Pakistan
First Microfinance Bank Ltd.

Needs Survey of Product Development and Training System in Pakistan Microfinance Institution

Final Report

March 2011

Japan International Cooperation Agency

PlaNet Finance Japan

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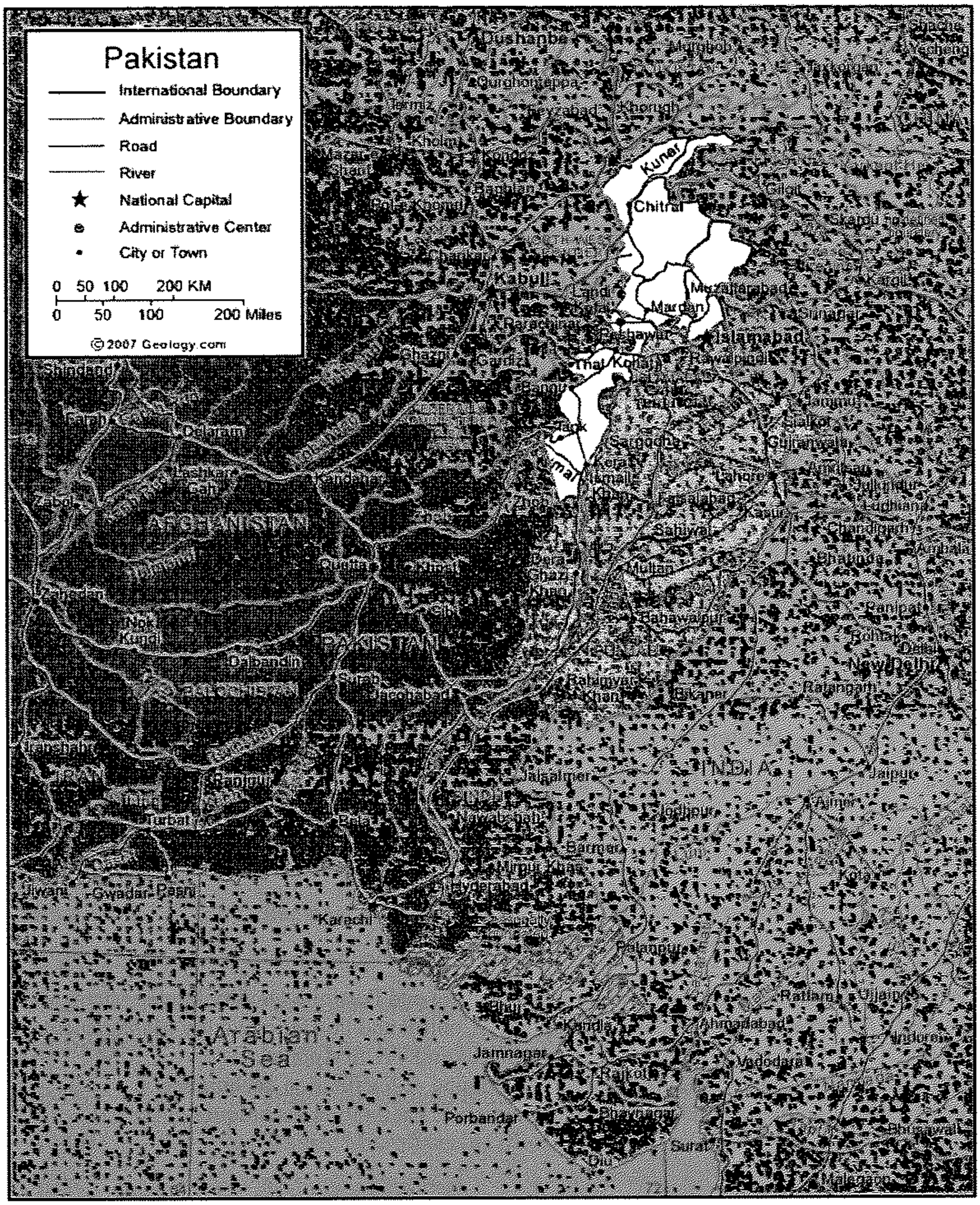

http://www.touchskyservices.com/mappakistan.html

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List of Abbreviations

AKRSP	Aga Khan Rural Support Programme
AM	Area Manager
AMFO	Assistant Microfinance Officer
BM	Branch Manager
BOI	Banking Operation in Charge
FGD	Focused Group Discussion
FMFB	First Microfinance Bank
GB	Gilgit-Baltistan
JICA	Japan International Cooperation Agency
KADO	Karakoram Area Development Organization
KII	Key Informant Interview
KSA	Knowledge, Skills and Attitude
LOSEL	Low Salary Employee Loan
MEF	Micro-Enterprise Finance
MEDA	Mennonite Economic Development Associates
MF	Microfinance
MFB	Microfinance Bank
MFI	Microfinance Institution
MFO	Microfinance Officer
NGO	Non-Governmental Organization
PFJ	PlaNet Finance Japan
PMN	Pakistan Microfinance Network
PR	Pakistani Rupee
RM	Regional Manager
RSP	Rural Support Programme
SBP	State Bank of Pakistan
SEBCON	SEBCON (Pvt) Limited
SME	Small and Medium Enterprise
TMFO	Trainee Microfinance Officer
ToT	Training of Trainers
UGFS	Urban Group Financial Service
USAID	United States Agency for International Aid
VC	Value Chain
VCF	Value Chain Finance
VGFS	Village Group Financing Service
WOCCU	World Council of Credit Unions

1 Executive Summary

This report is the result of an eight-month research cum technical assistance project with The First MicrofinanceBank Ltd. (FMFB). The assessment was comprised of two different components: a research on value chain based microfinance product and an assessment and assistance of human resource capacity development opportunities for field officers.

1.1 Research on Value Chain Based Microfinance Product

The component of this project is to seek for potential value chain finance intervention opportunity for FMFB in Pakistan. Gilgit-Balitstan (GB) and Sindh were selected as the pilot areas for this research.

The global literature suggests that financial interventions can play an important supporting role to upgrade creation system that upper stream low-income actors can capture more of the profit through their income generating activities. The value chain upgrading can be achieved through innovation in process, product, value chain functions and marketing channels. There are three types of approached in value chain financing for financial institutions: 1) Reinforcement of financial linkage among value chain actors by the provision financial guarantees, 2) Creation of strategic alliance between value chain actors and financial institutions, and 3) Extension of financial institutions services by creating credit franchise in the value chain.

In search for the potential financial interventions in GB and Sindh, it started from preliminary assessment of six pre-selected value chains with the mix of agricultural and non-agricultural activities. It includes potato, apricot and gem & jewelry sector in GB and livestock, dates and *rill* (a local stitchwork handicraft) sector in Sindh.

Potato is the largest cash crop in GB. The indentified constraint is that farmers suffer from price pressure because of the lack of storage that enables to control the sales timing. Apricot is the largest fruit produced in GB. However there is large wastage accounting 40% of total production. Introducing dry processing facility is necessary to reduce the wastage. Gem & jewelry sector may possess large potential in the area in the long run but the sector suffers from the lack of regulatory control over the smuggling.

The small landless farmers who hold average of 2-5 animals dominate livestock sector in Sindh. Although dairy and meat production is large in Sindh, providing safe water to prevent their diseases can further enhance the production capacity. Dates sector is also large agricultural sector that small farmers are involved in. The constraint in the sector is the insufficient, long value chain where multiple layers of middlemen are existent. *Rilli* is the traditional stitchwork handicrafts that majority of poor women in Sindh has experience in making. However, it is rather a consumed at household and few people involve commercially in *Rilli* making. Intervention to transform *Rilli* into commercial product is necessary.

Based on the preliminary assessment in the potential and current constraints, one target value chain is selected in each are for further in-depth research to identify the upgraded value chain model. The target value chains are mutually selected with FMFB to apricot sector in GB and *rilli* sector in Sindh. The rationale behind the selection is that although all reviewed sectors in GB foreseen the market potential in some extent, there are higher probability on achieving economic impact with viable financial intervention in apricot sector, in comparison to potato sector where FMFB already has large exposure or gem & jewelry sector where the reinforcement of regulatory control will be required first. The rationale for selecting *rilli* sector in Sindh was to evaluate the potential for financial interventions for non-agricultural sectors.

The in-depth assessment in apricot revealed that lack of drying facility leaves out the dried apricot in low quality preventing the reduction of wastage by expanding processed apricot market. The simple, structured cover for drying is existent in GB area, which can be purchased and shared in groups. Also, the organized effort on total quality management throughout the value chain actors shall be held to produce standardized products. In the end-market side, several commercial actors who promotes the export quality dried apricot exist in GB area are identified. Reinforcing linkage between the promoters and producers could expand high-quality dried apricot market. The creation of the promoter's franchises, which can be small and medium enterprises (SMEs) at village level which commercially involving in the farmer's group mobilization and quality management and sales to the promote connects between promoters and producers therefore increases value add for producers. FMFB can potentially become the financial provider for the producer's groups to purchase drying facility and SMEs for their investment into its working capital and training.

The key constraints in *rilli* sector in Sindh are mostly comes from the sales side. It generally is not recognized as commercial products as most of the *rilli* are used for the own consumption of the producers. The creation of the end-market is the priority. It can be sought by creating varieties in final products using their technique, other than the bed sheets, which is the current final product. Also, the constrain in the current commercial value chain is that middlemen that connects between producers and retail market are dominated by men who have no experience and knowledge in *rilli* making therefore cannot provide any guidance in design and quality reflecting the end-consumer's needs. The creation of women sales agents who intermediate between end-market and producers providing feedback on the consumer's needs to enhance the quality and design is necessary. Financial needs might be existent to create the sales agents and to improve the design and quality of the production. However, since overall market size is limited, FMFB is recommended to identify other handicrafts sectors facing similar problem in order to create generic value chain finance product for handicraft sector in order to the sizeable potential clients.

1.2 Capacity Building of Human Resource for Field Officers

High quality, well-performing field officers are indispensable asset for MFIs in their business model that the performance of MFIs relies on person-to-person contact with their client. However, the human resource development of the field level staff is often neglected because of its blurred short term impact. External support to strengthen the capacity of field staff is important in order to cope with the current varying business environment that MF sector are involved in.

FMFB has been in operation for a decade as a full-fledged microfinance bank as the transformation of Aga Khan's microfinance program. As a transformed microfinance bank, the field staff shall be equipped in knowledge and skills in both microfinance and banking operation.

A series of interviews with senior managers and focus group discussions (FGDs) with field officers are conducted during the project to identified human resource development needs for the field officers. The recommendations and interventions are based on the results of the assessment.

In order for field officers to prepare for move up the carrier ladder, the clear carrier progression plan shall be articulated. As the preliminary research in preparation for carrier progression plan, key performance areas of knowledge, skills and attitude (KSA) in the field level positions are identified by employing KSA framework. Updated job descriptions for field staffs from branch managers to tellers reflecting the finding of the assessment in order to build up the carrier progression systems.

Also, 15 recommended training modules for FMFB Training Department to be equipped in order to enhance field officer's capacity are identified and presented for the bank's future consideration. As initial starting point, training modules in "Basic Business and Credit Appraisal" and "Delinquency Control and Portfolio Quality Management" are prepared and delivered to the 50 trainers nominated mainly from FMFB's field management staff through training of trainer approach. The recommendation on further mobilization of those trainers is also presented.

2 Introduction

2.1 Background

Japan International Cooperation Agency (JICA) is seeking for an effective approach to support microfinance (MF) sector in Pakistan which is playing a key role in economic development and poverty alleviation.

In preparation for possible future assistance in Pakistani MFIs, JICA has commissioned PlaNet Finance Japan (PFJ) to conduct a research cum technical assistance project with The First MicrofinanceBank Ltd. (FMFB). The scope of work includes a review of value chains for potential development of innovative financial product models and assessment of FMFB's human resource training needs to improve the operating efficiency of the bank's field staff.

Four Japanese and international experts from PlaNet Finance Group (hereinafter "the project team") were assigned to conduct this project. PlaNet Finance is an international non-governmental organization (NGO), which seeks to alleviate poverty by through the development of the MF sector. The project team holds extensive experience on technical assistance in the MF sector globally. The project took place from July 1st, 2010 to March 18th, 2011.

This report presents the findings of the project and recommendation of the project team. The views and recommendations expressed in this report are those of the project team, and do not necessarily represent the views of relevant stakeholders in Pakistan, FMFB, nor of JICA.

2.2 Microfinance Sector in Pakistan

Pakistan is one of the most populous countries in South Asia with about 170 million inhabitants. According to Pakistan Economic Surveys, the poverty rate has shown a steady decrease from 34.5% in 2001/2002 to 22.3% in 2005/2006. Yet, people in the lower and middle-income brackets still face economic vulnerability. There are approximately 30 million people, accounting 19% of total population who are just above or below the poverty line. They can easily fall below the poverty line when faced with an economic shock such as a natural disaster or illness.

In order to improve and expand income generating activities for the lower income segments, there is a need to improve financial access of the poor is evident. Although government, donors, NGOs and private institutions has been putting effort in financial inclusion, 88% of Pakistan's adult population is either totally excluded from financial services or rely on informal service providers.

The total outreach of Pakistan's MF sector goes up to approximately 2 million borrowers as of September 2010[1]. The gross loan portfolio of the overall microfinance sector was approximately US$ 310 million (PRs 26 billion). The percentage of MF borrowers in total poor population is low compare to other south Asian countries as suggested in Table 2.1, implying that the growth of Pakistan MF sector is still on the way and potential demand is yet not fulfilled.

Table 2.1: Status of Microfinance in South Asia

[1] State Bank of Pakistan, "Strategic Framework for Sustainable Microfinance in Pakistan" 2011

	Population (MM)	No. of Poor (MM)	No. of Borrowers (MM)	Penetration* (%)	No. of MFIs
Pakistan	156	51	1.7	3.3%	28
Afghanistan	25	10	0.31	3.1%	15
Bangladesh	142	71	24.8	34.9%	322
India	1,090	312	70	22.4%	288
Nepal	27	8	1.5	18.8%	47
Sri Lanka	20	5	2.5	50.0%	23
South Asia	1,460	456	101	22.1%	723

Source: South Asian Microfinance Network.
Remarks: Afghanistan, Nepal -2009 Data, Pakistan, Sri Lanka – 2008 Data, Bangladesh – 2007 Data,
*Penetration rate is percentage of MF borrowers in total poor population

The microfinance sector in Pakistan is comprised of 4 types of actors as follows:

- **Microfinance Banks (MFBs):** Specialized bank which exclusively offers microfinance services such as microcredit, insurance and banking services such as deposits, payment transfers. Regulated under prudential regulation of microfinance supervised by State Bank of Pakistan (SBP).

- **Specialized Microfinance Institutions:** Foundations, NGOs, cooperatives, non-banks providing solely microfinance services. Not regulated.

- **Multi-Sectoral NGOs:** NGOs providing microfinance services as part of overall humanitarian development programmes. Not regulated.

- **Rural Support Programmes (RSPs):** Community support organization that supports livelihood of mainly rural poor by providing basic services such as education and health and microfinance through social mobilization. Not regulated.

"MFI" in Pakistan often refers to non-regulated microfinance institutions which include both Specialized Microfinance Institutions and Multi-Sectoral NGOs, Table 2.2 shows the general overview of microfinance actors in the country.

Table 2.2: Overview of MFIs in Pakistan (as of June 2010)

	Microfinance Banks	Specialized Microfinance Institutions	Rural Support Programmes	Multi Sectoral NGOs	Total
No. of Institutions	8	8	4	8	28
No. of Borrowers	737,343	524,163	553,993	160,321	1,975,820
Market Share (By client)	34.5%	27.2%	31.0%	7.4%	100.0%
Regulation	Regulated by State Bank	Unregulated	Unregulated	Unregulated	

Source: State Bank of Pakistan, "Strategic Framework for Sustainable Microfinance in Pakistan" January 2011

The MF sector in Pakistan has shown dramatic growth over the past decade after the introduction of "Microfinance Institutions Ordinance 2001" issued by SBP that encourage establishment of MFBs. The total number of MF borrowers was about 0.6 million in 2005 and reached 2 million in the 2010. The annual growth rate from 2005 to 2008 was especially high, reaching the growth rate of 45%.

However, the sector faces new challenges. According to the "Strategic Framework for Sustainable Microfinance in Pakistan" published by State Bank of Pakistan (SBP) in January 2011, the annual growth rate of the client outreach slowed down to approximately 10% from 2008 to 2010. The MF sector failed to reach the target outreach of 3 million by 2010, which was set out in the previous strategy report by SBP in 2007. The MF sector needs to bring in new innovations in its operations, products and regulations in order to re-bump the growth of the industry.

