have that playing in the back ground -- setting a great atmosphere in the class during the first training session is important.

Process: Let the participants be a little puzzled for a minute or so, and then ask them what to explain to you why you brought three bottles of coke to the class when your goal is to introduce the topic of sustainability (and its not because you expect to be ultra thirsty).

This should generate a lively discussion of the topic of the characteristics of a sustainable organization.

Trainer can ask probing questions if there is not much spontaneous discussion. The class should easily get the fact that Coke is a financially sustainable and successful company. Reasons they mention could include:

- Coke had excellent dedicated leadership
- Coke's profitability objective was a powerful motivator
- The strategy of coke was on target.
- Its marketing was excellent.
- The company created a market, served a need, and sold it well.
- Product quality was excellent and consistent (except for a recent blip, I think in Belgium). In fact, in many developing countries, visitors who were to scared to drink the water always felt safe drinking coke.

- They kept penetrating new markets – i.e. got to scale.
- The product has an excellent reputation.
- They developed new product lines to serve the changing market (e.g. diet coke). They quickly changed their strategy and products when something did not work (e.g. they introduced a colorless diet coke about 10 years ago – the same color as water) – it was a total failure and they withdrew it quickly.

Activity # 2 and # 3

Once the class has spoke about all these elements in relation to Coke, let them sit in their place in groups of three and generate a quick list of the characteristics of a sustainable organization. These are all listed in detail in BASIC Module 1 (see immediately below) – this is really a 10 minute recap:

Characteristics of Sustainable and Effective MFIs

- Simplify application procedures. There is little difference in the rate of loan repayment between projects that "write a book" on each applicant and those that reduce applications to one or two pages. Do not require records and complex business plans. Because only a small percentage of farmers, traders and micro manufacturers keep written records of any kind, successful programs refrain from asking for records or plans;

- Extend credit quickly. Loan applicants become discouraged if they have to wait months before receiving services. They are accustomed to moneylenders who dispense money on the spot. Well-managed projects extend credit in less than a month and often within a week. They disburse subsequent loans even more quickly;

- Do not require guarantees and other unrealistic collateral that eliminates most poor people. At the microloan level, relying on peers to choose a client is an effective tool for loan security Mechanisms, such as credit groups, where business owners are mutually responsible for repaying loans, substitute effectively for conventional guarantees. The individual's reputation in the community is more important than collateral;

- Work with existing economic activities, no matter how small and focus initially on the local market. When working with start-ups they should be appropriate to the community. Launching larger enterprises is seldom successful and requires extensive inputs over months and often years. Local entrepreneurs and small farmers can find "niches" often invisible to outside experts.

- Work directly in the community and address the needs of poor clients. Staff should visit villages and poor neighborhoods almost daily, calling upon existing clients and explaining requirements to potential clients. They should hold meetings in the communities. If the project is operating in a rural area, staff should visit towns and villages, perhaps on a weekly basis and may need to work outside normal working hours to meet the schedule of the working poor.

- Focus on women. Studies have shown that women use the proceeds from their microenterprises to benefit the family more than men. Newly generated income is typically invested in improved nutrition, better housing, education and health care, especially in instances where loans are directed to women. Women have also proven to be very reliable repayers of loans.

ESTABLISHED "BEST PRACTICES" FOR SUSTAINABLE MICROFINANCE LENDING

PRINCIPLE 1: OFFER SERVICES THAT FIT THE PREFERENCES OF LOW-INCOME ENTREPRENEURS

- Give short-term loans.
- Give small loans.
- Give repeat loans.
- Allow relatively unrestricted use.
- Be customer friendly.

PRINCIPLE 2: STREAMLINE OPERATIONS TO REDUCE COSTS

- Highly streamline operations.
- Standardize the lending process.
- Decentralize loan approval.
- Maintain inexpensive offices.
- Select staff from local communities.

PRINCIPLE 3: MOTIVATE CLIENTS TO REPAY LOANS

- Do not require formal collateral.
- Use character references or group lending with joint liability to motivate repayments.
- Use incentives for prompt repayment.
- Develop a public image that signals seriousness about loan collection.

