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Project Number: 42492-012  
November 2011

# Viet Nam: Technical Training Manuals for Microfinance Institutions In Vietnam

## Advance Course in Business Planning

Asian Development Bank

# Training Manual for Microfinance Institutions



## ADVANCE COURSE IN BUSINESS PLANNING

## COURSE OUTLINE

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Course Name	<b>Advance Course in Business Planning for Microfinance Institutions</b>	
Target Participants	Shareholders/Owners, Board of Directors, Managers, Branch Managers, Senior Staff, Staff	
Course Duration	3 days	
Learning Objectives	At the end of the course, participants are able to: 1. Gain knowledge and skills in preparing the business plans, operational plans and financial projections for MFIs.	
Course Outline	<ul style="list-style-type: none"> <li>• Opening Activities                             <ul style="list-style-type: none"> <li>○ Welcome Remarks</li> <li>○ Introductions: Trainer, Guests, and Participants</li> <li>○ Project Overview</li> <li>○ Leveling of Expectations</li> <li>○ Training Objectives and Agenda</li> <li>○ House Rules</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Review of Business Planning Concepts                             <ul style="list-style-type: none"> <li>○ Business Planning Concepts</li> <li>○ Mission and Goals Statements</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• Understanding the Market                             <ul style="list-style-type: none"> <li>○ Market Segmentation</li> <li>○ Environmental Analysis</li> <li>○ Institutional Assessments</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Exercises</li> <li>• MFI Presentation</li> </ul>
	<ul style="list-style-type: none"> <li>• The Business Strategy                             <ul style="list-style-type: none"> <li>○ Business Strategy Formulation</li> <li>○ Operational Planning</li> <li>○ Financial Modeling</li> </ul> </li> <li>• Understanding Profitability                             <ul style="list-style-type: none"> <li>○ Financial Statements and Performance Indicators</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Exercises</li> <li>• Closing Activities                             <ul style="list-style-type: none"> <li>○ Evaluation</li> <li>○ Closing</li> </ul> </li> </ul>
Delivery Methods	Lectures; Plenary; Small Group Discussions; Role-Plays; Exercises; Post-Training Tests	
Materials Needed	Computer, LCD Projector, Flipcharts, Stands, Meta Plan/Index Cards, Paper, Pens, Tapes, Prizes, Stapler, Paper Clips, Training Kit (Agenda, PPT Presentations, Notepad, Pens, ID)	
Handouts	LEDA Case Study Thanh Hoa Fund Presentation	

## INSTRUCTIONAL DESIGN AT A GLANCE

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Part I	OPENING ACTIVITIES	
Session	1	Introductions
Activity	1	<i>Registration, Welcome Remarks, and Introductions</i>
Activity	2	<i>Leveling of Expectations</i>
Activity	3	<i>House Rules</i>
Part II	UNDERSTANDING BUSINESS PLANNING PROCESSES	
Session	1	Understanding Business Planning
Activity	4	<i>Review of Business Planning Concepts</i>
Activity	5	<i>Mission and Goal Statements</i>
Session	2	Understanding the Markets
Activity	6	<i>Market Segmentation</i>
Activity	7	<i>Environmental Analysis and Institutional Assessments</i>
Session	3	The Business Strategy
Activity	8	<i>Business Strategy Formulation</i>
Activity	9	<i>Operational Planning and Financial Modeling</i>
Session	4	Understanding Profitability
Activity	10	<i>Financial Statements and Performance Indicators</i>
Part III	CLOSING ACTIVITIES	
Session	1	Wrap Up and Evaluations
Activity	11	<i>Evaluation</i>
Activity	12	<i>Closing</i>

HANDOUTS		
1	LEDA Case Study	
2	Thanh Hoa Fund Presentation	

# INSTRUCTIONAL DESIGN SCRIPT

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<b>PART I</b>	<b>OPENING ACTIVITIES</b>	
<b>SESSION 1</b>	<b>INTRODUCTIONS</b>	
<b>Activity 1</b>	Registration, Welcome Remarks and Introductions	
<b>Purpose</b>	<ul style="list-style-type: none"> <li>To register the participants and distribute the training kit.</li> <li>To introduce the ADB/JFPR-SBV Project, the guests, trainers and participants.</li> </ul>	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>Receive complete set of training kit.</li> <li>Know the project, host organizations, guests, trainers, and participants.</li> </ul>	
<b>Time</b>	<b>Materials</b>	<b>Steps/Method:</b>
30 minutes	Attendance Sheet Training Kit:: <ul style="list-style-type: none"> <li>- Agenda</li> <li>- Notepad</li> <li>- Pen</li> <li>- ID</li> <li>- Training Material</li> </ul>	Registration: <ol style="list-style-type: none"> <li>The support staff facilitates the registration of the participants and the distribution of training kits at least 30 minutes before the start of the training.</li> <li>The support staff checks completeness of the contents of the training kits with the participants.</li> <li>The support staff ensures participants write their names on the IDs and wear the IDs at all times during the training.</li> <li>The support staff ensures all equipment, facilities, supplies and materials required for the training are available.</li> </ol>
<b>Time</b>	<b>Materials</b>	<b>Steps/Method:</b>
10-15 minutes	Brief profile of host organizations and guests	Welcome Remarks: <i>Speech</i> <ol style="list-style-type: none"> <li>The Training Coordinator introduces the host organizations (SBV, ADB, JFPR, ADB Consultants, etc.) and guests (if any).</li> <li>The host organizations and guests deliver their welcome remarks.</li> </ol>
	Brief profile of the trainers	Introduction of the Trainers: <i>Speech</i> <ol style="list-style-type: none"> <li>The Training Coordinator welcomes and introduces the trainers (the lead trainer and co-trainers, if any).</li> <li>The Training Coordinator gives the floor to the lead trainer to start the training.</li> </ol>
	Profile of the Participants, Registration Sheet, Computer, Slide Presentations, Flipcharts, Stands, Pens, Papers, Tapes, LCD Projector	Introduction of the Participants: <i>Plenary; Small Group Discussions</i> <ol style="list-style-type: none"> <li>The lead trainer welcomes the participants.</li> <li>The lead trainer asks the participants to introduce themselves.</li> <li>The lead trainer acknowledges each participant and welcomes them to the training.</li> <li>When all participants have introduced themselves, the lead trainer takes note of the profile of the participants, thanks the participants and moves to the next activity.</li> </ol>

<b>PART I</b>	<b>OPENING ACTIVITIES</b>	
<b>SESSION 1</b>	<b>INTRODUCTIONS</b>	
<b>Activity 2</b>	<b>LEVELING OF EXPECTATIONS</b>	
<b>Purpose</b>	<ul style="list-style-type: none"> <li>To determine what are the participants' expectations from the training.</li> <li>To validate whether these expectations can be met by the training.</li> </ul>	
<b>Objectives</b>	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> <li>Present their motivations and expectations from the training.</li> <li>Know the course agenda and validate coverage of their expectations with the trainers.</li> <li>Identify items or issues that cannot be covered by the training.</li> </ul>	
<b>Time</b>	<b>Materials</b>	<b>Steps/Method:</b>
10 minutes	<p>Computer, Paper, Pens, Flipchart for "Parking Lot", Stands, Tapes, LCD Projector</p> <p>PPT Slide 3</p>	<p><i>Plenary</i></p> <ol style="list-style-type: none"> <li>The support staff provides sheets of paper and pens to the participants.</li> <li>The lead trainer asks the participants to share their expectations from the training by drawing a reflection of their expectations on a sheet of paper and presenting same to the groups.</li> <li>The lead trainer acknowledges each participant's presentation, summarizes the motivations to attend and expectations from the training.</li> </ol> <p><u>Training Objectives and Agenda:</u></p> <ol style="list-style-type: none"> <li>The lead trainer presents the training objectives and agenda to the participants and validates expectations that can be covered by the training.</li> <li>The lead trainer also identifies items that cannot be covered, if any, and places them to the "Parking Lot".</li> </ol> <p><i>Note: The Parking Lot is a place where the trainer can write issues, items or any concern that is covered by the training. This is visited at the end of the training to determine whether items have been covered or need to be discussed in other venue.</i></p> <ol style="list-style-type: none"> <li>The lead trainer summarizes the participants' outputs and asks the participants for more inputs or questions.</li> <li>When there are no more questions, the lead trainer thanks the participants and moves to the next activity.</li> </ol>