2.3 The First MicrofinanceBank, Ltd

The First MicrofinanceBank, Ltd. (FMFB), one of the leading MFIs in Pakistan, is the counterpart organization for this project. The outcome of the research is based on the study conducted within or together with the organization.

FMFB is a licensed microfinance bank established in 2001, as the transformation of microfinance arm of the Aga Khan Rural Support Program (AKRSP). The bank currently has 83 branches nationwide, with core business area in rural Punjab and Sindh.

The mix of product offerings constitutes second largest MFB in terms of client outreach accounting 204,301 borrowers as of September 2010. FMFB serves the poor community by offering mainly following four types of the products:

- **Village Group Financing Service (VGFS):** Collateral free group lending product offered widely in rural areas across Pakistan. Service charge accounts from 18%-30% depending on the location and repayment frequency (Monthly or bullet). Lending amount is minimum PRs 5,000 to maximum PRs 150,000 with first loan cycle maximum PRs 30,000. Solidarity with group size from 10 – 35 members. Loan tenure varies from 3 – 12 month depending on the businesses.

- **Urban Group Financing Service (UGFS):** Collateral free group lending product offered widely in urban areas. Product structure is similar to VGFS.

- **Micro-Enterprise Finance (MEF):** Collateral free group lending product targeted to the microenterprises with less than PRs 1 million in stock. Service charge accounts 18% - 22% depending upon location. Solidarity with group size from 3 – 10 members. Loan tenure is 1 year.

- **Low Salary Employee Loan (LOSEL):** Individual lending product secured by the monthly salary certified by the employer. Service charge of 19% per annum is incurred. Lending amount is minimum PRs 5,000 to maximum PRs 150,000.

FMFB has demonstrated through the years to be an example of a progressive MF institution---one that has evolved from a program to a full-fledged microfinance bank providing access to microfinance services to the marginalized sectors and economically challenged families and households in the rural and mountainous areas of Pakistan.

However, just like other institutions in MF sector, FMFB encounters new challenges in pursue of fostering its sustainable growth and serving for more diverse groups of the poor under the current dynamic transformation of MF sector in Pakistan and global business environment as a whole.

2.4 Scope of the Project

The aim of this project is to understand and devise a possible solution to improve efficiency of MFI's operation in Pakistan for future financial and technical assistance opportunities for JICA through providing technical assistance to FMFB.

The specific objectives, scope of works and key deliverables were as follows:

Objectives 1: Understand the **potential of value chain financing to support microenterprise development** and to discuss the development of adapted new products

It works with FMFB Product Management team to seek for potential financial and non-financial interventions that offer positive impact on value add process of the economic activities which existing and potential MFI clients are involved in.

The key deliverables are set forth with mutual agreement of FMFB:

- Initial diagnosis of total 6 value chains in GB and Sindh (3 sectors in each location)
- In-depth examination of 2 value chains (1 sector in each location)
- Proposal on upgraded value chain model
- Potential financial/non-financial interventions and suggestion on next steps

Objectives 2: To develop **human resource training programs, focused on training for field staff** and to **improve human resource management capacity**

It works with FMFB Human Resource & Training Group to deliver capacity development interventions for the group in terms of career progression planning and human resource training program, focusing on field level staff.

The key deliverables are set forth with mutual agreement of FMFB:

- Internal career progression plan

- Updated job description reflecting the above plan
- List of 15 suggested training modules
- 2 training modules
- 50 trainers (25 in two locations

3 Research on Value Chain Based Microfinance Product

3.1 Methodology

The project team sought in its value chain finance approach to identify potential financial or non-financial services that FMFB could develop in the future to expand its client base sustainably. Gilgit-Balitstan (GB) and Sindh were selected as the pilot areas for this research. The approach consisted of four steps: a global study on value chain finance models, field scoping to identify and assess three target value chains for each area, detailed analysis of two selected value chains and identification of potential interventions which FMFB can undertake for those two chains. The project team contracted a team of consultants from SEBCON, a consulting firm in Pakistan, to conduct the field research and to provide the initial analysis.

The field scoping mission focused on GB and Sindh. It assessed key value chains, their current structures, constraints and opportunities, and evaluated the rationale for FMFB to participate in each one. The six selected value chains were the potato, apricot and gem & jewelry sectors in GB and dates, livestock and *rilli* (a traditional stitching handicraft) in Sindh.

One target value chain in each area was then selected from the initial six value chains based on the results of the initial assessments. The apricot sector was selected for GB and the *rilli* sector was selected for Sindh. Detailed analysis on these two value chains was conducted by SEBCON under the guidance of the project team. The methodology and work process of the project is described in figure 3.1 and figure 3.2.

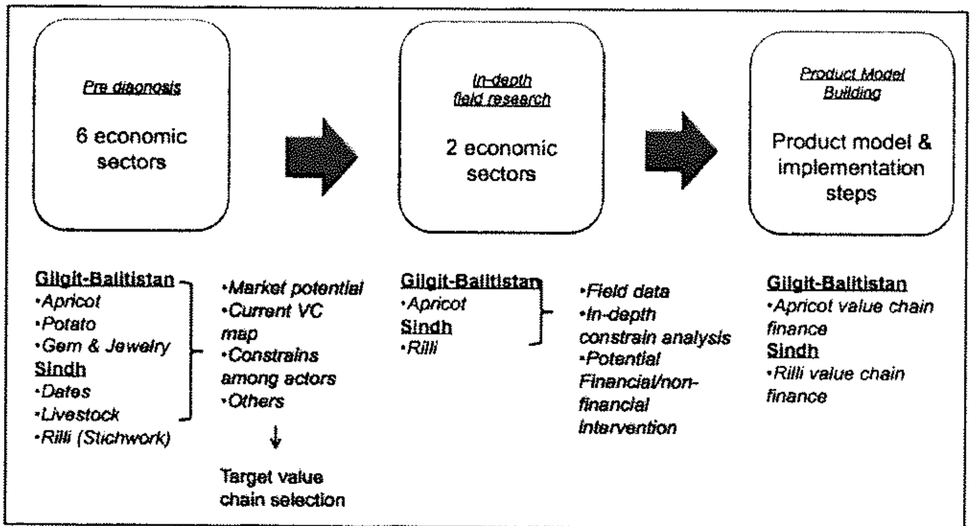

Figure 3.1: Methodology

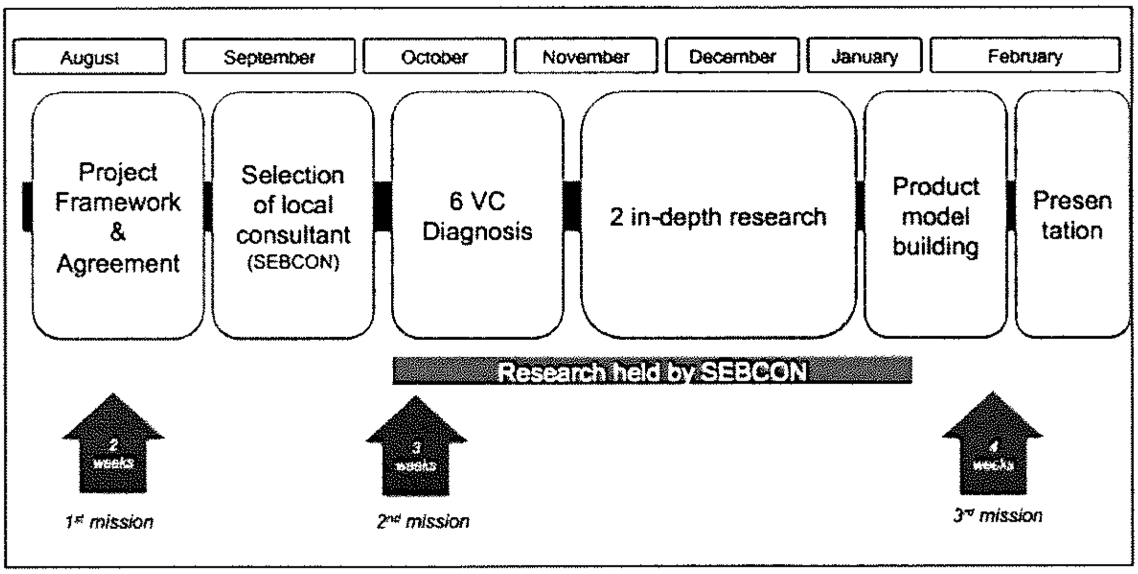

Figure 3.2: Work Process (August 2010 – February 2011)

The aim of this component of the project was to identify potential interventions for FMFB based on the research findings. Verification of the feasibility and financial viability of the interventions will require further analysis.

3.2 Global Perspective of Value Chain Financing

3.2.1 Introduction

The income growth potential of the poor relies upon the level of value-added generated from their economic activities. One of the primary causes of poverty is not that poor households do not engage in economic activities, but that they are mired in a low income-low investment cycle that prevents them from adding more value through their work. In order to bolster the income of the low income household, it is necessary to increasing value-added of the economic activities they are engaged in.

The value chain approach thus looks at ways to increase value added in the chain as a whole and among the target beneficiaries (poor households) in particular by analyzing all actors and transactions involved in the sector, from the input sourcing, production and processing to the delivery of the product to final end-consumer. To improve the value added of the economic activities of the poor, the entire value creation system and the linkages among all the actors within the sector need to be evaluated. And it is essential that interventions shall be geared towards upgrading the entire system.

3.2.2 Goals of the value chain interventions

Current global best practices[2] demonstrate that value chain upgrading can take place in four

[2] See, for example, "Value Links Manual" by GTZ, "microlinks 2.0 Value Chain Wiki" by USAID, "Technical Guide: Integrated Financing for Value Chains" by WOCCU etc.

different ways or by a combination of those four ways:

Process upgrading: Improving internal processes to improve productivity and cost efficiency

Product upgrading: Improving old products or introducing new products

Functional upgrading: Redistributing value added in the chain by changing the mix of activities conducted by the target actor

Channel upgrading: Creating new sales channels for existing or new products in order to expand the sales outlets.

In some cases, these upgrading strategies can be achieved through financing alone. Financial services that enable poor households to invest in upgrading their activities and/or have access to working capital can aid in increasing their value added in many cases. However, most often such a one-dimensional approach has limited impact.

The fragmentation of activities among many poor households prevents them from being able to invest in equipment or services that are beyond the financial capacity of a single household. It also prevents from adjusting the governance in the chain so that they can capture more of the value added for themselves rather than it being captured by actors further along the chain. Moreover, financial services alone do not address other constraints they face, such as limited technical skill and limited market access at either the wholesale or consumption levels.

Thus, best practices in value chain upgrading indicates that such upgrading is best be achieved by a combination of various interventions, including non-financial interventions. The provision of market access, technical support to improve the quality and production, training and capacity buildings, partnerships, and regulatory control for contract security and quality standards is often critical for the full upgrading of the chain – and, thus, the ability of the borrowers to repay their loans.

Therefore, it should be stressed that a value chain upgrading strategy may not necessarily start with financing. Indeed, in most cases, unless the target beneficiaries have the technical ability to upgrade their processes or products and have greater market access and more market power, they may be unwilling to borrow, or they may be unable to repay a loan. Reinforcement of value chain can only be successful with the synergy of appropriate financial and non-financial interventions.

3.2.3 The Role of Formal Finance in An Upgraded Value Chain

Thus, multi-dimensional interventions are almost always required in a value chain upgrading strategy, with financial intervention playing an important but often supporting role. However, when formal finance is brought in to upgrade a value chain, its impact can be dramatic. Traditionally, upstream value chain actors (such as producers and processors) tend to have limited or no access to formal financing, or receive in-kind or informal financing directly from downstream value chain actors. This is called "direct financing". In such cases, the upstream actors often become mired in a low-quality or low-production cycles because they suffer from a lack of financial resources to invest in upgrading their activities. Exploitation by the downstream actors who provide in-kind or informal financing may exacerbate their situation as well: almost always, the direct financers also monopolize sales from the producers and processors, giving them more power to set prices in order to capture more value added for themselves.

Lending by financial institutions can be more effective than direct financing among value chain actors because it is not embedded in another commercial transaction – financial institutions know how profitable their lending is, whereas value chain actors generally look only at their own profitability. Ultimately, lending by financial institutions may well be more sustainable, as it taps into a larger potential pool of funds and transfers responsibility for the actual lending to a specialized entity that sees lending as their core line of business, rather than as a necessary but secondary activity. Finally, because of the involvement of regulated financial institutions, clients may have access to a greater range of services, including savings, transfers and investment credit.

From an MFI's point of view, linking to a value chain can be an effective way of overcoming the limitations of the traditional approach of microlending. Microfinance institutions traditionally develop products based on the financial needs of individual enterprises of the target clients. The limitation to this approach is that it does not adequately measure the full impact or risk of a financial product or service because it ignores the linkages that enterprises have with other enterprises.

3.2.4 Global Cases in Upgrading Value Chains: Lessons Learned

In order to situate the value chain intervention proposed by the project team to FMFB in a broader context, the project team analyzed several successful upgrading programs conducted globally. The following case studies were chosen to demonstrate the variety of models that have been used successfully in other countries, particularly for hard-to-reach communities, thus attempting to find a match with FMFB's needs in terms of the selected pilot areas which are GB and Sindh.

It should be noted, however, that most global value chain upgrading programs have focused on the agricultural sector. Handicraft upgrading is very uncommon. Nevertheless, the lessons learned from the case studies cited below are generally applicable, including for the *rilli* chain.

Example 1: *Kaong* Palm Fruit in the Philippines[3]

"Arenga Pinnata", a wild variety of sugar palm tree, abounds in the forests of Davao del Sur, Mindanao, as well as in other parts of the Philippines. Known as "ka-ong" to Tagalogs and "ediok" to the Bagobo indigenous people, the sugar palm is used for a variety of purposes, such as edible starch, sweet sap (fermented to vinegar), roof, and construction materials.

The most popular commercial by-product of the sugar palm is its sweetened fruit, which is used as an ingredient in fruit salads and desserts. Philippine exports of processed *kaong* fruit grew annually by an average of 5.3 percent over the last five years. Bottled kaong preserves are also very popular on the domestic market, particularly during graduation months, fiesta months, and the Christmas season.

Kaong industry players in Davao del Sur generally operate outside of national and export markets. The semi-processing communities, for example, are not connected to city-based processors. Processors are unable to significantly expand their business mainly due to supply constraints, while semi-processors have not evolved from

[3] Idrovo, Ivan, Boquiren, Marian, (2005) SDCAsia "Bridging the Gaps in the Kaong Subsector"

household-based production because they lack access to bigger, more lucrative markets.

This case study describes the strategies implemented by SDCAsia to improve relationships in the processed *kaong* value chain in Davao del Sur in 2003 and 2004. Its goals were to enhance micro and small enterprises growth and subsector competitiveness. Specifically, the study focuses on ongoing efforts to build mutually beneficial, longer-term business relationships between semi-processors (mainly Bagobo indigenous peoples), traders, and processors.

The upgrading strategy included the following activities:

- **Expansion of market access:** the project team brokered a contract between producers and processors, so that both had the security to invest in upgrading their processes and products

- **Improvement in chain governance:** producers were grouped into associations to give them more leverage when selling to processors. The project team also facilitated a mutual agreement among all chain actors on quality standards

- **Improve products:** The project team provided technical training to key actors, and then arranged for each actor in the chain to provide that training to those from whom they received their supply (e.g., processors guided producers toward providing them with greater quantity and higher quality supply, wholesalers guided processors toward providing them with higher quality processed *kaong* etc.)

The result of this project was a five-fold increase in the number of households processing *kaong* with an average 40 percent increase in their monthly income within two years.

In this case, no financial intervention was required to upgrade the chain because the quality improvements required training and incentives (secure market access) rather than investment in new equipment.

<u>Example 2: Fruit and Vegetable Wholesaling in India</u>[4]

The traditional market structure for fruits and vegetables in India does not adequately address the complex problems of farmers. It has low marketing efficiency, high post-harvest losses and does not foster competitiveness. A modern innovative system that can reduce the vested interests of large intermediaries, create competition, assure quality and modernize operations in handling of fruits and vegetables, is necessary to raise income of actual farmers.