PRINCIPLE 4: CHARGE FULL-COST INTEREST RATES AND FEES

- Recover the costs of the loan. Small loan sizes and personalized service result in costs per loan that require interest rates significantly higher than commercial banks (although significantly lower than informal sector rates).
- Expect repayment. Low-income entrepreneurs have shown a willingness and ability to pay interest rates higher than commercial banks for services that fit their needs.

Once the students have identified the characteristics of sustainable MFIs, ask them the questions on page 5 of the English version of the Advanced Module 1, i.e. :

Characterize briefly (possibly in one word) how you would describe the following in a financial organization that has been in business for several years and is successful.

Revenues	(the answer is stable)
Profits	(the answer is not declining)
Prices	(the answer is competitive)
Customer base Or market share	(the answer is growing)
Assets	(the answer implies a short conversation about a less risky structure of the assets than a 100% loan portfolio)
Capital	(the answer is at least 10% equity)

This can lead into a longer discussion as mentioned in the module, or you can move on.

Note: There are numerous interactive exercises throughout the rest of this module that can be used to stimulate lively discussion as they learn from each other as well as yourselves.

Advanced Module 2: Lesson Planning Aid

Additional Activities for Module on Profitability and Sustainability

Activity # 1: Day 1:

After Discussion on Interest Rates – 15 minute exercise

Scenario: The MFI, 'Beautiful Money', is a very new microfinance program which has just been started by an NGO in the state of Arabia-East. Arabia – East is a beautiful country with lots of oil, but it has many poor people. The inflation rate is 14%, and the prime lending rate from the central bank is 16%. 'Beautiful Money' does however run an efficient operation. Administrative costs are about 18% of the average portfolio outstanding. To date, their losses are 1% of the average portfolio outstanding.

"Beautiful Money' targets poor microentreprenurs. It currently has a single loan product that is very popular among borrowers. The product is for a two year loan term and the interest rate is a declining rate of ten percent.

Task #1 :

Give the above scenario to the class in a dynamic way. Then ask the class what they think of this product? Clearly, they should all know that it barely cover the costs of default, let alone the cost of capital, administrative and operating costs, and the cost of inflation.

Ask students to discuss with the person sitting next to them what they think the minimum interest rate for 'Beautiful Money' should be, bearing in mind that beautiful money 1) targets poor people; and 2) wants to have massive outreach to all the poor in Arabia East, and 3) wants to be financially sustainable.

Note to trainer: Clearly, to cover the costs of inflation and the cost of capital is 34%. They then need to think about covering the administrative/operating costs, the cost of losses (the current 1% is an underestimation of what is likely to happen to loan losses in the future as the MFI is very new – 5% is probably a better minimum estimate till they have a track record), as well as the cost of attracting private capital (although this may be a long ways off).

Task #2: -- 35 minutes (20 minutes product design; 15 minutes discussion)

Ask each group of three students to design a new credit product for this MFI (i.e. Beautiful Money) that will help the MFI achieve sustainability. They should be very specific about the product's characteristics.

- Who is the target market for the product?
- What will the product finance?
- What is the 'face value' interest rate?
- What is the effective interest rate? Are there any fees?
- How will interest rate payments be structured?
- How and when will principal and interest be collected?
- What is the loan term?
- What is the minimum and maximum loan size?
- Are there any eligibility conditions?
- Are there any incentives for repayment or disincentives for non repayment?
- Other???

Day 1 could run from page 1 – 14 of the English version of the module. There are other 'thinking' exercises for the class in the module.

If there is extra time, you could start introducing the definitions of the Microfin Case.

Activities – Day 2

Activity #1 : Microfin
The Microfin Case – Page 15 – 20 will take up the bulk of this day – 90 minutes. Class should be given 45 minutes to do the case in groups of three. Discussion will take another 30 –45 minutes.

Activity # 1 : Exercises on Efficiency

Exercise on Efficiency: -- approximately 50 minutes (can be shortened)

Trainer should first introduce concept of efficiency and then split the class into groups representing their MFI (e.g. JMCC together, AMC together, CHF together etc, the trainees who are the only one from their organization can form a group together. There should ideally be 2 to 4 persons in a group. If necessary, there should be two per MFI).