<b>PART I</b>	<b>OPENING ACTIVITIES</b>	
<b>SESSION 1</b>	<b>INTRODUCTIONS</b>	
<b>Activity 3</b>	<b>HOUSE RULES</b>	
<b>Purpose</b>	To ensure that the participants get the optimum learning from the course.	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>• Define and agree on appropriate behaviors for the duration of the training.</li> <li>• Define and agree on appropriate penalties for violations of the house rules.</li> </ul>	
<b>Time</b>	<b>Materials</b>	<b>Steps/Method:</b>
5-10 minutes	Flipcharts, Stands, Pens, Tapes	<p><i>Plenary</i></p> <ol style="list-style-type: none"> <li>1. The lead trainer asks the participants what could help them achieve optimum learning from the training and lists them on a flipchart.</li> <li>2. The lead trainer may initiate discussions by providing standard or frequently mentioned house rules. Such house rules may include: <i>coming on time, turning off or placing on silent mode the mobile phones, participating actively, respecting others, etc.</i></li> <li>3. The lead trainer verifies acceptability of the responses with the participants by asking them to agree on each item.</li> <li>4. When there are no more additions, the lead trainer shares his expectations if not yet covered by the listed items.</li> <li>5. The lead trainer thanks the participants and closes the session by asking the participants to be always reminded of the house rules for the duration of the training.</li> <li>6. The lead trainer posts the flipchart to the wall and moves to the next activity.</li> </ol> <p><i>Note: Having completed the introductions, the expectations and the house rules, the participants are now ready to start with the main topics in the course.</i></p>

<b>PART II</b>	<b>UNDERSTANDING BUSINESS PLANNING</b>	
<b>SESSION 1</b>	<b>BUSINESS PLANNING CONCEPTS</b>	
<b>Activity 4</b>	<b>Review of the Business Planning Concepts</b>	
<b>Purpose</b>	<b>To review the understanding of business planning in MFIs.</b>	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>• Explain the business planning terminologies used by MFIs.</li> <li>• Gain deeper understanding of business planning framework, operational planning and financial modeling.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
75 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 4-8 Computer, LCD Projector	<i>Plenary; Small Group Discussions</i> <ol style="list-style-type: none"> <li>1. The lead trainer starts the session with the participants with an exercise. The lead trainer asks the participants to form groups of five people. The lead trainer asks the groups to discuss and write their responses to the following questions in a sheet of paper: <ol style="list-style-type: none"> <li>a. What is the definition of business planning?</li> <li>b. Why do you think business planning is important?</li> <li>c. What is the purpose of business planning?</li> </ol> </li> <li>2. The lead trainer provides the groups about 10-15 minutes to respond and 3-5 minutes to present their outputs to the groups.</li> <li>3. The lead trainer summarizes the responses to each question and concludes the discussions with the common terminologies in business planning and the business planning framework adopted by MFIs.</li> <li>3. The lead trainer then asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</li> </ol>

<b>PART II</b>	<b>UNDERSTANDING BUSINESS PLANNING</b>	
<b>SESSION 1</b>	<b>BUSINESS PLANNING CONCEPTS</b>	
<b>Activity 5</b>	<b>Mission and Goal Statements</b>	
<b>Purpose</b>	<b>To highlight the importance of mission and goal statements in MFIs.</b>	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>• Understand importance of and prepare mission and goal statements for their MFIs.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
60 minutes	Timer, Meta Plan Cards, Pens, Tapes, Flipcharts, Stands, Computer, PPT Slide 9-16, LCD Projector	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> <li>1. To start the session, the lead trainer asks the participants what a mission statement is all about.</li> <li>2. The lead trainer summarizes responses of the participants and indicates that good mission statements emphasize purpose, values, clients and services provided by MFIs.</li> <li>3. The lead trainer then asks the participants why a mission statement is important for the MFIs.</li> <li>4. The lead trainer summarizes responses of the participants and concludes the importance of the mission statement to the MFIs.</li> </ol>



		<ol style="list-style-type: none"> <li>5. The lead trainer then asks the participants to take a look at the sample mission statements of the leading MFIs and provide comments, if any.</li> <li>6. The lead trainer asks the participants if there are questions about the topic. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</li> </ol>
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<b>PART II</b>	<b>UNDERSTANDING BUSINESS PLANNING</b>	
<b>SESSION 2</b>	<b>UNDERSTANDING THE MARKET</b>	
<b>Activity 6</b>	<b>Market Segmentation</b>	
<b>Purpose</b>	<b>To introduce the concepts of markets, market segmentation, and market opportunities for MFIs.</b>	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>• Gain knowledge on and skills in assessing markets for MFIs, segmenting the market and identifying market opportunities for MFIs.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
90 minutes	Timer, Meta Plan Cards, Pens, Tapes, Flipcharts, Stands, Computer, PPT Slide 17-21, LCD Projector	<i>Plenary; Small Group Discussions</i> <ol style="list-style-type: none"> <li>1. The lead trainer starts the session with an exercise. The lead trainer asks the participants to maintain their groups and respond to the following questions:             <ol style="list-style-type: none"> <li>a. <i>What does market mean?</i></li> <li>b. <i>What does client mean?</i></li> <li>c. <i>How do you define who the clients are in the market?</i></li> </ol> </li> <li>2. The lead trainer summarizes the responses of the participants and continues with the market segmentation.</li> <li>3. The lead trainer presents the various ways the markets can be segmented such as:             <ol style="list-style-type: none"> <li>a. <i>geographic</i></li> <li>b. <i>demographic</i></li> <li>c. <i>psychographic</i></li> <li>d. <i>behavioral</i></li> </ol> </li> <li>4. The lead trainer discusses the information that must be included when assessing markets, how the segmentation can be made effective, the microfinance client traits, and how and where the information can be collected.</li> <li>5. The lead trainer asks the participants if there are questions about the topics. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.</li> </ol>

<b>PART II</b>	<b>UNDERSTANDING BUSINESS PLANNING</b>	
<b>SESSION 2</b>	<b>UNDERSTANDING THE MARKET</b>	
<b>Activity 7</b>	<b>Environmental Analysis and Institutional Assessments</b>	
<b>Purpose</b>	<b>To introduce the concepts of environmental analysis and institutional assessments in MFIs.</b>	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>• Gain knowledge and skills in conducting environmental analysis.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
120 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 22-25, Computer, LCD Projector	<p><i>Plenary; Small Group Discussions; Exercises</i></p> <ol style="list-style-type: none"> <li>1. The lead trainer asks the participants to maintain the groups and asks the following questions: <ol style="list-style-type: none"> <li>a. <i>What is the scope of work of MFIs?</i></li> <li>b. <i>What are the opportunities and challenges for MFIs?</i></li> </ol> </li> <li>2. The lead trainer provides the participants with 10-15 minutes to discuss and write their responses on a flipchart.</li> <li>3. The lead trainer asks the groups to present in 5 minutes their outputs to the other groups and for the other groups to observe and provide feedback to the other groups.</li> <li>4. The lead trainer lists down and consolidates the responses of the groups and sets them aside for reference for the next activity.</li> <li>5. The lead trainer continues the session with a discussion on environmental analysis and institutional assessments using SWOT analysis: <ol style="list-style-type: none"> <li>a. Environmental analysis – <i>How will foreseeable external challenges affect our capacity to achieve our goals?</i> <ol style="list-style-type: none"> <li>i. Opportunities – <i>Can we take advantage of the external changes in the environment?</i></li> <li>ii. Threats – <i>Will the environmental changes jeopardize our ability to pursue our goals?</i></li> </ol> </li> <li>b. Institutional Assessment – <i>Can we meet our clients' needs given our resources?</i> <ul style="list-style-type: none"> <li>• Strengths – <i>Where are our strengths and how can we capitalize on them?</i></li> <li>• Weaknesses – <i>What are our weaknesses and where do we focus development efforts to transform them into strengths?</i></li> </ul> </li> </ol> </li> <li>6. The lead trainer then brings back the responses in earlier exercise and relates them with the description of the elements of environmental analysis (<i>competition, collaborators, regulatory factors and government policies, and other external elements</i>), and institutional assessments (<i>organizational structure, credit and savings program, board and management issues, human resource management, financial and financial management</i>).</li> </ol>