To achieve this objective, the National Dairy Development Board was asked to develop and establish operations for a modern integrated terminal market for fruits, vegetables and flowers in Bangalore by the Government of India. The market is popularly known as SAFAL Fruit and Vegetable Auction Market (SFVAM).

SFVAM was a special endeavor to bring farmers and wholesalers to a common platform to facilitate information sharing and to promote the spirit of cooperative

[4] National Institute of Agricultural Marketing "Detailed Project Report on Development of Modern Terminal Market for Fruits & Vegetables at Chandigarh

movement. Components of the marketing system included the establishment of a wholesale auction market, backward linkages to farmers, and forward linkages to retailers and consumers.

The upgrading strategy included the following:

- **Improve governance:** farmers were grouped into associations to give them more buying power, and all actors in the chain reached mutual agreement on grading and packing standards

- **Improving market access:** the farmers' associations registered and linked to collection centers. The collection centers were linked to wholesalers

- **Improve products:** farmers trained on sorting, grading and packing, with the collectors providing quality control

This was a 10-year project run by the provincial government. It managed to achieve substantial results: 225 farmers' associations with 50,000 farmers were linked to 45 collection centers. The final report did not specify the size of the increase in farmers' incomes.

As with the *kaong* example, no financial services were provided as the main upgrading strategy involved training and market access but not investment.

Example 3: Coffee in Peru[5]

In partnership with Peru's National Credit Union Federation (FENACREP) and with funding from United Agency for International Aid (USAID), World Council of Credit Unions (WOCCU) began supporting credit unions in Peru to develop an integrated model of value chain finance for local coffee producer groups. Just like other financial institutions in the region, the local credit union considered small coffee producers as risky clients. WOCCU encouraged the credit union to use a phased approach to evaluate the risks and market opportunities of the coffee value chain. The evaluation revealed that buying agents provided the only source of financing for the coffee growers, but they required the growers to sell to them at well below market prices. At the same time loans from agents were not sufficient to cover the costs of production, so crop quality and yields suffered.

The upgrading strategy involved the following:

- **Improvement in products:** farmers were clustered into associations that became the target for training was provided to grow high-value organic coffee. The project team facilitated organic certification so that the farmers could command a higher price for their beans

- **Improve market access:** supply contracts were negotiated between the farmers and the producers' associations, and the associations were linked to commercial buyers

[5] "Business Models for Value Chain Finance through Cooperatives", Presentation of GTZ/INCLUDE (Roshan Shrestha and Carl E. Krug), Microfinance Summit Nepal 2010 "Microfinance for Inclusive Economic Growth"

• **Improve financial access:** credit was provided to producers' associations, with the contracts with the commercial buyers used as collateral. The associations used some of the funding for bridge financing (to be able to pay the producers before they sold the coffee to the commercial buyers). The producer's associations also on-lent some of the funds to the producers themselves, covering 70% of their production costs. The producers were willing to borrow because the organic certification and the secure contracts with the associations guaranteed them enough income to repay the loan.

The result of the project was that, over 450 producers received loans. There were no defaults and producers' income rose an average of 53%.

Example 4: Dairy Farmers in Nepal[6]

One of the most important agricultural sub-sectors in Nepal is dairy. Thousands of small-scale farmers keep a few cows and buffalos for milk production. Every day the milk is taken to local milk collection points, some of which are equipped with some test equipment and a chilling unit. From there the milk is collected by the milk processors like the government-owned Dairy Development Corporation (DDC) or private dairy firms.

The main bottleneck of many farmers is the small number of cows they own and their low productivity. In combination with the small profit margin (due mainly to high cost of feeds) milk production is hardly able to sustain farmer families.

The upgrading strategy included the following activities:

• **Improve market access:** the project team linked a local milk cooperative to a commercial dairy processor with secure contract

• **Improve products:** training and technical support was provided to the cooperative to improve their collecting, testing and storing of raw milk

• **Improve financial access:** financing was provided by the cooperative to the farmers to enable them to purchase high quality cattle, with their agreement to sell all their milk to cooperative used as collateral

This was a relatively small-scale program, but for the few farmers who participated, the impact was significant. 19 farmers received loans of $1400 (100,000 Nepalese Rupees) to purchase a high-breed buffalo. The number of cattle owned the farmers increased 33% from 75 to 100. The volume of milk production rose from 100 liters/day to 250 liters/day. Total value added increased by US$22,000/year. Total net income (ex. interest) increased by US$16,000/year.

Although all upgrading strategies differ based on the specific context, a graphic representation generalized holistic value chain upgrading strategies is in figure 3.3.

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6 Ibid.

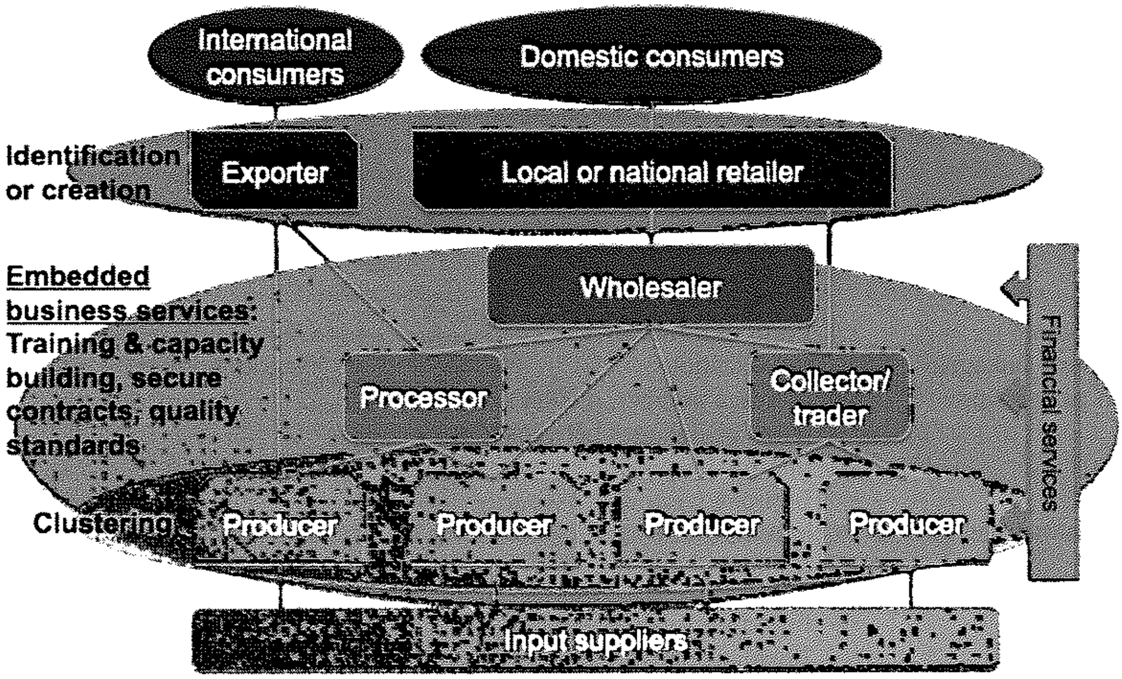


Figure 3.3:Generalized Value Chain Upgrading Strategies Model

As the above diagram illustrates, successful value chain upgrading generally involves a combination of non-financial business development services (clustering of fragmented producers, training, market linkages, contracting, etc.) as well as, in some cases, financial services. In all cases, the non-financial services come first and serve to provide the borrower with the ability to pay the loan back.

The specific non-financial services vary according to the sector, but generally speaking they include the following:

Table 3.1:Non-Financial Interventions

Field of Action	Non-Financial Interventions (Business Development Services)	Required Expertise
Product/service supply	• Technical assistance o Improve quality o Improve production o Reduce costs o Diversification / product innovation & design	• Industry-specific technical skills (production, processing, design, etc.)
Intra-chain business linkages and partnerships	• Form of producer's organizations • Increase number, quality and terms of linkages between intermediary value chain actors • Improve contractual security between value chain actors • Reduce transaction costs	• Community organizing • Negotiation
Regulation	• Introduce quality standards • Rebalance governance between actors.	• Negotiation
Marketing and promotion	• Identification and sensitization of retailers • Promotion workshops and exhibitions	• Marketing

3.2.5 Process of Developing the Value Chain Finance Product

The process of developing value chain finance product is not different from developing traditional microfinance product. It requires in-depth analysis on the target households; their economic activities, current financial status (e.g., income and expenses, cash flow, net debt position), and their capacity and willingness to borrow. It should also include a cost and benefit estimate on borrowing (that is, comparing the expected increase in income resulting from investing the borrowed funds versus the cost of borrowing, with appropriate risks factored in), the potential market size and the financial validity for the bank to offer the product. These factors help set the size of the loan and the repayment schedule. Setting the price of the loan (interest rate) involves a comparison of other providers in the market and a detailed analysis of the bank's cost of lending (e.g., staff cost, operation and administration expenses per loan).

After the financial product has been designed, then the usual product development process continues: feasibility study, pilot testing and refinement, and then finally product launch.

Figure 3.4 describes the complete set of steps to design a value chain finance product. It will take almost 2 years from opportunity identification to the product launch. This project focuses mainly on Step 1 under the scope of the work.

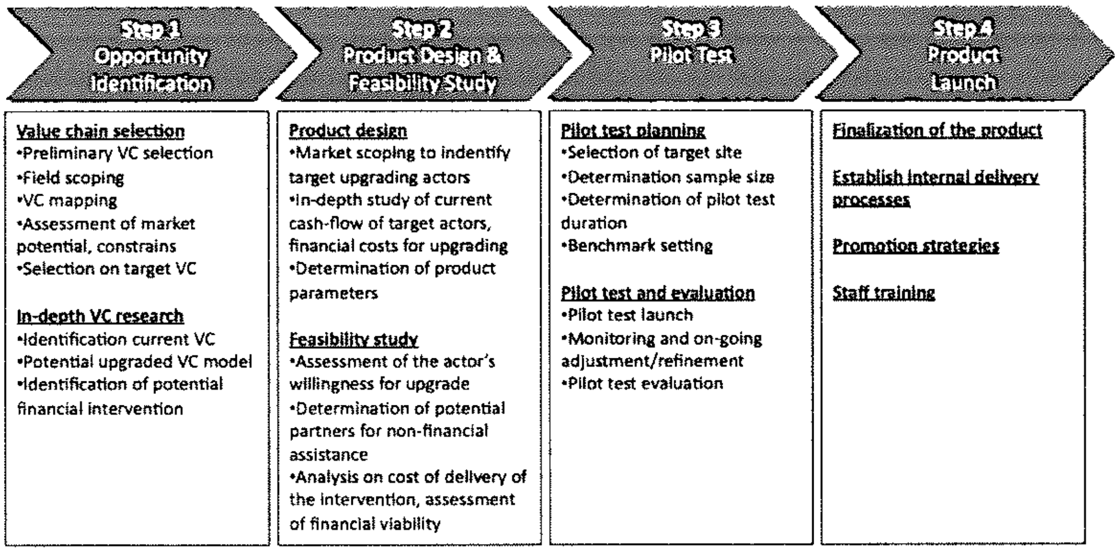


Figure 3.4: Steps in Developing Value Chain Finance, Product Design, Testing and Launch

3.3 Value Chain Analysis in Gilgit-Baltistan

3.3.1 Introduction of Gilgit-Baltistan Region

Gilgit-Baltistan (GB) is located in the north of Pakistan along the mountainous borders with China, Afghanistan and India. Of the 72,496 square kilometers land, the high peaks such as K2 dominate the region, which is second highest mountain in the world. Surrounded by the peaks, the region is remote from the center of the Pakistan, almost blocked out from the trades that other major regions such as Punjab and Sindh are involved.

The population census carried out in 1998 estimated that there were just over 870,000 people in GB. The annual population growth rate is estimated to be 2.47 percent, meaning that the current population can be estimated to be around 1.2 million. With a national average household size of 6.8[7], the total number of households is estimated to be about 65,000. Per capita income is about US$350, about one-third of the national average of US$1,046[8]. The majority of employment opportunities are seasonal in nature therefore the people of the region are trapped in the vicious circle of poverty and deprivation.

3.3.2 Field Scoping of Major Economic Activities

The focus sector is selected by brainstorming various potential sectors where there are economic potential in upgrading value chain and low income households are involved in the chain. Three major economic activities were selected for the first round of research based on agreement between FMFB, SEBCON and the project team.

The key findings on each of the three sectors and rationale of screening them are described below:

[7] National average from the latest census, Pakistan Census Organization. (1998) "Census Report of Pakistan 1998"
[8] Government of Gilgit-Baltistan. (2010) "PAKISTAN DEVELOPMENT FORUM 2010"

Potato sector:
Potato is the one of few cash crops widely sown in the GB area. The production volume stands out by far from other crops with 131,000 tons annually, compare to the second largest produced crop, tomato, with annual production of 6,000 tons. The potato farmers are mostly individuals who cultivate the crop and sells to the sales agent in around PRs 1,500 for a bag of 120kg.

SEBCON analyzed that the major constraints in potato sector is the lack of storage facilities. The farmers are pressured to sell all their produce when it is harvested because they have no storage facility to keep the potatoes fresh. Such condition deprives farmer's ability to control the sales price, leaving them with a low return. The introduction of storage facilities would support farmers in increasing value of their produce by adjusting timing of sales. It would also reduce wastage.

Although the impact of developing the potato value chain would significant considering the current size of production, the sector was excluded from the target value chain because of its high concentration in the existing FMFB portfolio. FMFB in Gilgit is heavily dependent on potato farmers who account for half of its portfolio in the area. The concentrated exposure in one sector increases the vulnerability of its business when faced with disease or natural disaster. Focusing on the value chain research on potato would have increased FMFB's exposure to this corp.

Gem & Jewelry sector:
Gemstones extracted in the GB region exceed PRs 5-6 billion in value according to government estimates. However, the value chain of this sector is often in a grey area legally as many miners do not have legal permits and the gems are smuggled out to the Gulf countries, India or South East Asia through Peshawar for further processing.

For jewelry, there is the potential to increase value-added for local producers by improving technical skills in jewelry production to meet the export quality. A few initiatives to increase the quality of jewelry have been taken by local and international NGOs such as Karakoram Area Development Organization (KADO) and the Rupani Foundation.

However, the quality of the jewelry produced through this initiatives is still low compared to other national producers (mainly in Peshawar), much less international standards. Significant capacity building is still needed. Moreover, with demand from tourists very low, the main market for the gemstones would be local consumers. Unfortunately, the local market generally prefers to invest in precious metals rather than cut gems as they are perceived to hold their value and to be liquid (i.e., saleable) when the household needs cash in an emergency. Therefore, since neither the quality is currently high enough nor demand is expected to grow, this sector was also excluded from further analysis.

Dried apricot sector:
Pakistan is the third largest global producer of apricots after Turkey and Iran. More than one-third of the total production in Pakistan comes from GB area. Apricot is by far the largest fruit production in the area with total annual production of 108,000 tons in 2009. It is far higher than the production of apple, the second largest fruits produced in the area, with annual production of less than 20,000 tons.

Although the production volume is large, a lot goes to waste. According to a survey conducted by the GB Department of Agriculture, approximately 40% of the production is wasted in a season. The main causes of the wastage are the lack of market access for farmers in remote areas and the lack of adequate harvesting, drying, processing, and storage techniques even for farmers who do have market access. The common practice of drying apricot is traditional sun drying in which farmers expose the apricot on the roof for drying. Such primitive practices significantly reduce the quality of their produce. Of the total amount of apricot harvested, 40% is of low quality.

The potential of expanding value added of the apricot farmers lies in reduction in the wastage by introducing adequate processing techniques (mainly drying, storing and packing). At a second stage, replacing the rootstock, which is mostly past its productive peak and also consists of too many varieties to produce consistent quality, can improve the productivity of the farms.

The existence of large market supports economic potential of upgrading apricot value chains. About 60% of the dried apricot produced in GB is shipped to markets in other areas of Pakistan. However, this only meets about 60% of the demand, with imports from Afghanistan providing the rest of the supply. Increased production of higher quality dried apricot is likely to find a ready market in the rest of the country.

Moreover, several exporters of high-quality dried fruits who conduct overall quality management, certification and marketing were identified such as Mountain Fruits Limited and GB Natural Ltd. They have their own infrastructure of contracted organizer and collectors at the village level to assure the quality of the produce that supervises farmer's practices and assist them if necessary. However, they only focus on farmers in and around Gilgit. The assessment foresees the high possibility of upgrading the value chain by enhancing the linkage between the promoters and producers in the production of high quality dried apricot in other regions.