Task 1: Each group should write down the percentage of time that is spent on each of the following phases of the loan process in their MFI. The total must equal 100%.: -- 20 minutes

- Promotion
- Request
- Screening
- Approval
- Disbursement
- Repayment and Collection

Put up chart in class with the results of all the different groups and discuss why there are differences.
Trainer note: This may have already have been done in Basic module 4a. If yes, find out how it was done and how many of the participants took the BASIC as well. You can probably still do it and then move much more quickly this time onto task two below.

Task 2: Class can be divided into five groups. Each group is asked to discuss how efficiency can be increased in one of the following phases of the loan cycle: -- 30 minutes

- Promotion
- Request
- Screening
- Approval
- Disbursement
- Repayment and Collection

Trainer should also discuss trade-offs that could occur. E.g. if screening is much less thorough, then some 'bad' loans may be made. This will increase the repayment and collection costs.

Also discuss how there may be differences for new borrowers vs. repeat borrowers. Where are the potential efficiencies for repeat borrowers.

Trainer note: Mohammed has an extra article I have him on this by Gheen. The article is on the internet in the MFI Bulletin put out by Calmeadow (July 1999). There is another article on efficiency, which is excellent, which is put out by the microfinance network. Sameera is using some parts of it for her module and has a copy of it. Hanadi has a couple of extra copies.

Task # 3. Comparative Exercise – 10 minutes.

Give students chart on page 25 and ask them to make comments on similarities and differences. The point is really to show how similar a lot of the operational efficiency ratios actually are for the high performing MFIs.

Activities – Day 3

This day is really all about the ratios (i.e. a tool to track what's going on in the MFI over time. Trends are important when tracking sustainability).

Use the MFI Bulletin (Mohammed, I gave you a copy of both of them – they are also on the web) and design a series of questions.

For example (and as we discussed) – ask students to do an analysis of Latin American sustainable MFIs vs. Asian sustainable MFIs. They should easily see by checking out the ratios that the Latin American MFIs reach fewer borrowers, have higher staff costs, have higher average loan sizes, but charge much higher interest rates. They should discuss each of these as a driver of sustainability (i.e. scale, operating costs, interest rates, average loan size, # borrowers vs. staff – productivity indicator). The big Asian MFIs have lower staff costs, higher staff productivity, lower average loan sizes, lower interest rates etc.

Advanced Module 3: Lesson Planning Aid

Additional Activities for Module on Portfolio Management

Activity Variation Suggestion

For the first exercise (described as a warm-up at the beginning of the module), a variation is to use it later in the module when dealing with the different ways of defining delinquency.

Process: Give half the students one item from column (a) (see below) on a separate sheet of paper, and the other half of the students should get one item from column (b) on a separate pieces of paper. They should all find their partners and be asked to explain their concept to the rest of the class.

A Few Common Delinquency and Default Ratios

INDICATOR	RATIO	MEASUREMENT
Column (a)	**Column (b)**	
"Arrears Rate" "Past Due Rate"	Amount past due Outstanding Portfolio	How commonplace is non-payment? Measures amount of loan principal that is due but unpaid.
Portfolio at Risk ("PAR") by Age	Unpaid Principal Balance of all loans with payments at least 1, 31, 91…days past due Outstanding Portfolio	How much could you lose if all late borrowers default? Aging separates more risky loans from less risky. (The longer a loan goes unpaid, the higher the risk it will never be paid.)
Repayment Rate	Amount received (current and past due) less prepayments Total due this period + past due from previous periods	Shows amount paid compared to amount due/expected during a specific period. Does not provide useful information about the quality or performance of the outstanding portfolio, other than indicating the % collected/due.
Current Recovery Rate	Amount received this period (P or P+I) Amount due this period (P or P+I) under original loan terms	Can be processed algebraically to predict eventual loan loss rates. Fluctuates from month to month – is meaningful only for longer periods.
Annual Loan Loss Rate	Amount becoming unrecoverable during year Outstanding Portfolio (amount unrecoverable is not the same as written off)	Annual cost of default, which must be balanced by higher interest income.

Source: Richard Rosenberg's Teaching Notes: CGAP.

Note: There are numerous other exercises throughout the module that the trainer can use.