		<p>7. The lead trainer asks the participants about the potential challenges that may hinder a good assessment and how these challenges can be overcome.</p> <p>8. The lead trainer summarizes responses and asks the participants if they have other questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>
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<b>PART II</b>	<b>UNDERSTANDING BUSINESS PLANNING</b>	
<b>SESSION 3</b>	<b>THE BUSINESS STRATEGY</b>	
<b>Activity 8</b>	<b>Business Strategy Formulation</b>	
<b>Purpose</b>	<b>To introduce the concepts and statements that embody the business strategy statements of MFIs</b>	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>Gain knowledge on and skills in developing Mission, Goals, Objectives, and Activities statements that embody the business strategy of MFIs.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
180 minutes	Timer, Meta Plan Cards, Pens, Tapes, Flipcharts, Stands, Computer, PPT Slide 26-29, LCD Projector	<i>Plenary; MFI presentation</i> <ol style="list-style-type: none"> <li>The lead trainer opens up the discussion by asking the participants their understanding of the concept of strategy, the components of strategy, the process of developing and applying the strategy in MFIs.</li> <li>The lead trainer and co-trainer also provide examples of strategy statements of MFIs to make it easier for the participants to understand.</li> <li>The lead trainer asks the participants if there are questions on the topic. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.</li> </ol>

<b>PART II</b>	<b>UNDERSTANDING BUSINESS PLANNING</b>	
<b>SESSION 3</b>	<b>THE BUSINESS STRATEGY</b>	
<b>Activity 9</b>	<b>Operational Planning and Financial Modeling</b>	
<b>Purpose</b>	<b>To introduce the concepts of operational planning and financial modeling in MFIs.</b>	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>Gain knowledge on and skills in preparing operational plans and financial projections.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
240 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 30-36, Computer, LCD Projector	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> <li>The lead trainer presents to the participants a diagram that shows the steps in preparing detailed action plan to support the Mission, Goals and Strategy of the MFIs.</li> <li>The lead trainer also discusses the financial modeling and its components, as an integral part of the business planning process.</li> <li>The lead trainer emphasizes that the business planning</li> </ol>

		<p>and financial projections should be used as on-going management tools in the MFIs.</p> <p>4. To practice financial modeling, the lead trainer asks the participants to form groups of five. Within their groups, the lead trainer asks the participants to determine the following:</p> <ol style="list-style-type: none"> <li><i>Group 1 – Financing Source of the MFIs</i></li> <li><i>Group 2 – Income Sources of the MFIs</i></li> <li><i>Group 3 - Expenses of the MFIs</i></li> <li><i>Group 4 – Asset Structure of the MFIs</i></li> </ol> <p>5. The lead trainer asks the groups to present to the other groups their outputs and for the other groups to observe and critique the presentation of the other groups.</p> <p>6. The lead trainer summarizes and confirms the responses and asks the participants if they have other questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>
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<b>PART II</b>	<b>UNDERSTANDING BUSINESS PLANNING</b>	
<b>SESSION 4</b>	<b>UNDERSTANDING PROFITABILITY OF MFIS</b>	
<b>Activity 10</b>	<b>Financial Statements and Performance Indicators in MFIs</b>	
<b>Purpose</b>	<b>To introduce the financial statements and performance indicators adopted by MFIs.</b>	
<b>Objectives</b>	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> <li>Understand the financial statements and performance indicators being used by the MFIs in keeping track of operation of MFIs and ensure its profitability.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
240 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 37-44, Computer, LCD Projector,	<p><i>Plenary; Small Group Discussions; Exercises</i></p> <ol style="list-style-type: none"> <li>The lead trainer presents to the participants the financial structure of an MFI and the financial indicators that the MFIs monitor to ensure that their operation is on track.</li> <li>The lead trainer also shows the relationships of operational and financial indicators with the financial statements and highlights the importance of looking at Business Planning as an on-going process.</li> <li>The lead trainer asks the participants to form groups of five and provides an exercise to groups on how to calculate and analyze selected performance indicators in MFIs.</li> <li>The lead trainer provides the groups 30 minutes to respond and write the responses on a flipchart.</li> <li>The lead trainer asks the groups to present their outputs in 10 minutes to other groups and for the other groups to observe and provide feedback to the other groups.</li> <li>The lead trainer summarizes the points and closes the</li> </ol>

		<p>session with some recommendations in general planning such as:</p> <ol style="list-style-type: none"> <li><i>budgeting time and resources adequately</i></li> <li><i>encouraging participation of all shareholders</i></li> <li><i>assignment of responsibility for financial data gathering</i></li> <li><i>avoiding unrealistic projections</i></li> </ol> <p>7. The lead trainer asks the participants if they have other questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>
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<b>PART III</b>	<b>CLOSING ACTIVITIES</b>	
<b>SESSION 1</b>	<b>Wrap Up and Evaluations</b>	
<b>Activity 11</b>	<b>Evaluations</b>	
<b>Purpose</b>	To validate whether the training objectives have been met.	
<b>Objectives</b>	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> <li>• Validate achievement of the training objectives, participants' training expectations, and resolve "parking lot" issues.</li> <li>• Complete the evaluation form.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
15-20 minutes	Pens, Agenda, PPT Slide 3, Computer, LCD Projector Evaluation Forms	<p><i>Plenary; Post Training Evaluation</i></p> <ol style="list-style-type: none"> <li>1. The support staff distributes the evaluation forms to the participants and asks them to fill up the form.</li> <li>2. The support staff provides a short explanation on the content and how the form should be filled up by the participants.</li> <li>3. The support staff collects the forms from the participants.</li> <li>4. The training coordinator reviews the training objectives against the learning experiences of the participants along with their expectations from the training.</li> <li>5. The training coordinator reviews the issues listed in the parking lot, if any and tries to resolve such issues.</li> <li>6. The training coordinator asks the participants if they want to share anything to the group.</li> <li>7. The lead trainer asks the participants if all is clear. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</li> </ol>

<b>PART III</b>	<b>CLOSING ACTIVITIES</b>	
<b>SESSION 1</b>	<b>Closing</b>	
<b>Activity 12</b>	<b>Closing Remarks</b>	
<b>Purpose</b>	To officially mark the end of the training.	
<b>Objectives</b>	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> <li>• Complete the requirements of the training.</li> <li>• Receive the certificate of completion.</li> </ul>	
<b>Time:</b>	<b>Materials:</b>	<b>Steps/Method:</b>
15-20 minutes	Certificates	<i>Plenary</i> <ol style="list-style-type: none"> <li>1. The training coordinator requests the representatives of host institutions (e.g. ADB, SBV) to deliver the closing remarks.</li> <li>2. The training coordinator thanks all the people that supports the delivery of the training (ADB, SBV, PMU, MFI, others) and thanks the participants for the hard work and active participation.</li> <li>3. The hosts' organization representatives issue the certificate of completion to the participants.</li> <li>4. The host, trainers and participants pose for the group picture.</li> </ol>

## PRESENTATION MATERIAL

# BUSINESS PLANNING FOR MFIs

Hanoi, 6-8 December 2010

Trainer: Nguyen Thi Tuyet Mai  
Executive Director of MFWG

SLIDE

1



## Goal

To define the steps needed to create a business plan that leads to increased outreach and profitability