Based on the preliminary diagnosis, the project team and FMFB, with the advice of SEBCON, mutually concluded to focus on the dried apricot value chain for the study in GB area.

A map of the current value chain is as follows:

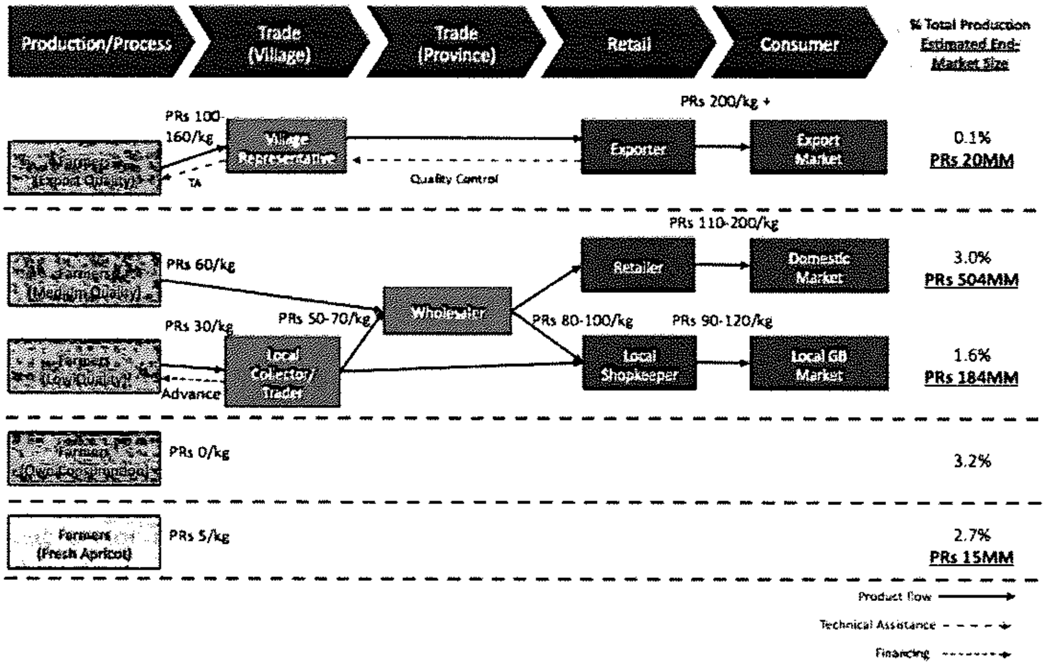


Figure 3.5:Current Value Chain for Dried Apricot

It should be noted that most farmers produce both medium and low quality apricot. For the sake of simplifying the value chain map, farmers are shown to produce one kind only.

3.3.3 Value Chain Analysis of Dried Apricot Sector

a) Identification of the weakness of current value chain

The assessment of the weakness of the current value chain revealed a combination of low production volume, low or uneven quality, and limited market access:

Table 3.2: Major Constrains in Dried Apricot Value Chain

Issue	Specific constraint	Result
Low production volume	• Low production per tree	Output 15kg per tree vs. 50-80 kg other areas of Pakistan
Uneven quality	• Too many varieties and altitudes = output in small batches • No modern harvesting, drying and storage techniques	40% of marketed production can't be sold in domestic market
Limited market access	• Local and down-country sales based on personal relations rather than formal markets • Many farmers have no market access at all • Cost of transporting product out of GB is very high	40% of harvest is wasted because it can't get to market

b) Proposed upgraded value chains

In the project team's analysis, the desired upgraded value chain is one that establishes local small and medium enterprises (SMEs) at the village level acting as collectors of the dried apricot and simultaneously provide facility and technical assistance to improve the quality of the apricot roots and drying processes. This will provide the producers with both a market and technical advice for improving quality. In order for producers to purchase the drying and storage facilities producer's association could be formed which receive financing from FMFB for their investment in the facilities. The SMEs will be encouraged to participate in group mobilization. These can be stand-alone businesses or franchises of the existing export-oriented promoters of dried apricot, of which three currently exist in Gilgit.

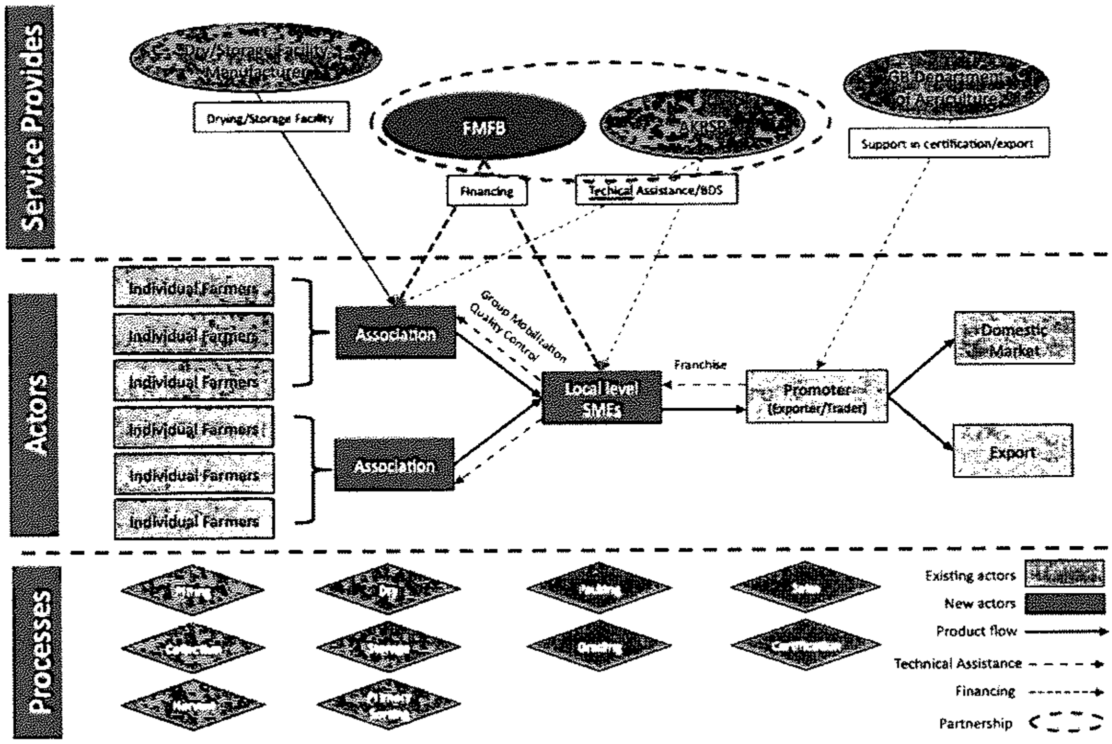


Figure 3.6: Proposed upgraded value chain for Apricot

3.3.4 Recommendation on Next Steps

Although the dried apricot sector could have potential in terms of economic viability of FMFB and impact to the GB economy, more in-depth feasibility study will be required in order to validate the viability of the upgraded value chain and to define product parameters.

Furthermore, since a considerable of non-financial interventions are required to upgrade the value chain, the project team recommends that the feasibility study look into who can provide those services and who can finance them. The project team does not recommend that FMFB provide those services itself as it lacks the requisite expertise and it will not be able to adequately cover its cost in the loan product. There are no examples globally of which the project team is aware in which a financial service provider also offers non-financial services except through a sister organization (as followed by BRAC in Bangladesh and CARD in the Philippines). In such cases, the cost of providing non-financial services is covered by donor funding and is not priced into the loan's interest rate.

Thus, the project team's recommendation for next steps is as follows:

- **Market scoping:** Initial identification potential franchisees/collectors who will become SMEs to provide technical assistance and group mobilization. In order to estimate market potential for FMFB, the number of potential candidate should be estimated. The candidate must be evaluated in terms of its capacity and willingness to be part of the intervention and their financial needs.

- **Deeper financial analysis:** In-depth study of producer cash flows and financial costs to upgrade (investment and working capital) will enable to indentify the product model for the farmer's associations.

- **Assessment of producers:** Ability and willingness to be part of the intervention for producers shall be assessed. Their will to participate in association, will to link with SMEs or franchisee needs to confirm for the feasibility study.

- **Partner scoping:** Determine partner to become a franchiser for the SMEs.

- **Financial planning:** Cost analysis and financial viability of the intervention and identification of potential funding sources

3.4 Value Chain Analysis in Sindh

3.4.1 Introduction of Sindh Region

Sindh province is located in southeast part of the Pakistan. It is the second largest province in terms of population with 23% of the national population. It is estimated that over 50% of the households in Sindh are living in the rural areas. Out of those rural residents, more than 70% rely on agriculture, livestock, forestry or fishing for their livelihoods.

At the provincial level, Sindh ranks second to Balochistan in terms of poverty, followed by Kashmir and Punjab. With a poverty rate approaching to 50 percent in some districts of interior Sindh, there is an urgent need to redress the discrepancy between the dire need for development assistance, and the availability of resources for effective programming - be it from the public, private, or NGO sectors.

3.4.2 Field Scoping of Major Economic Activities

Three major economic activities were selected based on the initial review on the economic profile and field scoping of the region. The focus sector is selected by brainstorming various potential sectors where there are economic potential in upgrading value chain and low income households are involved in the chain. Through the discussion with FMFB, *rilli* (a local stitchwork handicraft) was selected as the target sector for in-depth research. The key findings and rationale of screening each sector are described below:

<u>**Livestock Sector**</u>:
Pakistan is fourth largest producers of dairy in the world. Large numbers of livestock are raised in Sindh, which ranks second in livestock population in Pakistan after Punjab. Common livestock in Sindh are cattle, buffalos, sheep and goats. Out of the four, buffalos and cattle dominates half of the livestock population. The majority of the livestock holders are small farmers with herd size of 2-5 animals[9]. There are two segments of the value chain, dairy sector and red meat.

The key constraint identified in the livestock sector is the shortage of clean water, undermining the production of the diary both in volume and quality. An intervention to

[9] Government of Sindh, "Sindh Development Review 2008-2009", 2009

improve the volume and quality of the dairy can be sought by providing water pump facilities and water hygienic chemicals. The red meat sector depends on government intervention since it faces lack of regulatory control that monitors quality and hygienic requirements of slaughterhouses.

The project team excluded the sector from target value chain in order to avoid further concentration of FMFB's portfolio, since the bank already has sizable exposure to the livestock sector in Sindh.

Dates Sector:
Pakistan is world's fifth largest producer of dates. 680,107 tons were produced in 2008, amounting to approximately 10% of world's production. Sindh accounts for 38.8% of the total dates production in Pakistan. The dates are dried at the producer's level and sold to wholesalers for grading and traded to retail or export market. Unlike other fruits produced in Sindh, small farmers are involved in the dates production, usually renting the 2–10 acres of the land and harvesting it on a commission basis.

The constraints in dates sector are the low quality of the produce and inefficiently long-value chain in which several layers of middleman exist between producer and wholesalers. The upgrading opportunity is to rebalance value distribution by eliminating unnecessary middleman and provide a facility and assistance to improve the quality.

While the SEBCON research concluded that dates has market potential, FMFB decided to exclude dates from the in-depth value chain research to avoid redundancy since the target value chain sector in GB, dried apricot, is likely to have a similar intervention model.

***Rilli* (local stitchwork) Sector**:
Rilli is the traditional stitchwork for the bed sheets, which is very common in Sindh. It is often said that "every women in their household make *rilli*". Although the majority of them are consumed in their houses or for the gifts, part of the production is sold commercially.

SEBCON thus recommended the *rilli* sector for the target value chain. Their rationale was (1) the involvement of women in the production suggests high potential impact on the gender dimension of poverty; (2) the sizeable potential impact since so many Sindhi women are involved in producing *rilli*.

FMFB decided to focus on the *rilli* value chain, based on SEBCON's recommendation. An additional consideration for FMFB was that, since the target value chain in GB was apricot, non-agricultural sector should be considered in Sindh to provide broader knowledge on potential intervention models. A map of the current value chain is as follows:

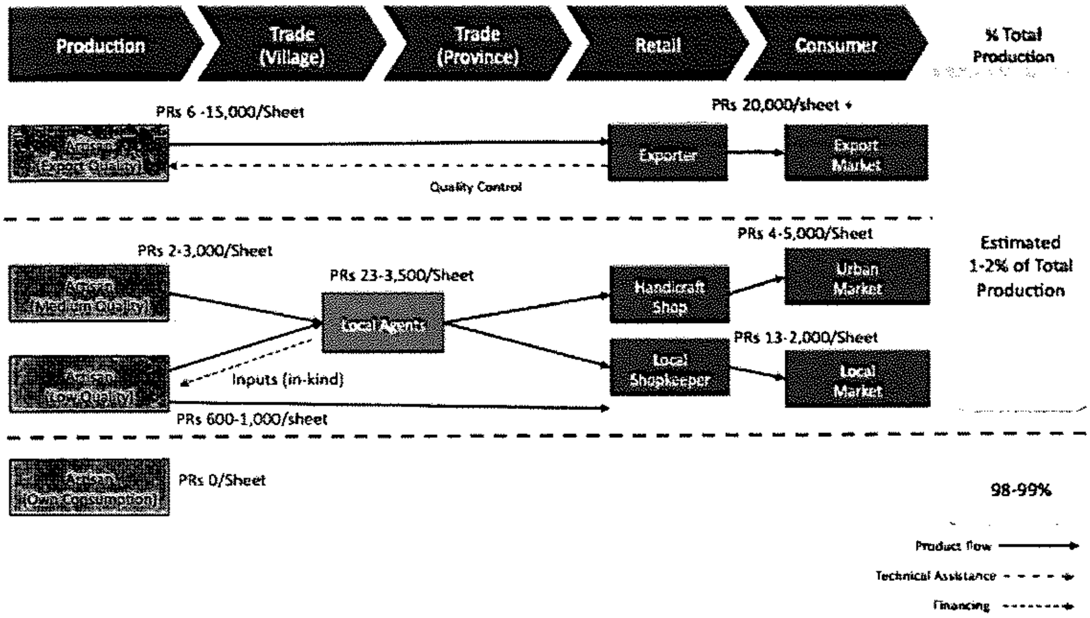


Figure 3.7:Current Value Chain for Rilli Apricot

One of the problems the research team encountered when investigating *rilli* is that commercial transactions are few and dominated by shopkeepers who do not set fixed prices but rather bargain with their customers. Moreover, quality varies enormously. Therefore, the researchers could only provide ranges for prices.

It should also be noted that in the above value chain map, urban boutiques (both shops and home boutiques) and retailers are currently not part of the value chain and represent an important missed opportunity for the producers.

3.4.3 Value Chain Analysis of *Rilli* Sector

a) **<u>Identification of the weakness of current value chain</u>**

The assessment of the weakness of the current value chain revealed as follows;

- Lack of *rilli* commercial mindset among the producers. Since the majority of the *rilli* production is for personal consumption or gifts, many producers are not commercially-minded.

- Absence of end-market knowledge – producers do not receive information on the design and form of the product reflecting the consumer's wants.

- Male dominated transactions – the female producers rely on men to purchase inputs, and the middleman and retailers are often men who have no experience in *rilli* making, which leads improper guidance on the technical skill and design.

- The final product is limited to single variety, which is a bed sheet. The consumer's turnover of a bed sheet is generally low, limiting *the rilli* market small. The introduction of various other products employing stitching techniques enables more opportunity for *rilli* producers to turn it as their business.

Table 3.3: Major Constrains in Rilli Value Chain

Issue	Specific constraint	Result
Low quality	• Lack of training in better production techniques • Inability to purchase high quality inputs • No access to new designs	Inability to take advantage of market opportunities
No market information	• No access to ideas about what sells	Inability to take advantage of market opportunities
Limited market access	• Monopoly buyers • Buyers do not open new final sales channels • Male domination of input purchases and product sales	Limited market access

b) Proposed upgraded value chains

The project team recommends that the upgrading strategy of the *rilli* value chain in Sindh involve establishing female sales agents who have the ability to collect consumer's demand and guide the producers on the design and final products according to the end market needs. The lessons learned by the project held by Mennonite Economic Development Associates (MEDA) in upgrading the embroidery sector in Sindh and Punjab[10], which has similar intervention model, can be suitable reference for the *rilli* upgrading model.