Advanced Module 4: Lesson Planning Aid

Additional Activities for Module on Introducing and Managing Savings

Activity # 1: Day 1

Fun Exercise: TV Advert (get all aids, video camera, commercials etc)

The class should be divided into four groups on first day of this module and told that they should prepare an advert for a particular savings product for a particular target audience for national television. The advert for each group should be around 1.5 - 2 minutes long maximum.

Two groups should be asked to come to class 15 minutes early for their 'video shoot' on the second day. The other two groups can be filmed during the morning break. The ads can be discussed and evaluated whether they would achieve their goal (attract the right target customers etc.) and why. Set-up of television and video should be done in advance to make sure that it runs smoothly.

Activity #2: Day 1

Advocacy Exercise: Exercise to test that students understand benefits of savings. Since most students already know a lot of the benefits from the basic course, they should be able to do this exercise without much introduction on the topic.

The class can be divided into 4 groups. Two groups should prepare for a meeting with Minister of Finance and Minister of Economic Development and Head of Central Bank to convince them to allow MFIs to become deposit-raising institutions.

The other two groups should represent the central bank. One group should prepare why they (as the central bank) will accept MFIs doing savings. The other group should prepare all the reasons why MFIs should not do savings. Both these groups should anticipate the arguments that are going to be made by the 'savings advocate' groups so that they can respond well to them.

Alternatively, one of the two groups could be a group of 'ruthless' commercial bankers who are worried about competition if the MFIs suddenly start attracting larger deposits. They will do anything and everything to try persuade the Central Bank that allowing MFIs to take deposits is a high risk and unsustainable solution.

The trainers can allow each group five minutes to present and then moderate some interchange between the various groups.

Activity # 3: Day 2 (?)

Risk Management, Fraud and Savings:

This is an exercise to ensure understanding of all the risks associated with introducing savings. Ways to defraud MFI etc. Trade-offs – being close to borrower vs. reducing risk of fraud etc.

Trainers to give class a scenario of high fraud occurring in deposit taking at an MFI where loan officers collect savings from customers out in the field (use the details as we discussed).

This exercise can be a competition between the different groups to see which group can design the 'best' ways to reduce fraud at the MFI. Groups should think about system and design aspects to reduce fraud, as well as cross checks. Examples we discussed include:

- lock box idea
- big deposits at the branch
- fixed monthly deposits (so know how much to expect coming in)
- cross checks against pass – books
- always two officers present when handling cash
- education of customers (especially if they are not literate and cannot check their receipts etc.)

Note to trainers: The Module on Governance (taught by Sameera and Kholoud this time) also has a section on fraud more generally. Please check for overlap, though I do not anticipate any.

Activity # 4: Day 2

Exercise on Designing Savings Product:
Groups should be asked to design savings products for particular target markets (e.g. shopkeepers; very poor customers; better-off customers). Products should specify all their characteristics, e.g.

- Interest rate paid (and when)
- Minimum deposit
- Place to deposit
- Frequency of deposits (if there are restrictions)
- Frequency of withdrawals (are there restrictions)
- Incentives to save more

Exercise on Costing Savings: Use Christens' Example as we discussed (Reem and Ayman have a copy of it).

Advanced Module 5: Lesson Planning

Additional Activities for Module on Building a Strong Organization

Activity # 1: Day 1:

For module section on the Board of an MFI:

Divide class into three groups and tell them a new MFI is being launched in their country and they are asked to put together a board consisting of between six and ten members. Who will they choose and why?

This exercise should take around 10-15 minutes in their groups and should stimulate around 15 minutes of discussion (including their report backs).

Main issue that arises will be the value that each party brings. Trainer should look at the different roles that the board is expected to take on and ensure the board members selected are geared up to take on those roles. Ask participants who out of their selected board members will know about risk management etc.

Other questions?

- Is there someone with proven strategic thinking capacity on their board? Who?
- Who do they think will be unafraid to keep the CEO in check and ensure that they get the right reports?
- Does someone know and understand comprehensive risk management (especially important for more complex and mature MFIs)?
- Is there someone who understands technology and MIS (the MFI world is becoming increasingly more like the banking world – technology will help determine who is efficient and who is not etc.)
- Is the private sector involved? Who? Do they have connections to resources / networks / government etc.