SLIDE

2

## Objectives

- To define steps involved in developing a strategic plan based on a market approach and apply them in their MFI
- To conduct research to determine who and where the clients are
- To analyze the business environment and determine the opportunities and threats it provides
- To create a strategy and build an operational plan based on that strategy

SLIDE

3



## Planning Helps ...

- Secure the future of the microfinance institution
- Provide a roadmap
- Set priorities
- Allocate resources
- Establish measures of success
- Get input and ideas from all parts of the MFI
- Coordinate actions of different parts of the MFI
- Respond to changes in environment



SLIDE

4



## Features of a Good Business Plan

- An ongoing process over time
- Refers to all parts
- Developed by a group – not individual
- Belongs to an organization
- Can be realized when the resources are available
- Used constantly, not to be put on shelves
- Specific, consistent, understandable

SLIDE

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## Business Planning for Microfinance Institutions

**BOTH**

Strategic planning

And operational planning



for achieving outreach  
and sustainability

SLIDE

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# Business Planning Terminology

- **Strategic Planning**

Formulates and articulates broad goals for the future based on an assessment of the current situation

- **Operational Planning**

Projects how to pursue the goals

- **Financial Projections**

Expresses the plan in financial terms



SLIDE

7

## Business Planning Framework

Strategic Planning	Operational Planning
Mission and Goals	Strategy
Markets = Clients	Product and service definition
Environmental Analysis Competition Collaboration Regulatory factors Other external issues	Marketing channels/ Credit and savings projections
Institutional Assessment Credit and savings program Board and Management Human resources Administration	Institutional capacity and resources Loan loss provisioning Loan officer caseload Program level expenses Admin level expenses
Financing sources	Financing strategy
Financial management	Financial management
Strategy	Business planning as an ongoing tool

SLIDE

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## Mission

A declaration which articulates:

**Purpose**

**Values**

**Clients**

**Services provided**



SLIDE

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## Why Is Mission Important?

- Encourage the commitment of the shareholders of the institution
- Encourage the spirit of the shareholders
- Provide focus and direction to deploy
- Provide orientation and long-term commitment to the institution

SLIDE

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## CEP's Mission

### **Vision:**

- The vision of CEP is to see significant improvements in the living conditions of the poor and the poorest in Vietnam through the efficient, effective and sustainable provision of microfinance services, delivered by CEP and other MFIs operating within a sound legal framework.

### **Mission:**

**The mission of CEP is to work with, and for, the poor and poorest to realise sustained improvements in well-being, through the provision of financial and complementary non-financial services in an honest, efficient and sustainable manner .**

- CEP sets a clear vision and mission, pursuing the balance between social objectives and financial sustainability

- ✓ CEP's social objectives include:
  - ✓ Serve the poor and poorest
  - ✓ Generate income, enabling clients to begin small businesses
  - ✓ Supporting women's financial obligations and income generation activities
  - ✓ Maintain coverage, including the ability to develop into microfinance institution
  - ✓ Provide supplementary non-financial services

- Thus, CEP has positively contributed to the quality of life of their loyal clients

*Independent Completion Report  
CEP 5-year Expansion Project*

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## TYM's Mission

- TYM's mission is to improve the quality of life and status of poor and poorest women and their families by providing groups of women in community with appropriate financial and non-financial services, offering them opportunities to participate in economic activities and raising their role in society .

*Source: Kiva*

SLIDE

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## LEDA's Mission

*Our purpose is to significantly strengthen the economic base of the low-income self-employed of our country.*

### ***Through***

Increased access to lending and savings services in urban areas

### ***We intend to combine***

Cost efficient methodologies with exemplary customer service

### ***And become***

A financially self-sustaining institution



SLIDE

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## LEDA's Goals

To fulfill our mission we will achieve the following in the next five years:



1. Provide appropriate savings and lending products in urban areas
2. Expand outreach by providing savings and credit services to a significant proportion of the households in our market areas
3. Become a financially sustainable, independent MFI accessing a broad variety of financing resources

SLIDE

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## **FPW's Mission**

Extracted from FPW's Handbook:

### **Vision:**

- For a world without poor women

### **Objective:**

- Strengthening economic security for women and children in need

### **Goals:**

- Strengthening financial resources for women and mothers, to create a positive impact to their children;
- Developing microfinance program in the area in a institutionally and financially sustainable manner;
- Providing sustainable financial services to disadvantaged women in rural Vietnam by organizing women-friendly activities, and
- Outreach expansion and gaining more benefits from the expansion

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## **At LEDA we serve**

Low income self-employed in  
urban areas

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## Segmenting Markets

**Geographic**



**Demographic**

**Psychographic**



**Behavioral**



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## Effective Segmentation



- Measurable
- Substantial
- Accessible
- Actionable



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## Microfinance Client Traits

- Nature of the business
- Demand for use of specific financial services
- Income and assets
- Diversity of income sources
- Work experience
- Cultural control of cash



- Gender and age
- Family status and structure
- Language and literacy
- Attitude toward product

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## How and Where Do You Collect Necessary Information?

- Study and Research documents
- Review records
- Investigation at site
- Interview client/staff
- Linking activities

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## What Do You Do When You Find Market Opportunities?

- Compare the size, growth potential and expected profitability with the mission and objectives of MFI
- ....
- This is how market and clients relate to the mission and purpose of the MFI

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## Environmental Analysis

*How will foreseeable external challenges affect our capacity to achieve our goals?*

### OPPORTUNITIES

Can we take advantage of the external changes in environment?

### THREATS

Will environmental changes jeopardize our ability to pursue our goals?

SLIDE 22

## **Institutional Assessment**

*A crucial look inside: can we meet our clients' needs,  
given our resources?*

### **STRENGTHS**

Where are our strengths and how can we capitalize on them?

### **WEAKNESSES**

What are our weaknesses and where do we focus development efforts to transform them to strengths?

SLIDE 23

## **Elements of Environmental Analysis**

**Competition**



**Collabo  
rators**

**Regulatory factors and  
government policies**

**Other external elements**



SLIDE 24

# Elements of Institutional Assessment



**Organizational Structure**

**Credit and savings program**

**Board and management issues**

**Administration**



**Human resources management**



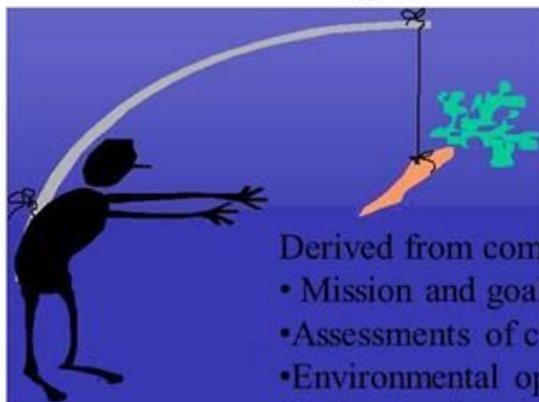
**Financing**

**Financial management**

SLIDE 25

## Defining Strategy

Deciding the objectives and activities for providing the right products to the appropriate markets in a cost efficient manner to achieve the goals of the MFI



Derived from comparing:

- Mission and goals
- Assessments of clients and markets
- Environmental opportunities and threats
- Institutional strengths and weaknesses

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## Choosing a Strategy

- **Product and Market Options**

- **Environmental Conditions**

Maximize opportunities,

overcome threats

- **Institutional Development**

Build on strengths



Improve weaknesses

SLIDE

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## Setting Objectives

Specific measurable statements

- They operationalize the goal and can be used to determine if the process is on track

## Defining Activities

States specifically HOW objectives will be obtained

- Identifies what the MFI must DO to implement the objective



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## For Example

### Goal 1. Provide appropriate lending and savings products in urban areas

#### Objective A:

Provide lending products that attract a growing number of clients that remain in the program

#### ▪ *Activities:*

- Redesign current group lending
- Train staff in new loan terms and conditions
- Review pricing structure

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## Operational Planning

- Develop detailed action plan to support the **MISSION**, **GOALS** and **STRATEGY** of your strategic plan