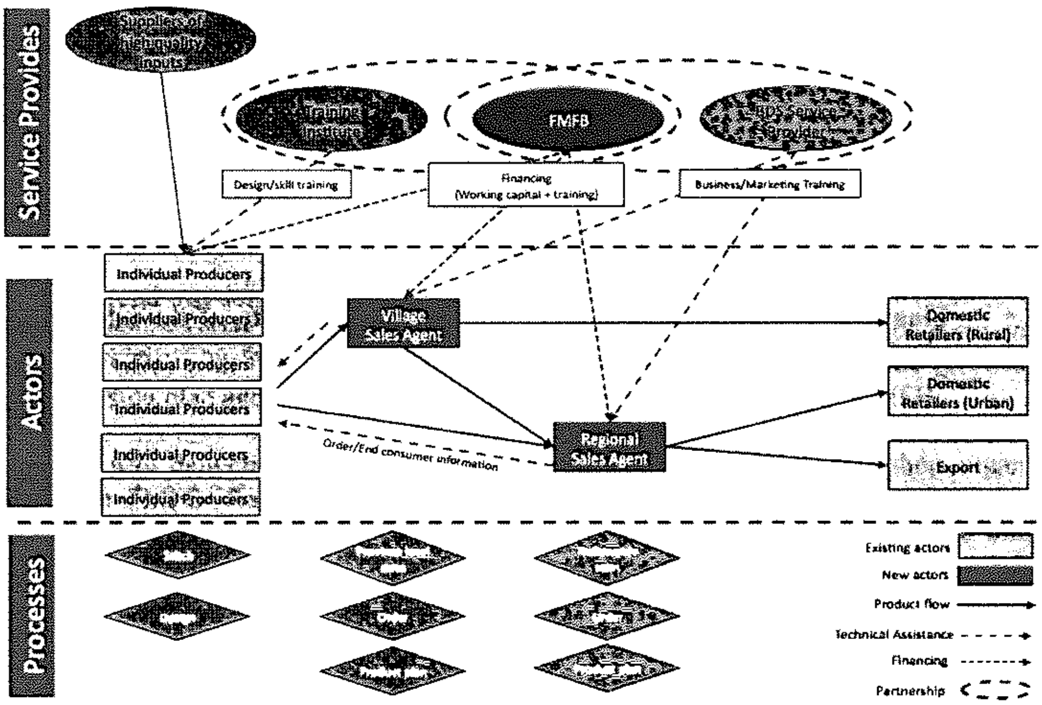


Figure 3.8: Proposed Value Chain for Rilli

3.4.4 Recommendation on Next Steps

Since the current market size of *rilli* value chain sector is still small and the majority of the producers are not commercially oriented, sizable non-financial interventions are likely to be required to develop the sector's commercially viability. Most importantly, an intervention to raise the consumer profile of *rilli* in order to spur final demand is required before the project team recommends that FMFB launch a financial intervention.

Rather than focusing solely on *rilli*, the project team recommends that in the next step that there be an investigation of whether the recommended sales agents can be mobilized for a number of different handicrafts rather than just *rilli* because the existing *rilli* market is too small.

[10] USAID. (2008) "Report on Evaluation of The Access to Contemporary Markets for Homebound Women Embroiderers Project

Thus, the project team's recommendation for next steps is as follows:

- **Deeper market analysis:** investigation of the possibility of creating sales agents dealing in multiple product lines and providing producers with a similar set of services (e.g., market access, market information, technical support).

-

- **Market scoping:** Initial identification potential sales agent who will be the link between traditional handicrafts makers such as *rilli* producers and urban markets. In order to estimate market potential for FMFB, the number of potential candidate should be estimated. The candidates must be evaluated in terms of its capacity and willingness to be part of the intervention and their financial needs.

- **Deeper financial analysis:** since handicrafts makers tend not to need much financing, any financial intervention by FMFB in this sector will likely target the sales agents. Therefore, an in-depth forecast of the potential cash flows and financial costs of the sales agents will need to be carried out.

- **Partner scoping:** Determine partner to support the improved design of the products and train the sales agents to be able to train the producers.

- **Financial planning:** Cost analysis and financial viability of the intervention and identification of potential funding sources

4 Capacity Building of Human Resource for Field Officers

4.1 Methodology

The assessment, focused on human resource issues in the field level, comprised of three components: an assessment to identify career progression plan and update job descriptions, an identification of high priority training modules and a delivery of the training in a training of trainers (ToT) context.

The first mission focused on developing mutual agreement on the expected outcomes throughout this project between FMFB and the project team. The decision on key deliverables to FMFB is held mutually with the bank on the first mission. Following list is the key deliverables are as follows:

- Internal career progression plan
- Updated job description reflecting the above plan
- List of 15 suggested training modules
- 2 training modules
- 50 trainers (25 in two locations)

During the second mission, necessary information to deliver aforementioned deliverables were collected through a series of individual interviews with senior managers and of focus group discussions (FGDs) with field levels staff. Based on the extensive interviews, the proposal on career progression plan and job descriptions are finalized with feedback from FMFB.

The training was delivered throughout the third mission by the ToT workshop organized mutually with FMFB Training Department on "Basic Business and Credit Appraisal" and "Delinquency Control & Portfolio Quality Management" with total of 50 candidate trainers within FMFB staff.

The work process of the project is described in figure 4.1.

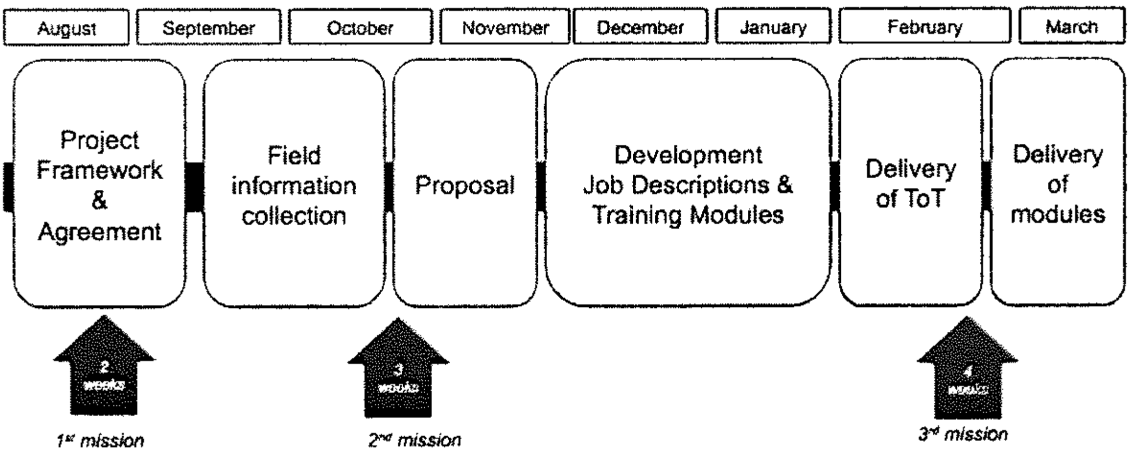


Figure 4.1: Work Process (August 2010 – February 2011)

4.2 Human Resource in Microfinance Institutions

Human resource management is one of the key contributing factors for the MFIs to be successful. Just like other commercial and non-commercial organization, MFI is composed of and driven by the network of "people" who undertake and process the necessary tasks in pursue of its organizational goal. The quality and performance of the people have direct influence on the organizational competitiveness and effectiveness for achieving its goals.

The uniqueness of MFIs, which other financial institutions do not necessary possess, is that the essence of microlending heavily lies in person-to-person contact between loan officers and clients in the field level. The capacity of the field staff, who frontlines the MFI's business, interact directly with their client, processes day by day operation, documentation and cash in/out and monitor the loan portfolio is significant. It is imperative that all the capacity enhancement effort for the field officers should be geared towards encouraging total client experience.

However, in the MFI's management, human resource issues in the field level are often neglected, partly because of its unclear and un-measurable impact in the short run. In order to further enhance the capacity of MFI, the need for external support to bolster the knowledge, skills and attitudes for field officers to deliver responsive services.

In order to cope with the varying business environment and increasing competition among MFIs, the importance towards developing staff capacity and enhancing the professionalization of field staff's workforce is evident, especially considering the diverse services that it provides to the highly micro-enterprise and micro-farming sector.

4.3 Preparing to Step Up the Field Officer's Capacity

4.3.1 Introduction

Unlike other types of actors in MF sector in Pakistan such as NGO-MFIs or cooperatives/credit unions, FMFB, as microfinance bank, provides both MF services and banking services, including such as payment transfers, remittances, and deposits. FMFB, which was established from the evolution of microfinance program of humanitarian organization of Aga Khan Foundation, the knowledge in such banking services did not necessary require to be equipped before. Thus, majority of it staff at field level is oriented towards MF approaches and practices.

In the typical practice of transformed MF banks, branch managers and senior-level managers rise from microfinance officers. They are knowledgeable in MF operation but lacks skills and knowledge on banking operation. Vice-versa, traditional commercial banks downscaled to enter into MF operation, the staff is highly equipped in banking operation but their understanding towards MF approaches and methodologies are typically not enough. In both cases, well-balanced knowledge in both MF and banking are crucial.

Moreover, MFBs are regulated under the SBP, which imposes strict regulations on reserves, Portfolio-at-Risk, liquidity, etc. For the MFB like FMFB, staff, especially at the field level/branches, need to be knowledgeable and skilled in performing both MF and banking services. Ensuring field level staff to be equipped with the knowledge and skill in both is crucial in order for the bank to step up its organizational capacity.

The foundation of the field officer's performance comes from its **knowledge, skills and attitude** (KSA) towards the job that he/she is involved in. Those three categories where knowledge serves as basement of the work performance, skills helps to process the required task effectively and competently and attitude frontlines as the driver for converting potential energy into kinetic energy, are the key performing factor of the individual staff. The bank should make sure that their staff holds capacity to convey both MF and banking service from the aspects of knowledge, skills and attitude.

Aligning to KSA, it is also important to provide incentives in order to make sure that individual objectives and institutional objectives are coherently met. Those who have high potential in KSA might not perform well in absence of the appropriate incentives. The provision of incentive schemes will help to motivate staffs in performing their work and assume greater responsibilities, and to attract and retain high performing staffs, which all of them eventually drive the organization in the achievement of its goals.

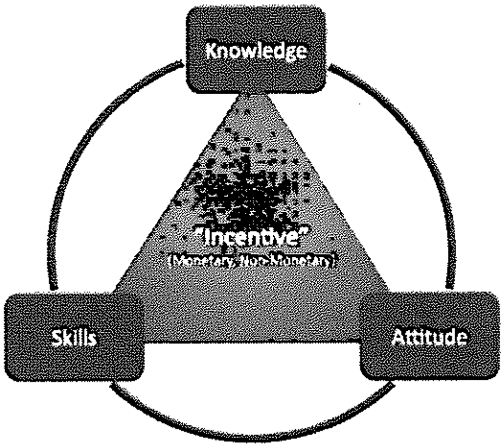


Figure 4.2: Elements of Staff Performance

According to ShoreCap Exchange, a technical assistance provider for MFIs, the steps in designing the incentive scheme is described in Figure 4.3. Within the scope of work of this project, the preliminary assessment focuses on identifying key areas of KSA and on updating the job descriptions, reflecting the identified KSA.

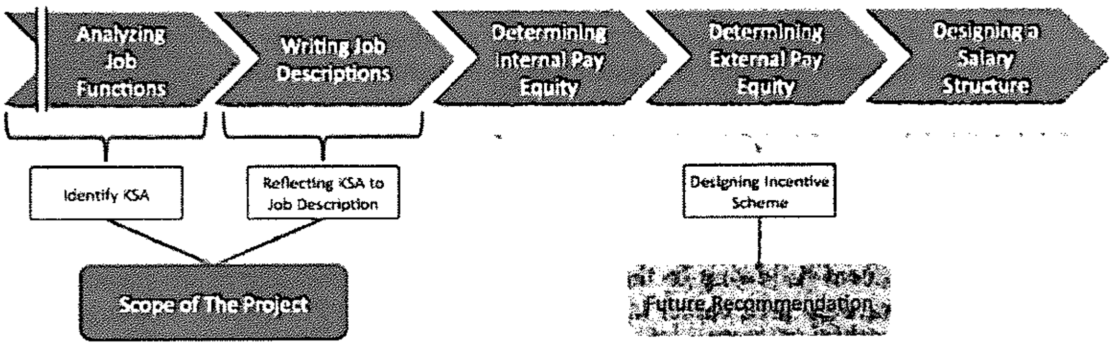


Figure 4.3: Steps to Design Staff Incentives[11]

[11] Cook, Marian, (2006) ShoreCap Exchange "Compensation as a Retention Strategy" Exchanging Views Series, #4 edited by PlaNet Finance

4.3.2 Identification of Knowledge, Skills and Attitude for Career Progression

The findings from the focus group discussions (FGDs) conducted in selected branches in the second mission suggest that the microfinance officers (MFOs) generally lack basic banking knowledge and vice-versa for banking operation staff. There is clear need to enhance further their technical and managerial skills in preparation for the field officers both microfinance officers and branch operation staff to move up to managerial level, including branch/are mangers.

In order for FMFB's field staff to prepare for moving up their career ladder, the initial intervention within the scope of this project focused on identification of the key areas of performance in preparation for field staff to assume higher responsibilities.

KSA framework below in Figure 4.2 shows that each field staff should be equipped with broad range of declarative knowledge on its job roles and responsibilities, performance targets, policies and regulations. So as technical and soft skills necessary in preparation for the career progress needs to be determined. Attitudes defined by the one's values and degrees of motivation integrate knowledge and skills he/she possesses. The aggregate of the above three determines one's performance and job outcomes.

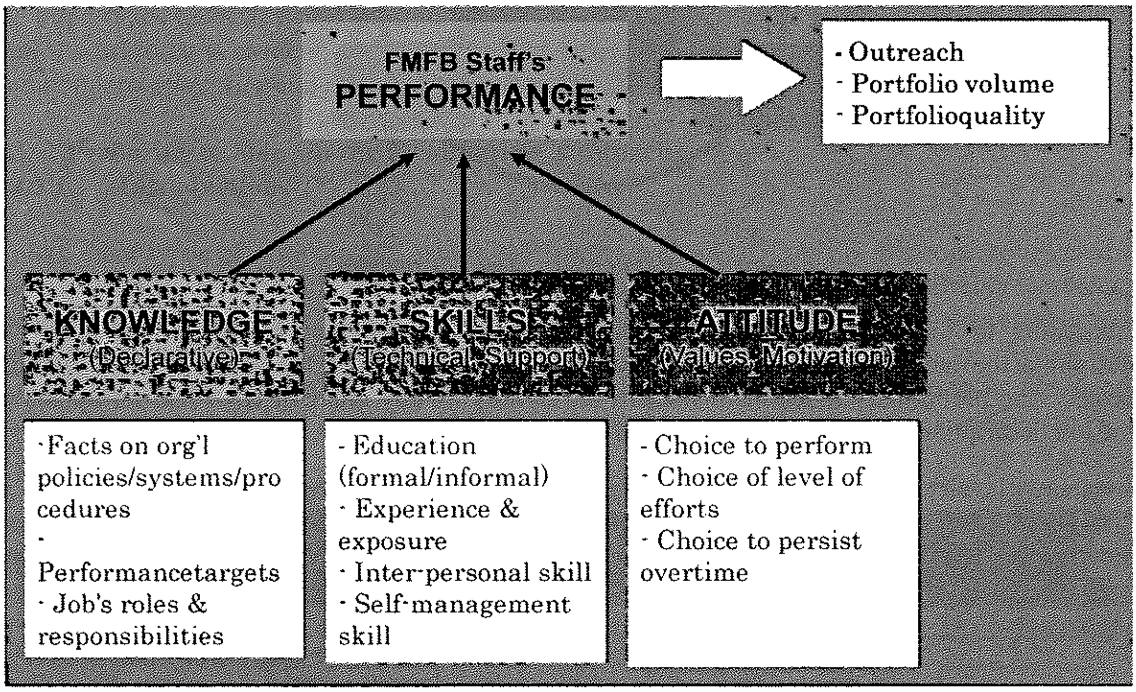


Figure 4.2: KSA Framework

Based on our assessment following to the KSA framework, the capacity requirements for the field level staff to move up their career ladder are presented in APPENDIX 1. The suggestions on four key performance areas of training and detailed skills to be equipped in those areas are described for the following positions:

- ✓ From Branch Manager -> Area Manager
- ✓ Microfinance Team Leader/Banking Operation ->Branch Manager
- ✓ Microfinance Officer ->Microfinance Team Leader

✓ Assistant Microfinance Officer -> Microfinance Officer

The identification of key areas of KSA is a preliminary starting point to develop a concrete career progression plan. To develop concrete career progression system within the organization, it is required to conduct a thorough review of the overall human resource management practices from recruitment, remuneration and benefits to staff development. Suggestions on further actions in preparing for the complete set of career progression planning areas below:

- Comprehensive review of human resource policies and procedures and comparison between the policies and actual practices from recruitment, remuneration, benefit and staff development
- Mapping of aligning jobs with functions and disciplines tying the hierarchy and levels within the organizational structure
- Organizational diagnostic to rationalize the positions, compensation and benefits
- Assessment of the individual staff's level of performance and level of KSAs
- Determine individual employees align with the mapping of their jobs

4.3.3 Improvement of Job Description

The findings from the training needs assessment suggest the prime issue on current job descriptions offered at FMFB is that it does not reflect actual situation of the current operation. With its rapid expansion of the organization and the sector, the organizational dynamics in FMFB has dramatically changed. The need for updating the job description to reflect current situation is evident.