- Is there a banker or someone who understands what a professionally run microfinance institution is about?
- Is there someone who will check that development impact is being attained etc.
- The executive director of the MFI should be at all board meetings, but should he be a member of the board

Can ask class whether the type of board members selected will change depending on the:

- Mission of the MFI (e.g. if purely for profit vs. profit and development impact).
- Age of the MFI: Age does not mean higher level of sustainability or maturity
- Level of maturity of the MFI: More complex systems and risk management as MFI matures.
- Political situation in the country
- Different products that the MFI offers
- Institutional structure of MFI (e.g. for profit private sector entity within bank; for-profit private sector entity outside bank; not-for profit)

Activity # 2: Day 1

This could be done anywhere in the module –depending on how you structure it. If it is done at the end, it is more of a summing up exercise to see how much participants have absorbed from the sessions.

Trainer to make:

- One list of all the different actors in an MFI (e.g. funders, board member, CEO, CFO, loan fund manager, loan officer, internal auditor, MIS manager, accountant, customer), and
- Another separate list of all the different functions of the different actors with the order all mixed up (get list of functions from manual)

<u>Task</u>: Divide students into groups and have a competition to see who can link the function to the actor in the shortest possible time and get the most right.

Each member of winning group should get a prize

Exercise should take around 10 minutes and should lead into the next discussion topic.

Activity # 3: Day 2 (?)

Fun with Fraud – Used to lead into the discussion on fraud (20 - 30 minute exercise)

Divide class into four groups. :

- The first group is told to pretend that they are MFI customers who think the newly launched MFI has not got a clue about managing fraud. They are asked to list all the ways they can think of to defraud the MFI.
- The second group is a bunch of dishonest MFI loan officers. They are told to list all the ways they could defraud the MFI for personal gain.
- The third group is a group of MFI managers who want to set up ways to minimize the incidence of fraud.
- The fourth group is a group of 'do good' internal auditors who are asked to devise all the checks and balances they will use to detect fraud.

All three groups should discuss. Class should brainstorm ways to prevent fraudulent acts that the internal auditors did not think of.

Activity # 4:

Performance measures and incentives

NOTE: The list of MFI actors developed for activity 2 above can be used for this exercise.

Class is divided into three or four groups:

1. The loan officers' group is asked to write down how they think their bosses (the loan managers) should rate them. Both qualitative and quantitative measures should be suggested.

They should also make a list of the indicators of how they think their boss (the loan fund manager) should be measured by his/ her boss (the CEO).

2. The loan fund manager group should make a list of how they will rate the performance of their loan officers and the incentives / disincentives that they will use. They should also make a list of how they think the CEO should rate them.

3. Other groups can be used to design incentives for senior managers of the MFI and for customers of the MFI

Other Activities are included in the Teachers Module including role-plays.

Homework exercise at end of first session: Two students can be asked to present some of the material (e.g. MiBanco Case and K-Rep case) in the attachment on the different ownership and governance structures to the rest of the class. Presentation on each case should be around 3 minutes. The student should give her / his analytical comment on what they think were the strengths of that kind of governance structure and how they think it could be further improved if at all (3 minutes). Class discussion and questions 5-10 minutes. Exercise can be used as a recap on different governance structures.

Advanced Module 6: Lesson Planning Aid

Additional Activities for Module on Budgeting and Forecasting

Again there are numerous exercises and activities throughout this module. I was trying to think of an analogy outside the business world for forecasting etc….and the idea of a patient going to a doctor came to mind.

Maybe…(and I am thinking out aloud now), we could design a role play with one student playing the patient and the other student being the doctor.

The trainer should write a detailed script for the patient of what his illness and medical history is. The patient should have a complex, and unusual with some recurring manifestations of the illness.

All students in the class should receive this briefing of the patient's medical condition, except the two students who will play the role of the doctor, are taken out the class.

The two doctors are then brought into the class and are asked to try and assess what is wrong with the patient (one student is playing the patient) how to diagnose him / her, and to give him or her a 'forecast' on her future health etc . The doctor asks the questions and the patient gives the answers.