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## Financial Modeling

- An integral part of a comprehensive business planning process
- Provides a template to develop detailed projections
- Enhances an institution's ability to set and achieve goals
- Strengthens the financial planning and management skills of key staff



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## Components of Financial Modeling

1. Designing credit and savings products
2. Defining marketing channels to project client activity
3. Planning institutional resources and capacity
4. Projecting administrative resources and capacity
5. Developing a financing strategy
6. Analyzing graphs, projections and indicators

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# Components of Financial Modeling

## 1. Designing credit and savings products

- Should reflect clients' needs based on market analysis

### Characteristics of loan products:

- Minimum and maximum loan size
- Maximum loan term
- Compulsory savings requirements
- Interest rate and method of calculation
- Lending methodology

### Characteristics of savings products:

- Minimum balance requirements
- Length of deposit
- Mandated liquidity requirements
- Interest rate
- Interest calculation method

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# Components of Financial Modeling

## 2. Defining marketing channels to project client activity

- Identify your marketing channels
- Project the anticipated volume of your credit and savings activity

### Possible marketing channels:

- Existing offices and branches
- New branches
- Credit windows physically located within other organizations
- Alliances with banks or other financial institutions

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# Components of Financial Modeling

## 3. Planning institutional resources and capacity

- Your resources and capacity plan should be based on the institutional assessment from your strategic plan and on your product and marketing projections
- Your resources plan should anticipate your institution's requirements and related expenditures for the following items:
  - Staffing, including your loan officers and all of the other personnel within your institution
  - Other operational expenses such as occupancy, utilities, transportation, repairs and maintenance, insurance, professional fees, and general office expenses
  - Fixed assets, including both tangible assets (such as furniture, equipment and vehicles) and intangible assets (such as MIS software)
  - Land and buildings
  - The value of in-kind subsidies
  - Loan loss provisioning and write-offs

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# Components of Financial Modeling

## 4. Projecting administrative resources and capacity

- After projecting program-related expenditures, project other indirect, administrative costs (or head office costs) by considering the overhead necessary to support projected program activities
- You should also project institutional development costs

## 5. Developing a financing strategy

- A comprehensive financing strategy ensures that the resources you need to finance your planned activities are available to you, and within the timeframe that you need them

## 6. Analyzing graphs, projections and indicators

- Business planning is an iterative process. Often, when you analyze your initial projections, you will find it necessary to implement a series of small adjustments or refinements to your model

SLIDE

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## Financial Structure

### Assets

Cash  
Cash in banks

### Loans

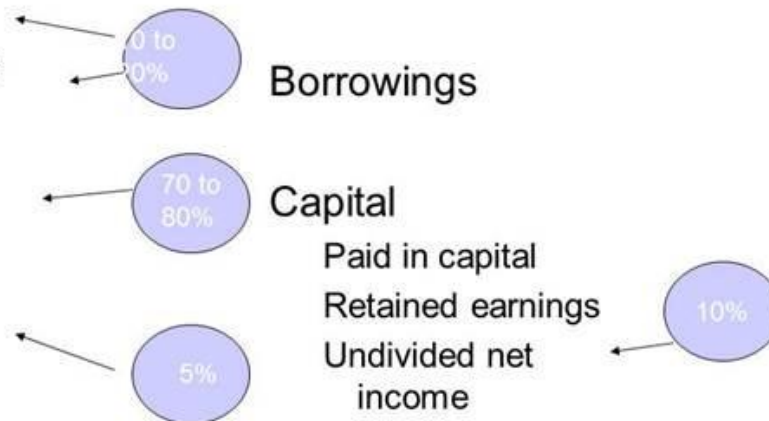
Fixed assets

### Deposits

### Borrowings

### Capital

Paid in capital  
Retained earnings  
Undivided net income



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## Financial Indicators

- **CAR – capital sufficient to cover possible losses?**  

$$\text{Capital to Risk weighted Assets ratio} = \frac{\text{capital}}{\text{total assets at risk}}$$

$$\text{Loan Loss provision ratio} = \frac{\text{actual provisions}}{\text{regulated provisions ratio}}$$
- **Assets quality**  

$$\text{Loan portfolio at risk} = \frac{\text{overdue loans outstanding}}{\text{loan portfolio}}$$

$$\text{Recovery ratio} = \frac{\text{actual loans recovered}}{\text{total receivable ratio}}$$

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## Financial Indicators

- Revenue/Earnings/Sustainability
  - ❑  $\text{Return on equity} = \frac{\text{Retained earnings}}{\text{total equity}}$
  - ❑  $\text{Return on assets} = \frac{\text{retained earnings}}{\text{total assets}}$
  - ❑  $\text{Operational self sustainability} = \frac{\text{Total revenue}}{\text{total expenses}}$
  - ❑  $\text{Return on investment} = \frac{\text{Operating income}}{\text{average loans outstanding}}$
- Liquidity
  - Ability to repay debts in cash (e.g: deposits, borrowings)
  - $\text{Liquidity ratio} = \frac{\text{Flexible assets}}{\text{deposit liabilities}}$

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## Income Statement

- |  |   |
|--|---|
| <p>Interest Income</p> <ul style="list-style-type: none"> <li>Interest from loans</li> <li>Other finance income</li> </ul> <p>Less: Interest Expense</p> <ul style="list-style-type: none"> <li>Interest paid to deposits</li> <li>Interest paid to creditors &amp; depositors</li> </ul> <p>= Net Interest Income</p> <p>Add: Other Income</p> <p>Less: Admin and Operating Expenses</p> <ul style="list-style-type: none"> <li>Personnel Salaries</li> <li>Other operating expenses</li> <li>Incentives</li> <li>Staff Development</li> <li>Bad debts</li> </ul> <p>= Net Income</p> | <ul style="list-style-type: none"> <li>▪ Profitability ratios:</li> <li>✓ <math>\text{Net interest margin} = \frac{\text{Net interest income}}{\text{average loan receivables}}</math></li> <li>✓ <math>\text{Net return on assets} = \frac{\text{net income}}{\text{assets}}</math></li> <li>✓ <math>\text{Net return on equity} = \frac{\text{net income}}{\text{equity}}</math></li> <li>✓ <math>\text{Operational sufficiency} = \frac{\text{net interest income} + \text{other income}}{\text{admin and operating expenses}}</math></li> </ul> |
|--|---|

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## Financial Assessment: What affects profitability

- Total assets
    - Volume
    - % of earning assets
  - Interest spread
  - Loan turn-over
  - Loan repayment
  - Administrative Efficiency
- Policy decisions:
- Fund mobilization
    - Capital
    - Deposits
    - Borrowing
  - At what cost?
  - Loan Policies
    - Interest rate
    - Term/mode of payment
  - Loan Portfolio mix
    - What loan products and proportion allocation
  - Operating Expense Budget

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## Other Performance Indicators

- Productivity/Efficiency
  - Staff to client ratio=number of loan staff over total clients
  - Processing time=average number of days to process loan from loan application to loan release
  - Administrative Efficiency=personnel and administrative expense over average loan portfolio

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## Business Planning is an Ongoing Process

- Based on the results of the financial model:
  - If necessary, refine your strategy and or operational plan

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## General Planning Recommendations

**Budget Adequate  
Time and  
Resources**

**Assign  
Responsibility for  
Financial Data  
Gathering**



**Encourage  
Participation by All  
Stakeholders**

**Avoid Unrealistic  
Projections**

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# HANDOUTS

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## **Case Study: LEDA**

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### **Case Study Part 1: LEDA History**

The Liberty Enterprise Development Association (LEDA), a microfinance institution, was established in 1994. LEDA was founded by Judith Money, who had visited a large, world-renowned microfinance institution the year before. She was so inspired by what she saw there that she created a comparable institution to serve the financial needs of poor entrepreneurs in her own country.