Through interviews with key senior managers in both head office and field offices and FGDs with field officers, the project team has identified the key areas of improvement on the current job description as follows:

- The distinction between duties, responsibilities and activities are not clearly articulated. We have indentified number of overlaps of the tasks in different positions. Such redundancy will create unnecessary tasks, miscommunication and unintended increase in the cost.

- Clear description of authorized activities and suggested time allocation of each activity are recommended. Well-defined hierarchy in the organization lubricates the information flow among the staff. In order to avoid the costs associated with miscommunications, wrong judgments on day-by-day operation, the hierarchy structure should be clearly defined in the job description.

The team has supported restructuring of job description form and updated the job description of the field level staff reflecting the findings above. The format of the job description is prepared by scrutinize the pool of international experiences and cases stored in PF. The format was structured with following intention:

- 1-2 page simple and short descriptions covering necessary information
- Clearly articulation in job responsibilities
- Definite authorized activities
- Job requirement categorized in terms of knowledge, skills and attitude
- Description of required activities and time allocation

The format was submitted to FMFB's Human Resource Group for their feedback. Job descriptions of below field positions are updated within the format (See APPENDIX 2).

- ✓ Branch Manager
- ✓ Microfinance Team Leader
- ✓ Microfinance Officer
- ✓ Assistant Microfinance Officer
- ✓ Trainee Microfinance Officer
- ✓ Banking Operation in Charge
- ✓ Teller

4.3.4 Recommendations on the Way Forward: Staff Incentives

As figure 4.3 suggests the steps for designing staff incentive schemes, the development of actual monetary and non-monetary schemes to incentivize the staffs to improve the capacity will come after the KSA for each positions are identified and job description are updated.

The development of staff incentive scheme requires assessment of the overall human resource policy including staff salaries, remuneration which is outside the scope of the work for this project. Box. 1 provides some idea on the staff incentive scheme that is based on the global best practices by the MFIs.

Box 1. International Practices on Staff Incentive Scheme

There are many approaches and practices of the incentive remuneration system across the MFIs internationally. They are categorized into two main approaches; financial and non-financial incentives. Popular approachesare as follows:

Types of Incentives

Financial Incentives	Non-financial Incentives
Payment of monetary incentives based on performance and return	Work enrichment
Pension Fund	Opportunities for advancement and a stimulating career plan
Program for acquisition of a motorized vehicle or residence	Program to recognize performance (gala, awarding of certificates, best employee title, etc)
Life and health insurance	Motivation work environment
Salary Increase	Possibility of sabbaticals
Travel	Delegation of power
Special vacations or holidays	Training or professional upgrading sessions available

Source: Chantal Fortier, (2003) "Improving Employee Performance in Microfinance Institutions: Incentive Remuneration Tool. 4"

Among those approaches, the performance based monetary incentives (Bonuses) are the common incentive schemes practiced elsewhere. Such incentives are provided based on the performance of either individual or group (i.e. Performance of team or branch).

Three key points in the global practices in assessing the field officer's performance: Increase in client outreach, portfolio quality and portfolio volume. Simple compensation practice is to provide bonus if the loan officers met certain number of client acquisition and maintenance. Then, second criterion can be added which is portfolio quality, namely portfolio at risk (PAR).

Batumi Foundation, which is a successful microfinance NGO in one of the Caucasus countries developed staff incentives schemes based on the client outreach and PAR. The base salary of their loan officers is US$ 400. They can earn a bonus of 25% of their base salary if they disbursed more than 70 loans a month which is not difficult target to reach. In addition, the target is also set in PAR as follows:

Types of Incentives

PAR	Bonus as % of Base Salary
4% and above	0
3-4%	25
2-3%	50
<2%	100

After the foundation has launched the incentive scheme that placed high emphasis on loan portfolio quality, PAR has been reduced to average 1.2%.

Box 1. International Practices on Staff Incentive Scheme (continued.)

There are more complex calculation methods incorporating diverse aspect of performance criteria. For example, CredAgro, one of the top 5 MFI in Azerbaijan in their client outreach and gross loan portfolio (According to Mix Market 2009), uses weighted incentive scheme using the following formula:

	% Bonus	Remarks
PAR	40%	Portfolio at Risk
Avg. Portfolio	25%	Portfolio Volume
Loan Approvals	25%	No. of loans
Self Sustainability	10%	Financial Self Sustainability of the branch

In this formula, if loan officer's PAR was 0, he/she receives 40% of the total bonus that is set prior, but the percentage of the bonUS$eclines as PAR scores higher.

The similar model is practiced in BancoSol, one of the leading microfinance bank in Bolivia. This scheme focus on determining the monthly bonus by the six performance indicators. As the tables shows, the bank put high emphasis on remunerate for protecting the quality of portfolio which 45% of the bonus is weighted in preventing the past due loans and delinquencies. .

Although the change of the staff incentive scheme was not the only attribution for he performance, BancoSol's portfolio at risk was improved dramatically from 15% to 6% in the two years.

Performance Indicator	Weight (% bonus)
Portfolio Volume	20%
No. of Client in Stock	20%
No. Loan Provisions	15%
Past Due Loans	20%
Delinquent Loans	10%
Write Offs	15%

*Based on Hotmann, Martin. Grammling, Mattias. Microsave. (2005) "A Toolkit for Designing and Implementing Staff Incentive Schemes

Mckim, Andew and Hughard, Matthew, Micofinance Network. CGAP (2005) "Staff Incentive Schemes in Practice: Findings from a Global Survey of Microfinance Institutions

4.4 Improvement in Human Resource Training of Field Staff

4.4.1 Introduction

Trainings bring staff the opportunities to acquire the knowledge, skills and attitude that are necessary to improve the performance of the job. In order for MFIs to adapt to the dynamic changes in the MF sector and client's business environment, field officers need opportunities to develop their capacity.

FMFB conducts training to their field officers under its Training Department. However, their resources on trainers and training module libraries are still on the way. In order to improve further the training capacity of FMFB's Training Department, development and delivery of the trainings to increase trainers and training modules are conducted.

4.4.2 Assessment of Human Resource Training Needs of Field Staff

Training needs of the field staff were identified through the interviews with branch managers and microfinance officers. Also, the results of key informant interviews (KIIs) with senior managers in head office, managers of regional/area offices are being considered.

The key findings are:

- The library of training modules available internally can be expanded. Few training modules are available on technical skills as compared to the availability of modules on soft skills such as leadership and communication.

- Field staff generally needs reinforcement of the basic understanding of credit policy and procedure. The lack of declarative knowledge of the policy leads to unintended mistakes in procedural and compliance gaps. It can be partly avoided by making lending policy available in the local language that is absent in FMFB today. Moreover, the provision of basic training on lending procedure and credit appraisal will address the current knowledge gap of the staff on the lending procedure.

- The shortage of experienced trainers who has ability and knowledge to deliver the training to the field staff. There was 3staff in Training Department as of October 2011. Out of that, the experience trainers are 2staff. The need to increase number of trainers is evident. Training of trainers program will be effective to establish the platform of trainers.

Based on the findings, the project team suggested 15 priority-training modules, which were identified based upon the field officer's voices on the demand on training to supplement their knowledge and skills that they envision for future acquirement. The tables 4.1 list the proposed training modules. More detailed descriptions on the proposed modules can be found in APPENDIX 3.

Table 4.1: Overview of Proposed Training Modules

Course Title	Description	Target Audience
Strategy & Business Planning	Effective strategic & business planning framework and skill	RM/AM
Strategic Marketing in MFIs	Strategic marketing development skill	RM/AM
Risk Management in MFIs	Comprehensive framework and tools to minimize risk	RM/AM/BM
MFI's Financial Performance Measurement & Analysis	Ratios/tools to measure financial performance	RM/AM/BM
MFI's Branch Operation Mgmt	Day-to-day banking operation skill and knowledge	BM
Delinquency Control & Portfolio Quality Mgmt	Credit risk management, monitoring skill and knowledge	BM/MFO-TL
MF Performance Mgmt Process	Staff management, performance management skill	BM/MFT-TL
Basic Business and Credit Appraisal	Basic knowledge on appraising loans and client's businesses	MFO
Advance Credit & Business Appraisal	Advanced knowledge on appraising loans	MFO-TL
Basic Marketing in MFIs	Basic principle and practices of marketing	MFO
Client Care & Relations in MFIs	Best practices and techniques to improve client experiences	MFO/BOI
Effective Communication Skill	Skills and practices to effective communications	BM
Effective Managerial Leadership	Skills to implement vision and mission in the branch level	BM
Leadership & Supervisory Skills	Effective management skills to motivate MFOs	MFO-TL
Fundamental Principles & Best Practices in MF Operation	Basic concepts and principles of microfinance	MFO/BOI/Tellers

*MFO in this table includes MFO, AMFO and TMFO

4.4.3 Improvement of Training Capacity via Training of Trainers Approach

b) __Pre-training__

Among the 15 suggested training courses, "Basic Business and Credit Appraisal" (See APPENDIX 6) and "Delinquency Control and Portfolio Quality Management" (See APPENDIX 4 and APPENDIX 5) were selected by FMFB Training Department as priority courses. The project team initiated the development of the training materials in the context of a TOT approach on the two courses (See APPENDIX 7 and APPENDIX 8).

Table 4.2: Overview of Basic Business and Credit Appraisal Course

Training of Trainers on Basic Business and Credit Appraisal (4 days)	
Experiential Based Training and Facilitation Skills (2days)	Basic Business and Credit Appraisal (2days)
Objectives: - Learn various approaches to become a effective trainer - Understand the process and importance of communication - Learn and demonstrate practical skills to become effective trainers	Objectives: - Learn how to appraise credit proposals - Perform risk analysis on credit proposals - Conduct comprehensive collateral analysis - Identify entrepreneur skills and potential
Contents: 1. Brief Theory in Learning & Adult Education 2. Methodological Diversity in Training 3. Experienced-based Training Cycle 4. Effective Communication & Facilitation Skills 5. Use of Visualizations/Aids in Learning Situations 6. Practical Hints in Preparing/Organizing Training	Contents: 1. Principles, Concepts & Types of Microlending 2. Micro-business Environment 3. Simple Business Plan of Micro-Entrepreneurs 4. Basic Marketing Concepts 5. Understanding Simple Financial Statements 6. Credit Appraisal Process 7. Loan Disbursement

Table 4.3: Overview of Delinquency Control and Portfolio Quality Management Course

Training of Trainers on Delinquency Control and Portfolio Quality Management (7 days)		
Experiential Based Training and Facilitation Skills (3days)	Delinquency Control (2 days)	Portfolio Quality Management (2 days)
Objectives: - Learn various approaches to become a effective trainer - Understand the process and importance of communication - Learn and demonstrate practical skills to become effective trainers	Objectives: - To enhance knowledge and skills of MF staff on the key principles and processes in controlling loan delinquency and maintaining portfolio quality in all branches. - Enables MFI staff to develop and improve the quality of their own portfolio and focuses on problem prevention and early problem identification and control to maintain quality portfolio.	
Contents: 1. Brief Theory in Learning & Adult Education 2. Methodological Diversity in Training 3. Experienced-based Training Cycle 4. Effective Communication & Facilitation Skills 5. Use of Visualizations/Aids in Learning Situations 6. Practical Hints in Preparing/Organizing Training	Contents: 1. Basic Concepts & Principles in Delinquency Control 2. Cost, Implication & Measuring Delinquency 3. Analysis of Causes of Delinquency 4. Delinquency Prevention Strategies 5. Steps to Deal with Delinquency: Detection & Action 6. Actions to take after a Delinquency Crisis	Contents: 1. Defining and Measuring Portfolio Quality 2. Managing Loan Portfolio Quality 3. Understanding the Loan Portfolio Tracking System 4. Practical Exercises/Strategies to Maintain Portfolio Quality in Your Institution

Meanwhile, FMFB's Group Heads, regional and area managers, nominated participants to the training coming from various positions at the field and head office levels. In order to deliver training effectively, FMFB Training department offered the training opportunity to variety of positions across the equally balanced areas so that the nationwide coverage of certified trainers who will deliver the trainings in the future. A mix of staff from MF operations and support services comprised the participants of the training.

b) Training Proper

Profile of Participants:

The delivery of the training was held in Sukkur (Sindh) and Islamabad. The total number of participants reached a total of 50 staff. The composition of the participants by positions is described in the Figures 4.3 and 4.4.

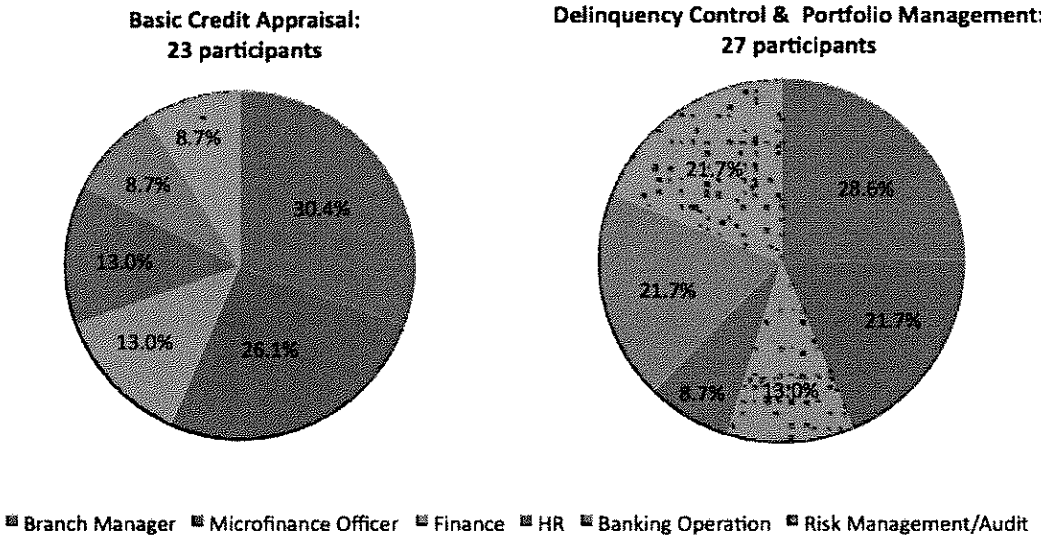


Figure 4.3: Characteristics of the Participants by Position

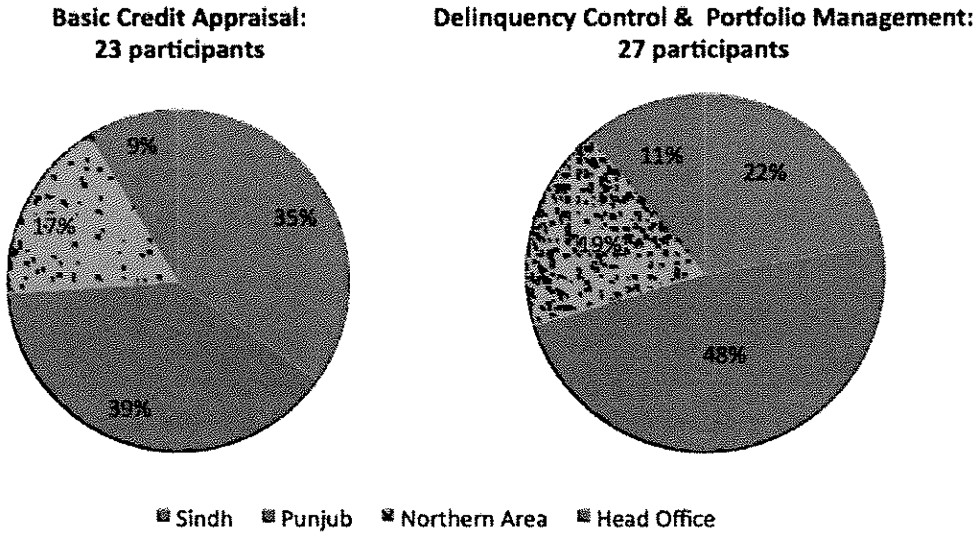


Figure 4.4: Characteristics of the Participants by Area

Training Framework:

A highly participatory approach, anchored on the internationally accepted and effective experiential-based learning principles in adult education, was adopted all throughout the delivery of both courses. This approach ensures that learners are given equal opportunities in learning-by-doing through the integrated structured learning exercises in lecture-discussion.