A doctor cannot just guess off the cuff what is wrong with the patient currently and forecast his or her health in the future. A good doctor will ask a series of descriptive and analytical questions. The doctor will ask about past health, and about the family's medical history. He/she won't do this over the phone – it will be done face to face with the patient. Tests might get taken. Medicines may be prescribed. A future visit to check the patient's health against the 'expected' (or budgeted) health will be set up etc.

From the above, analogies to the budgeting and forecasting process can get made and the topic can get introduced.

Advanced Module 7: Lesson Planning Aid

Additional Activities for Module on Management Information Systems

Activity # 1: Day 1

Making Coffee Activity: 10 minutes (remember to bring all the 'equipment' to class)

Ask students to get into pairs and point to the kettle, the cup and saucer etc. Tell them that they have one minute to write down how they would instruct someone who has never made a cup of coffee before to make one from the beginning of the process to the end of the process (i.e. get a jug, go to the faucet, open the faucet, put the jug under the tap and let it fill with water, turn off the faucet etc. etc.).

Take their answers and ask someone else to follow their instructions exactly and try to make a cup of coffee with the equipment you brought with to class. Generally, they would have left something out so that making it is impossible.

If well facilitated, this could be a fun icebreaker and warm up, as well as useful to introduce the subject of MIS: MIS is just like making a cup of coffee!!. You need the right series of processes and actions to make a cup of coffee just as you do for MIS. Need to get the right inputs in the right order, then need to process it into something useable (a drink) in the form you want it (not too hot, not to cold, not to sweet, not too milky) and at the time you want it.

Activity # 2: Day 1

Competition. See Page 14 of English Version

Can discuss briefly why each piece information is important. Don't want to collect unnecessary information (transaction costs for customer and MFI)….but do want each piece of crucial information.

See Pages 15+ for more competition exercises

Activity 3: Day 2 (?)

Use for section on critical success factors of MFI and limitations of MIS

Trainers could design a scenario of a particular MFI, but should prepare four <u>different</u> reports of key indicators of the <u>same</u> MFI and give one to each of the four different groups of students in the class. One report should have only five indicators, one should have 40 indicators. All should have different versions of reporting the portfolio at risk, defaults and losses etc.

Each group of students should think of themselves as the new operations manager who has just come into a MFI and has been asked by the CEO to report on the current status of the loan portfolio and lending operations.

Since each group receives a different version of <u>the same information,</u> they will all focus on different issues, different indicators, and see different aspects as important. They will have different interpretations of the current status of the MFI. For example, the one group will receive a report that only X borrowers are past due (they wont receive the PAR, or the total # of borrowers that are past due, etc.). So they will think that the MFI is doing well. Another will have the opposite view. It is all a matter of what information is presented and how it is presented.

This is a typical problem of MIS: Irrelevant indicators get generated. The key ratios, which manager need, are not presented in the form necessary to give them the correct understanding of the situation so that they can make the necessary management decisions.

(Sahar, please could you send me these cases once you have developed).

<u>Activity # 4: Day 2</u>

<u>Scenario Problem Solving Exercise – page 24 English version</u>

Divide the class into four or five groups. Give them a list of actual problems (each problem is in bold in capital letters in your manual, page 24 and 25). Ask them to come up with:

1) With a 'sign' or mechanism how they will know or recognize when this problem has occurred.
2) Discuss what the causes of the problem may be
3) What will they do to preempt this problem in the future

(Don't let the students look for the answers in their manual).

Activity # 5: Choosing a MIS System

Tell students that very high quality digital video machines are selling very cheaply in Japan, and they have been asked to go and buy 100 of them and bring them back to Jordan. Ask students (in pairs) to discuss what issues they will consider when choosing a Japanese video machine vs. the local ones available in Jordan. They should come up with issues like:

- Price
- Compatibility with TV
- Maintenance when it breaks down
- Voltage and electrical aspects
- Will Jordanian videos work or do you need a converter
- How long will it last
- Can it be upgraded if new more compact videos come out?

This exercise is an introduction to the some of the same issues when thinking about when buying an off-the shelf software package.

That's it….have fun training!!