Liberty is a land-locked country that is known for its mineral deposits and enjoys a modest agricultural output. Liberty has had a stable political system since gaining independence from Britain in 1965, and the currency—the shilling—has also enjoyed good stability domestically and internationally. But poverty levels are high, and the increasing trend of migration from rural to urban areas—especially to the capital city of Agora, located in the Western District of the country—has led to increased levels of poverty for the majority of the population. It is estimated that the informal sector accounts for more than half of the economic activity of the country's one million people.

LEDA currently works with the low-income, self-employed, urban poor in the capital city of Agora. Over its six years of operation, there has been little in the way of major changes in approach. LEDA currently offers a single loan product: Clients form solidarity groups of five individuals, and after saving the equivalent of 10 percent of the loan, each client gets a loan of the same size and term, with each group member cosigning for the others. Savings are held by an independent commercial bank that pays 8 percent annual interest to the savers. LEDA charges an interest rate of 42 percent annually on a declining balance, and a commission of 3 percent of the loan amount is deducted up front.

Although program expansion has been slower than originally anticipated, LEDA ultimately hopes to become a nationwide institution. Among MFIs in the country, LEDA sees itself as unique in combining a deep commitment to reaching a substantial number of poor entrepreneurs with a goal of becoming increasingly independent of donor funding. LEDA feels it is particularly close to its clients and strives to make strong customer loyalty its mark of distinction. LEDA has a close relationship with an international nonprofit development agency (Freedom International) that provides occasional technical assistance, training, consultants, and networking opportunities.

It is October 2000, and the institution is initiating its formal strategic planning process. Judith Money has recently stepped down as chair, but still remains active on the board. LEDA's fiscal year runs from January to December; LEDA's intention is to put the newly developed plan into effect in January 2001. LEDA's primary motivation for undertaking the planning process is to determine how to reach its expansion goal.

## **Case Study Part 2: Mission and Goals**

### **Mission Statement**

Our purpose is to significantly strengthen the economic base of the low-income, self-employed of Liberty through increased access to lending and savings services in urban areas. We intend to combine cost-efficient methodologies with exemplary customer service, and become a financially self-sustaining institution.

### **Goals**

What we want to achieve in the next five years:

- Provide appropriate lending and savings products in urban areas
- Expand outreach by providing savings and lending services to a significant proportion of the households in our market areas
- Become a fully financially sustainable, independent microfinance institution, using cost-efficient methodologies and accessing a broad variety of financing sources

### Case Study Part 3: Market Research – Clients and Markets

LEDA used a combination of document research, a review of its own files, and onsite investigation to complete the necessary client and market research.

A study of all existing clients shows that:

- Existing and former clients tend to be somewhat dissatisfied with LEDA, primarily because they feel that loan terms and sizes are inflexible and not meeting their needs. Loan sizes start at S.100 per individual for first loans and increase by S.100 for each loan until the loan ceiling of S.400 is reached. (The current exchange rate is S.1.00 = US\$1.00.) Loan sizes are reviewed each fiscal year and updated for inflation. All loans are 12 months in duration, and clients make monthly payments, with no grace periods.
- A study of client repeat rates has shown fairly low client retention. Seventy percent of clients completing the first three loan cycles have gone on to the next loan cycle. After completion of the fourth loan cycle, retention drops to 50 percent
- Many clients indicate that they would place a premium value on more responsive customer service, with more flexibility in the loan amounts and terms (they would accept shorter loan terms in order to get to larger loan amounts more quickly), and more timely disbursement of requested amounts
- Sectoral breakdown of enterprises is 40 percent small-scale commerce of fresh produce, 20 percent small-scale retailers of dry goods, 25 percent shoemakers, 15 percent other production-based businesses.

For the existing clientele in the **Brownstown Market** and **St Mary** areas:

- LEDA currently works with a total of 7,000 clients in these two adjacent areas. The estimated number of microentrepreneurs in the two areas is approximately 50,000. Of these, 60 percent are believed to be interested in financial services.
- Sectoral analysis reveals the following:

	Current Clients	Additional Demand
Commerce	4,200	13,800
Production	2,800	9,200

- The number of businesses in the two areas appears to be on the rise, partly due to the availability of financial services. Best estimates are that the number of businesses grows by 5–10 percent per year.

Early analysis indicated that the **East Side**, a district on the opposite side of town, had strong potential for expansion. More in-depth research revealed the following:

- A wholesale market thrives in the center of this district. The estimated number of businesses and demand for credit in the area follow:

Sector	Existing	Credit Demand
Commerce	8,000	5,600
Production	3,000	2,100

Upon considering expansion into the rural areas, early analysis had shown that Loganville was a nearby area with a potentially strong market. Additional investigation revealed that:

- The area lies 40 miles from Agora, on the main highway to the north, and transportation services are very reliable and regular.
- The town population is 500 households. Within a 10-mile radius there are approximately 6,000 households.
- Most households are involved in a wide variety of activities, including grain production, small-scale livestock husbandry, transformation of agricultural commodities, trading activities, and some artisanal production. Specific activities vary significantly by season.
- There is a large-scale market twice a week in Loganville, where most households in the community come for their commercial activities.
- In addition to a local dialect, virtually everyone speaks Libertine, the national language.

A European donor is interested in providing funding of up to S. 300,000 to an MFI that would agree to work in Mt. Andrew's Valley, an isolated rural area known for its destitute population. No other institution is currently working in this area.

- The area lies 100 miles north of Agora. Dirt roads provide the only transportation into the valley. Heavy rains make travel on this road unreliable, and sometimes close it for days at a time.
- There are 3,000 households in the valley, with about 60 percent of these involved in small-scale, seasonal activities, mostly related to crop production and animal husbandry. There is some pottery production and woven mat production.

Clients in urban and rural areas seem to be affected by strong seasonal demand for their products in the months of October through December. There is a lull in activity each April through June due to limited cash circulation in the economy.

With respect to client characteristics, education levels are consistently low; about half of those surveyed had difficulty with the written portion of the market survey. There is strong cultural cohesion throughout the country. Most adults have participated frequently in some form of rotating credit and savings associations.



## **Case Study Part 4: ASSIGNMENT – Clients and Markets**

### **LEDA's Current Market:**

1. Describe LEDA's current market segment(s).
2. What is the size of the existing market for LEDA? What is the potential for growth? What is the estimated demand for financial services among this population?
3. Are some business sectors more active than others? Describe the sectors that LEDA might focus on, and explain why.
4. Do LEDA's current clients reflect the market identified in LEDA's mission and goals?

### **Potential New Markets for LEDA:**

5. What are the potential new markets being researched by LEDA? Which area(s) seem(s) most promising?
6. What is attractive about the most promising potential market?
7. What additional information might you need before you make a final determination about which markets to expand in?

## Case Study Part 5: Environmental Analysis

LEDA's board and executive director initiated an environmental analysis that resulted in the following findings:

### Competition:

- LEDA is one of the most solidly established MFIs in the country.
- There are 6 other MFIs operating in Li with more than 3,000 clients. All have entered the market in the last three years. Two of these are in the eastern part of the country. Of the four in the western region, two operate in rural areas (one near **A**) and two work in other parts of **A**.
- The two MFIs working in **A** compete most directly with LEDA; each has about 5,000 clients and their effective interest rates are lower than LEDA's. Their strategy is to standardize and automate the lending process to reach substantial scale as rapidly as possible, although LEDA is uncertain about where they plan to expand. Their average loan size is US\$500 with a six-month term, interest of 40% on a declining balance, and a 2% upfront commission.
- Many of the NGOs that are currently involved in other development activities such as training and health care are considering entering into microenterprise development.

### Collaborators:

- LEDA refers its more advanced clients to a local training institute for business development services. Some board members are advocating "graduating" its longer-term clients to a local branch of the Li National Bank ("LNB").
- The LNB provides repayment and savings services to clients, although clients have not been satisfied with its performance. LNB is not very responsive to clients and is very slow in getting information to LEDA.
- LEDA has an ongoing relationship with a North American NGO (Freedom International) that provides periodic technical assistance and training.
- LEDA has good relations with its key donors. In recent years, relatively little grant money was needed for operations. A funding commitment has been secured for the next two fiscal years, totaling US\$400,000. Discussions are underway with other donors, including one that would provide major funding for work in **V**.