Each course followed a general framework that guides the participants in the course, which include preliminaries to set the atmosphere of the training, training proper and closing ceremonies to synthesize the learning and topics tackled in the course (Figure 4.5).

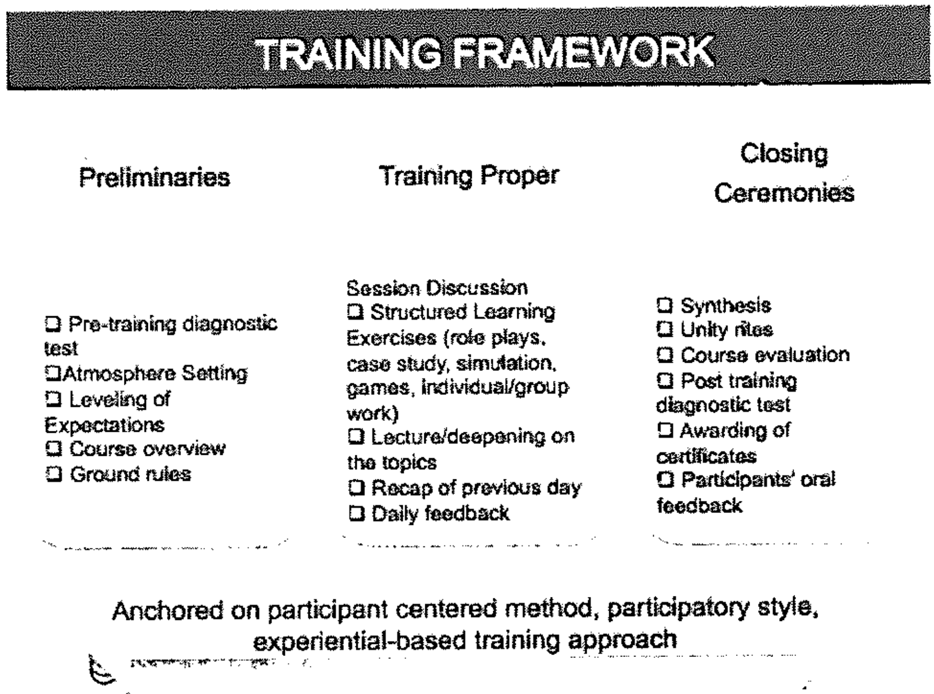


Figure 4.5: Training Framework

In order for the trainers to conduct training in sustainable manner, the training guides and presentation slides to supplement their training plans are delivered in both modules. The modules are finalized reflecting the actual practices done in FMFB based on the information collected in the second mission, the comments from Training Department participants at ToT workshop and by the review of FMFB's credit policy which we could have obtained only part of entire policy.

Box 2. Training of Trainers on Experiential-Learning Approach

A training of trainers (ToT) is a tactical approach to build training capacity within the organization by developing the staff's ability to serve as a trainer who delivers the trainings to their staffs or others effectively.

Experiential-learning approach is a high participatory and interactive educational approach that is completely different from the traditional seminar style lectures. The training is a combination of lecture, discussion, theoretical and practical learning exercises, with latter consisting of structure indoor/outdoor simulation exercises, games and problem solving activities. At the end of the each session, synthesis is done to summarize key learning throughout the training duration.

This approach is based on the adult learning principle that recognizes participants as an adult who is full of experience and knowledge. Unlike the child's education, the participants are treated as professionals who are full of knowledge and experience. The role for the trainer is to facilitate them to enhance the participant's knowledge and experience they already have.

Adult learning approach is adopted in various trainings in microfinance sector. For example, Freedom from Hunger, which is an international NGO to aims to bring solution in fighting hunger and poverty. The organization provides training courses on MF in ToT approach employing adult learning principle.

c) Training Course Evaluation Results

Results of the course evaluation by the participants conducted for both courses shows an average improvement in the level of knowledge from low to high, before and after the training, respectively (refer to Figure 4.6)

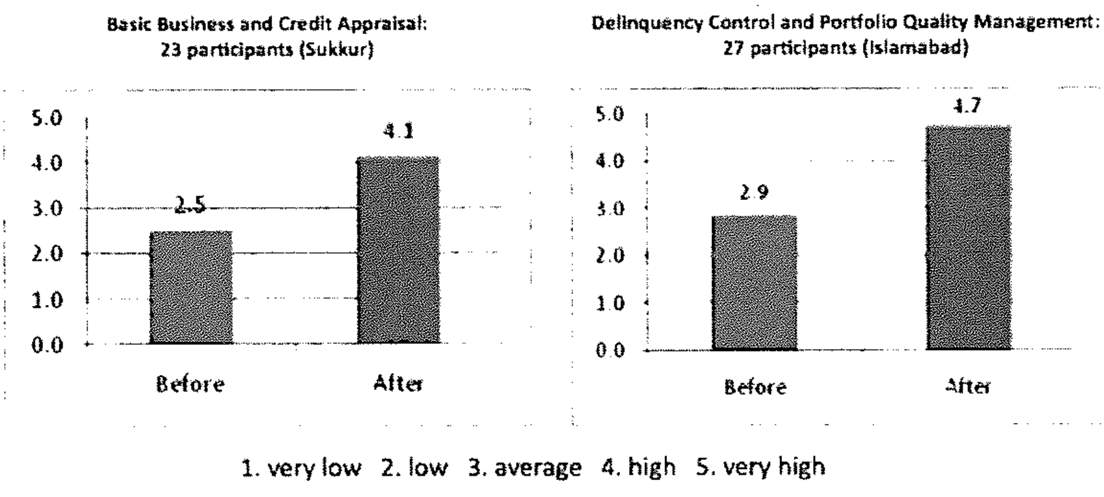


Figure 4.6: Self-evaluation of Knowledge and Skill Level on Training Using Experiential Based Learning Approach (Average Rating)

In terms of the over-all conduct of the both courses, majority of the participants rated very well, with 65% and 96% for Sukkur and Islamabad training, respectively (Figure 4.7).

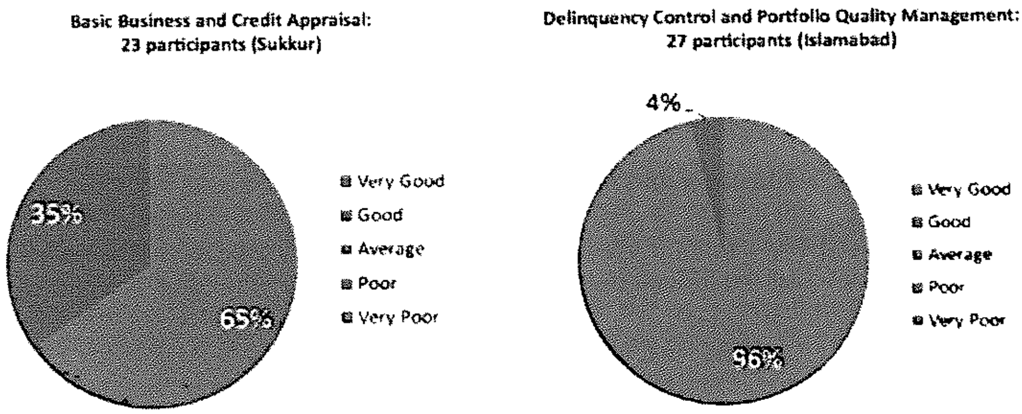


Figure 4.7: Participant's Overall Rating of the Course

As regard to the level of satisfaction, both courses were gained high to very high level of satisfaction by the majority of the participants (Figure 4.8)

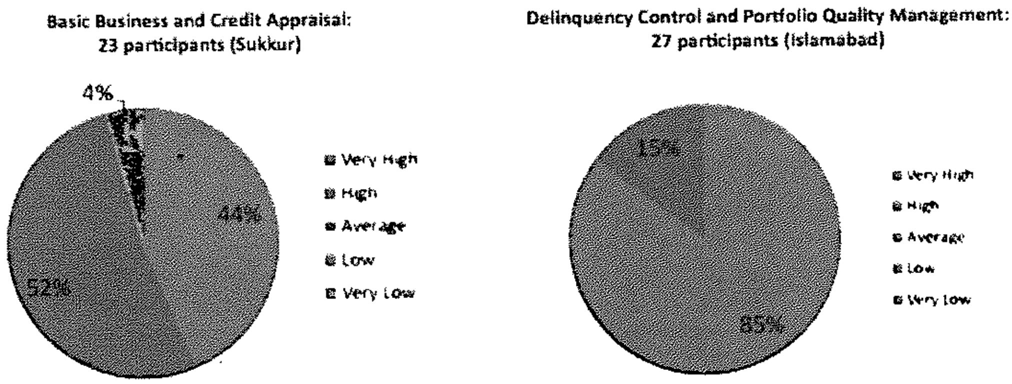


Figure 4.8: Participant's Overall Level of Satisfaction

The evaluation also shows that most participants indicated that more training should be conducted to include other staff in the branches.

At the end of the training, participants received certificates of participation to signify their successful completion of the course.

4.4.4 Recommendations on the Way Forward: Training Strategy and Modules Development

With the favorable evaluation of the ToT and in order to sustain the gains of the training, it is recommended to formulate a concrete training plan for FMFB so that the trainers can start

providing trainings immediately. Continuous application and practice on what they learned during the session is essential to sustain and enhance what they have learned during the workshop, considering the fact that training is not their primary job but on top of their main tasks.
Aligning to the training plan, the development of trainer's certification and pooling system that considers the strategic scheme to maintain the quality trainers is suggested. It should be noted that trainers' abilities in delivering training varies and erode overtime. Also the qualified trainer might leave from the organization. The Training Department must ensure that qualified trainers are identified and kept in the organization.

Box 3. Trainer's Certification and Pooling System

The provision of ToT workshop to the nominated trainers is an investment for the MFIs. It is important to ensure that the trained trainers continuously provide good quality training courses to its staffs.

The best practices in the leading MFIs in Philippines and Kosovo and other countries in Asia and Africa suggests trainer's certification and pooling systems in order to retain and mobilize the trainers. The objective of developing the certification and pooling system is to standardize trainer qualifications and to ensure the training quality.

The scrutinized model of those international practices is presented as below:

- Create a Certification Committee to provide confirmation & certification for those who will form part of training pool.
- As a requirement to become certified trainers, those who completed the recently concluded ToT must deliver one training to staff in the branch/department, under the oversight of the Training Department. The Committee should evaluate the trainer based on established set of criteria. If they pass, they become part of the pool of trainers.
- Establish the training pool, led by the Training Department.
- Members of the training pool should at least focus on one specialized topic (technical & support skills), i.e. finance management, MF operation, client care & relation, etc.
- Trainers will be tapped on various training according to the MFI's training program, calendar and according to their specialization.
- Trainers should be asked to sign a tenure agreement that they will continue to serve the institution from the time they become certified, i.e. 6 months or 1 year (to be defined & agreed by the management).
- Since becoming a trainer is in addition to the staff's primary responsibility (based on their position), certain incentives to serve as a trainer must be provided (financial or non-financial), i.e. honorarium or as agreed by the management.

Further challenge lies in expanding the library of training modules for each training course. There were 13 other training modules recommended besides "Basic Business and Credit Appraisal" and "Delinquency Control and Portfolio Quality Management" which were delivered through this project. The development of the training modules is a time-consuming process that requires the sizable volume of research, writing and editing. It is effective that support organizations can offer training module which Training Department of the MFIs can easily customized and adopted in the training.

Considering the fact that the key elements of the training contents can be generalized and make it applicable to almost any types of MFIs, it is possible that training modules are developed and provided by the support service providers for MFIs. Such approach will not only reduce the cost for each MFI to develop the modules to scratch but also benefits to the entire MF sector in Pakistan.

Figure 4.5 describes the proposed concept on the schemes in developing training capacity for overall MF sector. In the proposed concept, the support providers will take a role on providing generalized training modules and quality control that include provision of the training modules and of the standardized certification for trainers with the support of the donors. Training Department of the each MFIs will be responsible in adjusting the generalized modules to fit into the policies and practices held in the organization. Trainers are responsible for providing feedback to Training Department based on the comments of participants to ensure that the adjustment has done reflecting actual practices done in the field. The trainers shall be the staff of the MFI because they are more knowledgeable in the actual practices of the MFIs and thus they can provide practical cases to the participants. The financial support may also be required in creating the trainers inside the MFIs.

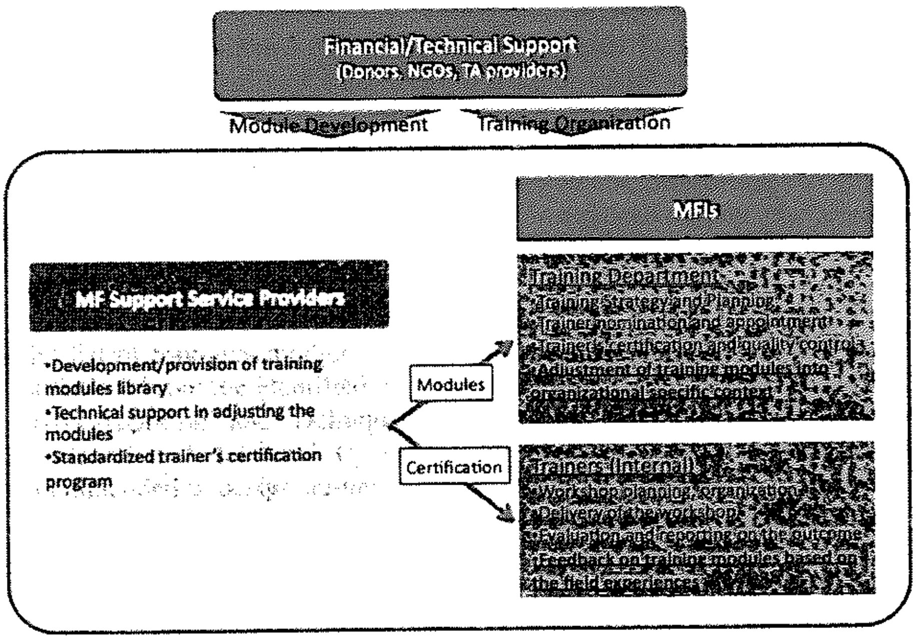


Figure 4.9: Concept Chart of Sector-wide Training Development

Number of international cases can be found, in which technical service providers deliver trainings to the MFIs in order to build the capacity of staff in the sector. Likewise, national or regional microfinance associations often provide trainings as their services. In some associations, trainings are positioned as their core service, directly offering more than 50 training courses.

Pakistan Microfinance Network (PMN), the national microfinance association for Pakistani MFIs, has been the provider for the specialized trainings for MFIs in the nation until 2005[12]. However, the network has shifted its focus in providing "indirect" training opportunities, which it provides the opportunities for the managers of MFIs to expose to the capacity building workshops or initiatives by the international organizations. Thus, PMN has lowered its effort in providing specialized trainings by its own platform.

Although the project team has not confirmed with the willingness of PMN to participate in developing such schemes, which is outside of the scope of this project, it is a potential for JICA to provide support on developing generalized training offerings to such support providers.

[12] The SEEP Network, "Training Strategies: A Technical Note for Microfinance Associations", 2010

5 Conclusion

The study concludes that:

- Value chain finance approach plays key supporting role among other non-financial interventions to upgrade the value chain which eventually enhances the value-added of the income generating activities of the poor

- The potential for reinforcement of apricot value chain in GB area could be achieved through provision of dry processing unit to newly created producer's association, which conducts processing for the apricots. Also the creation of franchise of high-quality dried apricot marketer at the village level shall be considered. FMFB may serve as the financier for the purchase of drying facility, as well as for the creation of the franchisee.