### Regulatory Factors:

Financial institutions' policies and practices do not explicitly exclude small and microenterprises, but have been primarily focused on medium and large businesses and on the larger-scale development projects supported by the government

- Government policies have overlooked the microenterprise sector of the economy, focusing instead on larger-scale "reform" initiatives and major infrastructure programs. In the past two years, under a new minister of finance, interest has been generated in addressing the needs of the informal sector, in particular by providing financial services.

- Recent legislation authorized a new type of legal structure: a “licensed microfinance institution” (LMFI). The legislation allows an LMFI to collect savings from its clients and from the general public. The minimum capital requirement is US\$500,000 and LMFIs must keep 25% of deposits in reserve. LEDA has applied for LMFI status, which will most likely become effective in the last quarter of 2010.

#### **Macroeconomic Context:**

- The inflation rate has been approximately 10% in 2009. In the past three years it has not exceeded 12%. Expectations are that inflation will range between 8% and 10% for the next three to five years.
- Poverty levels are particularly high in the western region of Li, where LEDA operates, and especially in the capital city of **A**. Many of LEDA’s current clients are in one of the poorest neighborhoods. In rural areas, subsistence farming provides a minimum livelihood for most families, but not much more.
- The Gross Domestic Product (GDP)—currently US\$500 per capita—has been slowly growing, but is still substantially below the levels required under a 1997 World Bank restructuring program. Economic growth has averaged 2% annually over the last five years.
- An increasing percentage of the population, especially low-income families, has been migrating to the cities. Single-parent, woman-headed households are on the rise.

## Case Study Part 6: Institutional Assessment

LEDA's board and executive director initiated an institutional assessment process that resulted in the following findings:

- As identified in the client research, LEDA's current loan product is not adequately responding to client needs.
- Portfolio quality is good but could be stronger, with portfolio at risk at 10.9% and defaults at 1.3%. LEDA hopes to continue to steadily improve its performance over the next five years and to reach financial sustainability in 2005.
- LEDA's staff is generally competent and dedicated. 24 of 36 staff members are loan officers. However, nine of the loan officers have been with LEDA less than one year. All staff members are well-informed about organizational policies, thanks to a strong emphasis on staff training.
- The executive director has been in place for 18 months and is very highly regarded by both board and staff. Trained as a sociologist, his particular strengths are leadership and development of staff skills. He is a persuasive spokesperson for the institution, but his financial skills are limited.
- LEDA's financial manager is very competent at overseeing operations and managing information, although reports are about one month late. However, he could be stronger at analyzing financial data, drawing conclusions, and making sound recommendations, especially as LEDA converts to an LMFI.
- LEDA is audited annually by a reputable firm in compliance with donor requirements. Recent "management letters," while generally praising LEDA's fiscal stewardship, have mentioned the lack of thorough internal control procedures within the growing institution.
- Most program staff members have low salaries, and loan officers are particularly vocal about their limited pay and increasing workload. They are also frustrated by a lack of internal promotion opportunities, and discouraged by the high salaries of the head office staff.
- In general, LEDA has limited contact with other microenterprise institutions. It does, however, have a key board member who was involved with important legislation that authorized the creation of LMFIs.
- Loans are currently tracked on a simple loan tracking program installed in 2003, but with the increasing client base, the system is getting increasingly difficult to maintain. Staff have researched computerized systems: A local consulting firm has developed a solid system for another MFI that could be adapted to LEDA's needs. The cost is likely to be in the range of US\$50,000 for customization and setup, with an annual maintenance contract of US\$3,000 (at US\$250 per month).
- LEDA has personnel policies, an organization chart, and operating policies and procedures. However, these materials have not been revised to consistently respond to changes in the growing institution.
- LEDA implements a systematic annual planning process, incorporates its objectives into its monitoring system, and has been reasonably successful at attaining targets, although

it did not reach its expansion goals as originally anticipated and has had no long-term plan.

- LEDA's board is generally quite involved and committed to the organization. Many of the board members bring solid professional expertise to the institution. However, some of the members do not perform effectively, and there has been little rotation of board members in recent years.
- As noted above, LEDA has a firm grant commitment for US\$400,000 over the next two years. It has managed its current bank borrowing very professionally. Its growing reputation as a rigorous lender and reliable borrower positions the institution to be able to access substantial financing from the local banking sector.

### Case Study Part 7: ASSIGNMENT – Environmental Analysis and Institutional Assessment

Complete the following table using information from the previous pages of the case study. List all the institutional and environmental issues that were identified through LEDA's research. When you have completed the table, discuss and make a list the three environmental issues and three institutional issues that you think are priorities for LEDA.

ENVIRONMENTAL ANALYSIS	
OPPORTUNITIES	THREATS
Competition	
Collaborators	
Regulatory Factors	
Macroeconomic Factors	
<b>PRIORITY ENVIRONMENTAL ISSUES FOR LEDA</b> 1. 2. 3.	

INSTITUTIONAL ASSESSMENT	
STRENGTHS	WEAKNESSES
Credit and Savings Operation	
Board / Management Issues	
Human Resource Management	
Administration	
Financing	
Financial Management	
<b>PRIORITY INSTITUTIONAL ISSUES FOR LEDA</b> 1. 2. 3.	

## Case Study Part 8: Summary of LEDA Strategic Analysis

### Markets and Clients

FINDINGS	IMPLICATIONS
<b><u>B Market:</u></b> <ul style="list-style-type: none"> <li>4,200 clients as of Dec 2009 (60% sellers of fresh produce and dry goods, 40% shoemakers and other production)</li> <li>Estimated demand for financial services: 20,000</li> </ul>	
<b><u>C Market:</u></b> <ul style="list-style-type: none"> <li>2,800 clients as of Dec 2009 (60% sellers of fresh produce and dry goods, 40% shoemakers and other production)</li> <li>Estimated demand for financial services: 10,000</li> </ul>	<ul style="list-style-type: none"> <li>New market(s) will be needed in order to have access to more than 23,000 new clients</li> </ul>
<b><u>For these existing markets:</u></b> <ul style="list-style-type: none"> <li>Client retention rate: 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> loans – 70%; subsequent cycles – 50%</li> <li>Major findings of client surveys: (1) clients want greater amounts and more flexible terms for loans; (2) clients are interested in expanded savings services</li> </ul>	<ul style="list-style-type: none"> <li>Current product should be redesigned to respond better to client needs and to increase retention rate</li> <li>Consideration of how to offer savings services is important</li> </ul>
<b><u>D Market:</u></b> <ul style="list-style-type: none"> <li>Approximately 70% of the entrepreneurs interviewed expressed an interest in market-priced sources of financial services</li> <li>Estimated number of businesses / demand for credit: sellers of fresh produce and dry goods – 8,000 / 5,600; shoemakers and other production – 3,000 / 2,100</li> </ul>	<ul style="list-style-type: none"> <li>D is a promising market for expansion</li> </ul>
<b><u>E Market:</u></b> <ul style="list-style-type: none"> <li>Within a 10 km radius there are approximately 6,000 households, most of which are involved in a wide variety of income-generating activities</li> </ul>	
<b><u>V Market:</u></b> <ul style="list-style-type: none"> <li>60% of the 3,000 households in this isolated valley are involved in small-scale, seasonal activities</li> </ul>	
<b><u>All areas:</u></b> <ul style="list-style-type: none"> <li>Strong seasonal demand exists for client products in the months of October through December and lower</li> </ul>	



demand each April through June <ul style="list-style-type: none"> <li>• Most adults had participated in ROSCAs</li> </ul>	
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## Environmental Analysis

FINDINGS	IMPLICATIONS
<b><u>Competition:</u></b> <ul style="list-style-type: none"> <li>• 6 other MFIs in country with more than 3,000 clients, of which 2 also operate in <b>A</b> though MFIs operating in <b>A</b></li> <li>• Both MFIs operating in <b>A</b> offer similar products and services, though in different areas of the city, with effective interest rates comparable to those of LEDA's; each has about 5,000 clients</li> <li>• Commercial banks are paying 8% on passbook savings and an average of 12% on term deposits</li> </ul>	<ul style="list-style-type: none"> <li>• Competition not currently a significant factor, though MFIs operating in <b>A</b> should be monitored, especially their choice of markets—if they enter LEDA's markets, competition could be serious</li> <li>• Review of pricing structure may be appropriate (see below)</li> </ul>
<b><u>Collaborators:</u></b> <ul style="list-style-type: none"> <li>• LNB provides savings although clients are not satisfied with level of service</li> <li>• North American NGO (Freedom International) provides periodic technical assistance and training</li> </ul>	<ul style="list-style-type: none"> <li>• LEDA must learn from experience with LNB in order to provide adequate services</li> <li>• Current technical assistance needs are being met</li> </ul>
<b><u>Regulatory Factors:</u></b> <ul style="list-style-type: none"> <li>• New legislation authorizes new legal structure, "licensed microfinance institution" (LMFI), allowing collection of savings from clients &amp; provide additional source of lending funds other depositors</li> <li>• LEDA has applied for the LMFI status, expected to become effective in the last quarter of 2010</li> </ul>	<ul style="list-style-type: none"> <li>• LMFI structure offers opportunity for LEDA to respond to clients' interest in savings, and provide additional source of lending funds</li> </ul>
<b><u>Macroeconomic Context:</u></b> <ul style="list-style-type: none"> <li>• Inflation rate: 10% in 2009; projected to be 8–10% for next 3–5 years</li> </ul>	<ul style="list-style-type: none"> <li>• Inflation stable, but effect should be factored into loan amounts</li> </ul>

## Institutional Assessment

FINDINGS	IMPLICATIONS
<p><b><u>Credit &amp; Savings Program:</u></b></p> <ul style="list-style-type: none"> <li>• In 2009, portfolio at risk 10.9%; default rate 1.3%</li> <li>• LEDA's current loan product not responding to client needs, as evidenced by low retention and client feedback</li> <li>• Effective interest rate is higher than potential competitors'</li> <li>• Strong interest by clients in expanded savings services</li> </ul>	<ul style="list-style-type: none"> <li>• With continued rapid growth, delinquency needs to be controlled</li> <li>• Need to redesign loan product but likely not necessary to introduce additional products; review pricing structure to lower effective interest rate is important</li> <li>• LMFI will respond to client demand for savings services</li> </ul>
<p><b><u>Board / Management Issues:</u></b></p> <ul style="list-style-type: none"> <li>• Strong, involved board brings useful skills and perspectives although some members are not performing well</li> <li>• Executive director has strong management and funds mobilization skills, but could improve financial skills (see below)</li> </ul>	<ul style="list-style-type: none"> <li>• Board training and rotation problems must be addressed</li> </ul>
<p><b><u>Human Resources:</u></b></p> <ul style="list-style-type: none"> <li>• Staff has required skills, though significant percentage of field officers are new to LEDA</li> <li>• Program staff salaries are relatively low; loan officers are especially vocal about increasing workload and limited pay</li> <li>• Admin staff salaries are high relative to country statistics on comparable jobs</li> </ul>	<ul style="list-style-type: none"> <li>• Importance of ongoing staff training</li> <li>• Review of compensation structure may be needed</li> </ul>
<p><b><u>Administration:</u></b></p> <ul style="list-style-type: none"> <li>• Loans tracked on old software program—system increasingly strained</li> </ul>	<ul style="list-style-type: none"> <li>• Need to explore new MIS</li> </ul>
<p><b><u>Financing:</u></b></p> <ul style="list-style-type: none"> <li>• Good relationships with commercial and concessional sources</li> <li>• Strong indications for substantial funding for next 2 years</li> </ul>	<ul style="list-style-type: none"> <li>• Must continue to build on relationships with funders</li> </ul>
<p><b><u>Financial Management:</u></b></p> <ul style="list-style-type: none"> <li>• LEDA is improving its financial sufficiency and plans to be fully sustainable in 2015</li> <li>• Financial reports generally not available until one month later than desired</li> <li>• Executive director and finance manager must strengthen analytic skills</li> </ul>	<ul style="list-style-type: none"> <li>• Must continue to monitor profitability</li> <li>• Financial management training must be provided to senior staff</li> </ul>

## **Case Study Part 9: ASSIGNMENT – Strategy**

Use the summarized analysis on the previous pages as well as earlier parts of the case study to develop an overall strategy for LEDA. Remember that a strategy is defined as a means of addressing critical issues during the period of the plan in order to enable LEDA to fulfill its mission and goals. What must LEDA DO to achieve its goals and mission? Use additional paper as necessary.

### **Goal 1: Provide appropriate lending and savings products in urban areas.**

#### Objective A:

Provide lending products that attract a growing number of clients that remain in the program

#### **Activities:**

- Redesign current group lending
- Train staff in new loan terms and conditions
- Review pricing structure

#### Objective B:

#### **Activities:**

### **Goal 2: Expand to reach a significant proportion of the households in our market areas.**

#### Objective A:

#### **Activities:**

#### Objective B:

#### **Activities:**

### **Goal 3: Become a fully financially sustainable, independent microfinance institution accessing a broad variety of financing sources.**

#### Objective A:

#### **Activities:**

#### Objective B:

#### **Activities:**

## **Case Study Part 10: Strategy and Operational Plan**

Based on the strategic analysis summarized previously, LEDA adopted the following strategic statement:

“Over the next three to five years, LEDA will pursue both product development and market diversification, while strengthening staff capacity and other key institutional resources.

Our credit product will be redesigned to meet the needs of repeat clients, with the aim of increasing client retention. We will become a licensed microfinance institution (LMFI) by the end of 2010 and will begin mobilizing savings from our clients. Ongoing staff training, a review of staff compensation levels, and MIS development will also be pursued.

By the end of the year 2015, we aim to have at least 20,000 active clients and to be fully profitable after adjustments for subsidies.”

### **Objectives and Activities**

#### **Goal 1: Provide appropriate lending and savings products in urban areas.**

##### Objective A:

Provide lending products that attract a growing number of clients that remain in the program

##### **Activities:**

- Redesign current group lending
- Train staff in new loan terms and conditions
- Review pricing structure

##### Objective B:

Develop voluntary savings products that respond to client needs and that over time can serve as a source of portfolio financing

##### **Activities:**

- Complete transformation to LMFI effective by end of FY 2010
- Develop savings product parameters for passbook savings and term deposits
- Train staff to implement program
- Educate clients about pending savings services

#### **Goal 2: Expand to reach a significant proportion of the households in our market areas.**

##### Objective A:

Expand market penetration in B and C areas, and open new branch in D.

##### **Activities:**

- Market redesigned product in current market areas
- Open a new branch in D in FY 2010

**Goal 3: Become a fully financially sustainable, independent microfinance institution accessing a broad variety of financing sources.**

Objective A:

Achieve financial self-sufficiency

**Activities:**

- Review and revise pricing structure to achieve profitability.
- Strengthen financial management capabilities.
- Achieve significant operational scale (see above).
- Improve institutional efficiency

Objective B:

Obtain appropriate, diversified financing for operational expansion and for portfolio expansion through grants, earnings, and concessional and commercial loans

**Activities:**

- Obtain capital grants and debt (concessional and commercial) to fund portfolio growth (based on financial projections)

Objective C:

Increase institutional capacity to meet expansion goals

**Activities:**

- Review salary structure
- Train staff in new loan terms and conditions and in savings mobilization
- Strengthen financial management skills of executive director and finance manager
- Develop detailed financial projections (to follow)

Objective D:

Increase capacity to effectively and efficiently track portfolio information

**Activities:**

Continue research on new MIS: develop detailed user specifications; select loan tracking system; install new system in 1<sup>st</sup> quarter of 2010