- *Rilli* value chain in Sindh may be upgraded through creating women sales agent who serves as a "bridge" between end-consumer and the producers. Potential financial intervention may be a packaged finance with working capital and trainings in the design and high-quality stitchwork skills. Also, business development services shall be provided to the sales agents. Value chain financing which is specific to *rilli* sector may not be commercially viable. Further research on other handicraft sector to identify potential interventions that are common to other handicrafts will be recommended

- The development of the capacity of field officers, who frontlines the MFI's business is important but often neglected. External support by donors, technical assistance providers and microfinance networks to build up their capacity is recommended.

- Identification of knowledge, skills and attitude (KSA) to assume higher responsibility is recommended in preparation for the field officers to move up. A Job description that reflects identified KSA is updated as for the outcome of the preliminary excise. Further in-depth assessment is required to create concrete carrier progression plan

- The list of trainings modules required to enhance the KSA of field staff further is identified. From the identified modules, the training modules on "Basic Business and Credit Appraisal" and "Delinquency Control and Portfolio Quality Management" are developed and delivered to 50 trainers nominated from the FMFB staff. It is recommended to design trainer certification and mobilization system inside FMFB in order to sustain the training capacity that participated trainers have equipped and deliver the training to other staff.

- In order to provide sector wide impact in providing skill development opportunities for field officers in MF sector, the provision of support to develop the training module library within the MF support service provider is recommended. Training Department of Pakistani MFIs can co-work with the support service providers in adjusting the modules into their organizational specific context.

Preparing FMFB's MF Staff to Move Up

I. Rationale

FMFB has demonstrated through the years to be an example of a progressive MF institution---one that has evolved from a program to a full-fledged microfinance bank providing access to microfinance services to the marginalized sectors and economically challenged families and households in the rural and mountainous areas of Pakistan.

With FMFB's continued plan for expansion and sustainability, the need to professionalize its workforce is evident, especially considering the diverse services that it provides to the highly micro-enterprise and micro-farming sector. With the challenge of providing continued access to financial series growing by the day, there is a need for the staff to retain their self-motivation.

Just like any other institution, FMFB, with a workforce of about 1,175 (as of December 2009), is confronted with the various human resources concerns such as:

- ✓ **Staff's expectation on their career development.** It must be noted that the factors that attract people to take a job with an organization such as FMFB include not only competitive pay but also clear growth opportunities. What retain staff are intangible factors such as learning, development opportunities and rewards for outstanding performance – essentially, *the sense that they have a future with the organization.*

- ✓ **Staff's level of motivation and commitment to the FMFB's VMGs**. *The primary factors that keep employees engaged at work* – what motivates them to consistently put forth extra effort – turn on leadership's ability to connect with the staff and staff's sense that their contributions are valued and they are making tangible progress. It is important that they feel a solid anchor to a greater cause where they are continually inspired and challenged. This commitment to the organizations VMG plays a crucial role in this.

It is in this context that FMFB, with the financial support of JICA, tapped the services of PlaNet Finance to help the management in developing a simple career path of the field level staff, who are the front liners in microfinance services provision.

II. Field Level HR Scenario

Unlike other traditional/commercial banks, FMFB is a specialized microfinance institution that does not only focus in financial intermediation but at the same time providing other non-financial services to its clients, many of whom are women. Being part of the huge humanitarian network of the Aga Kahn, FMFB's mission is built around on meeting its poor client's needs and not just as a mere "credit-savings" provider. It is imperative that all staff development efforts of FMFB should strategically be gearing towards total client experience, which means that staff across all levels of the organization are equipped with the necessary knowledge, skills and attitudes in understanding the uniqueness of the poor sector it serves in order to deliver responsive microfinance and banking services, especially in the branches, which serve as the frontline of FMFB's business.

The field level branches are composed of staff providing either microfinance or banking services or both. Unlike other types of microfinance institution like non-government organizations (NGOs) or cooperatives/credit unions, microfinance banks like FMFB provide both MF services and banking services such as payment transfers, remittances, etc, which an NGO or cooperative may not necessarily do unless given the licensed to do so. Moreover, microfinance banks are under a regulatory and supervisory body (the State Bank of Pakistan), which imposes strict regulations on reserves, PAR, liquidity, etc., which the other types of MFIs may not necessarily subjected to. These situations confronting an MFI bank entail that staff, especially at the field level/branches, need to be knowledgeable and skilled in performing both MF and banking services.

However, FMFB, like any other transformed microfinance banks that has evolved from a microfinance program, the knowledge orientation of majority of its staff at the field level is highly geared towards MF approaches and methodology in financial service intermediation. Common practices of MF organization-transformed-MF bank, show that branch managers and senior-level staff responsible of the branch operation rise from the ranks of the microfinance officers. While these managers are knowledgeable in the whole MF spectrum, they lack the necessary knowledge and skills in running a full-fledged banking operation. This similar situation exists among traditional banks that decide to downscale and engage in MF operation, however, this time, those staff who are highly trained in typical banking operation have to engage in MF approaches and methodologies. In both scenarios, there needs to be a balance of the knowledge and skills of staff in the branches in both banking and MF approaches. Recognizing the importance of and ensuring that field level staffs are equipped with this dual knowledge and skills in both MF and core banking operations are crucial in determining the staff's career progression[13] and path[14].

III. Identified needs

During the conduct of FGDs in selected branches last October 2010, several gaps in KSA were expressed from both MF and banking sides of the operation staff. These include:

- Those involved in MF operation side lacks the understanding of core banking basic knowledge and understanding, and
- Those in the banking side, lacks basic understanding of the MF operation. KSAs are important determining factors in establishing concrete career path of each position.

[13] *Career progression - making progress in one's career through promotions*

[14] *Career path – sequential path of jobs that forms a career; it involves making a series of job-person matches, based on the demands of the job system in the organization, that enable the person to grow into greater levels of responsibility, thus providing the organization with the talent that it requires to meet goals. This should involve the careful assignment of an individual to positions that provide her or him with opportunities for deploying the competencies needed for a more challenging position.*

- While most staff has a sense of aspiration to move up the organizational hierarchy but they lack the necessary technical and managerial competence.

When asked on their understanding and awareness on which direction their career inside FMFB would possibly point, the majority claimed that either branch or area managerial positions will most likely be the direction for them, based on the branch level organizational hierarchy. However, they recognized that in order to reach that level, they need enhancement of both their technical and managerial competence as they must be fully equipped with appropriate MF and banking knowledge and skills to move up into those positions.

The findings of the mission further show what FMFB needs at the moment, to wit:

✓ A concrete plan in preparing the staff to progress and be situated to a new position either through a vertical (promotion) or lateral transfer.

✓ A clear time line for staff promotion and movement. It is unclear to most staff when they will assume higher responsibilities or a new position, especially those who have been in the institution for more than 5 years but still occupying the same position and level of responsibilities. Majority of the staff felt that while they are committed to FMFB, their self-motivation is diminishing, resulting to scouting for better career opportunities outside of FMFB.

IV. Preparing Staff for Moving to Higher Position

Preparing staff ready to assume higher position is part of career mapping exercise. However, this involves two areas that need to be analyzed:

➔ **Job mapping:** this involves aligning jobs with functions and disciplines, and then ties the jobs to specific hierarchy and levels in the organization structure.

➔ **Employee mapping**: this involves determining how individual employees align with the mapping of their jobs.

While these two areas need to be scrutinized, it entails a thorough review of the overall HR policies and actual practices, from recruitment, remuneration and benefits to staff development, which is beyond the scope of the mission. Initial review of the current Human Resources Policy and Procedures Manual shows that while there is a policy statement on career planning, to quote: *"to ensure that employees with the required qualifications, skills and experience are available when required by the Bank"* and that *"the Bank has a career plan for all its permanent employees and this plan covers a period of at least five years"*, it appeared that this plan is not yet implemented.

Given the scope of the current project, the initial intervention that the mission deemed necessary is the identification of clear areas of performance and, correspondingly, **knowledge, skills, and attitude needed** to prepare staff to assume higher responsibilities, especially for the key positions in the branches, which are fundamental in bringing in clients to FMFB, namely:

- ✓ Microfinance officers (from trainee to team leader)
- ✓ Branch managers
- ✓ Area Managers

Since FMFB has developed a cadre of MF seasoned staff, it is imperative that each staff in the branch is given the opportunity to progress from one position to another, taking into consideration that staff member's exemplary work performance. The necessary KSA must be imbibed in each staff in order to effectively contribute to the productivity of FMFB.

Figure 1, below, shows the framework that serves as basis for the identification of the areas of capacity enhancements of the field staff, especially the MF staff who are in the frontline of FMFB. This framework shows that each staff in the branch needs to be well-rounded and be equipped with the appropriate knowledge ranging from his/her job roles, duties and responsibilities, performance targets to the internal/external policies and regulations governing FMFB, its history and mandates.
These two forms part of the declarative knowledge that each staff should possess.

Likewise, the level of skills in both technical and support aspects is determined by one's level of education and experience. To strike a balance between knowledge and skills are the attitude, which is defined by one's values and degree of motivation, in dealing with FMFB's clients and towards his/her job.

However, this needs to be nurtured through time that needs pro-active moves on the part of the management in providing conducive environment to promote staff's motivation. The aggregate total of this determines once performance and job outcomes measured through outreach, portfolio volume and quality.

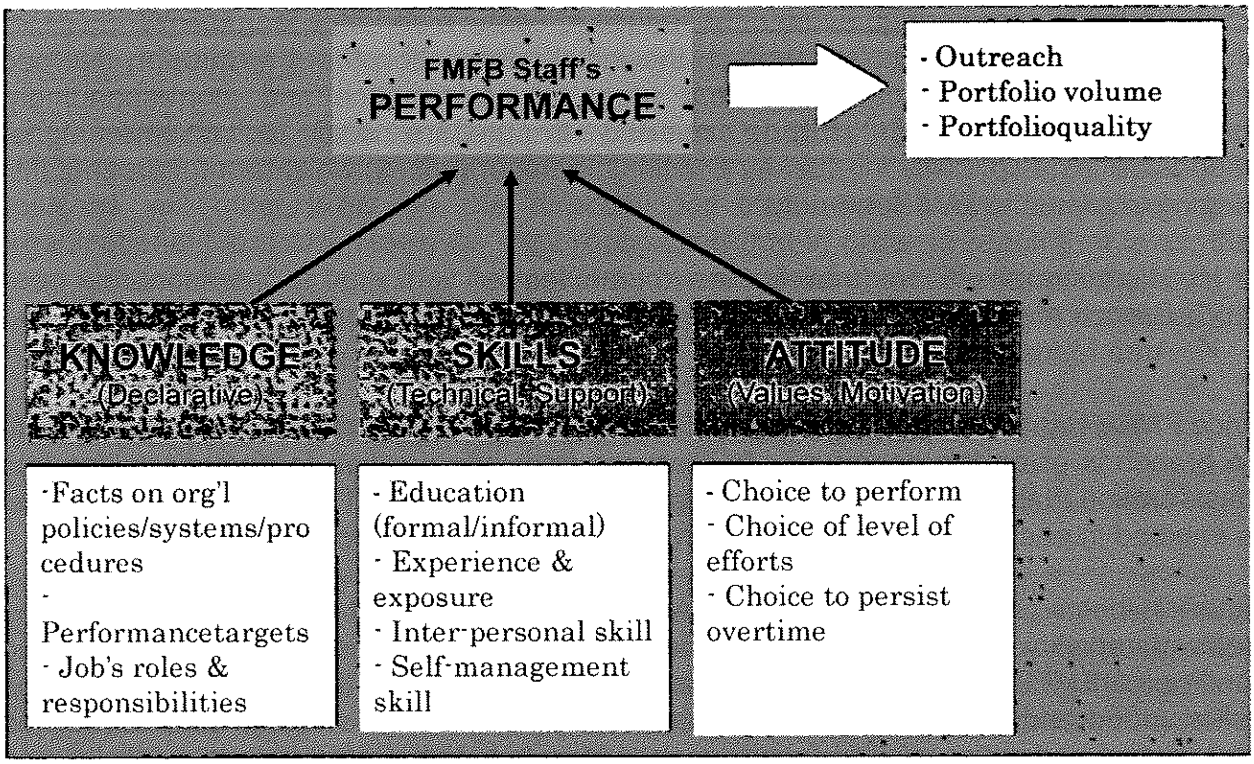


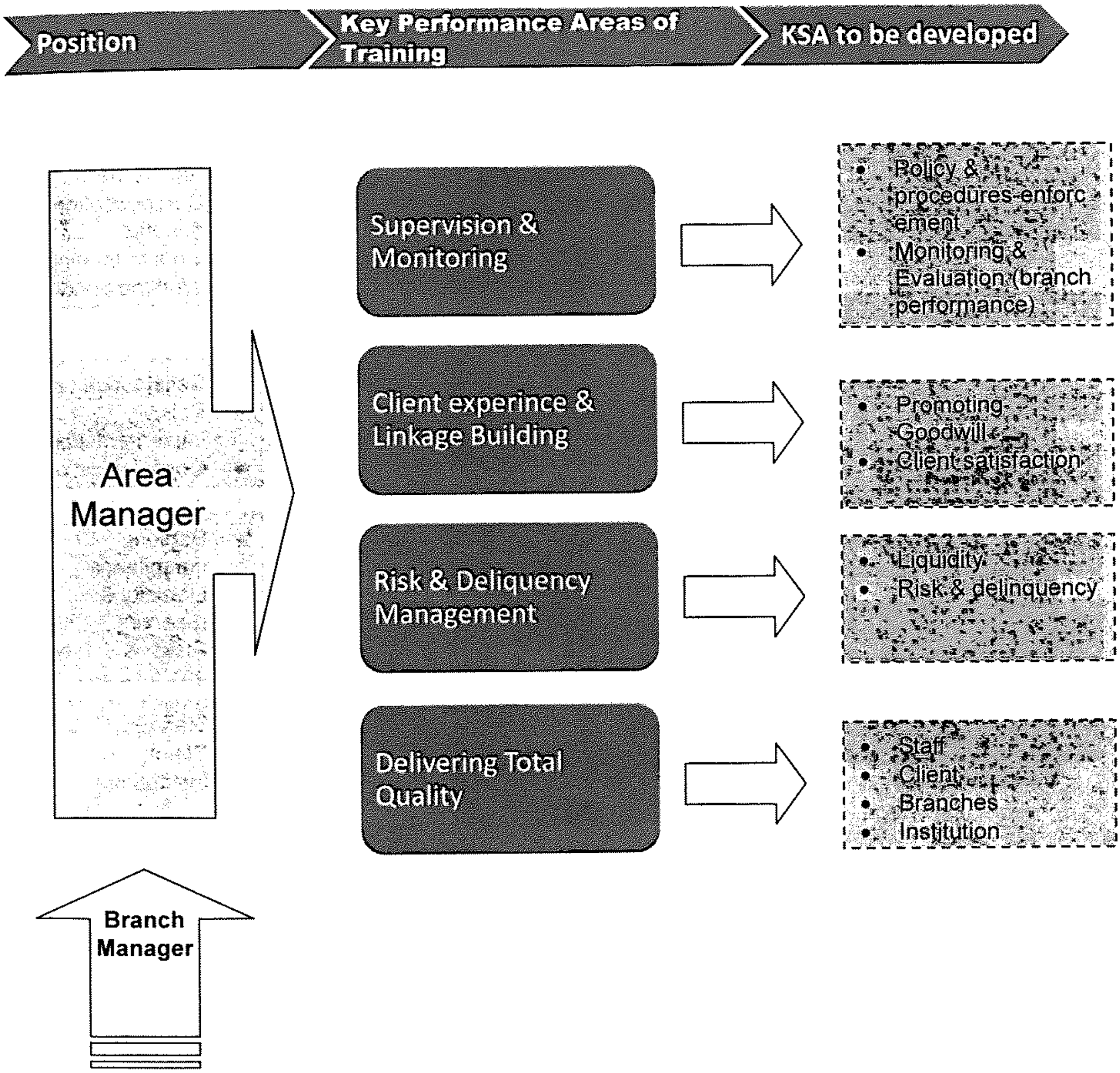
Figure 1. Staff' Performance - KSA Framework

Using the framework above, the KSA's contributing to staff's performance and outcomes were identified based on the consolidated responses of the staff interviewed during the FGDs conducted in both Gilgit and Sukkur, representing a sample of FMFB Northern and Southern regions. The following section shows a snapshot of the various levels of performance that each staff needs for training and corresponding KSA's that need to be developed in order to prepare one to assume higher degree of responsibilities.

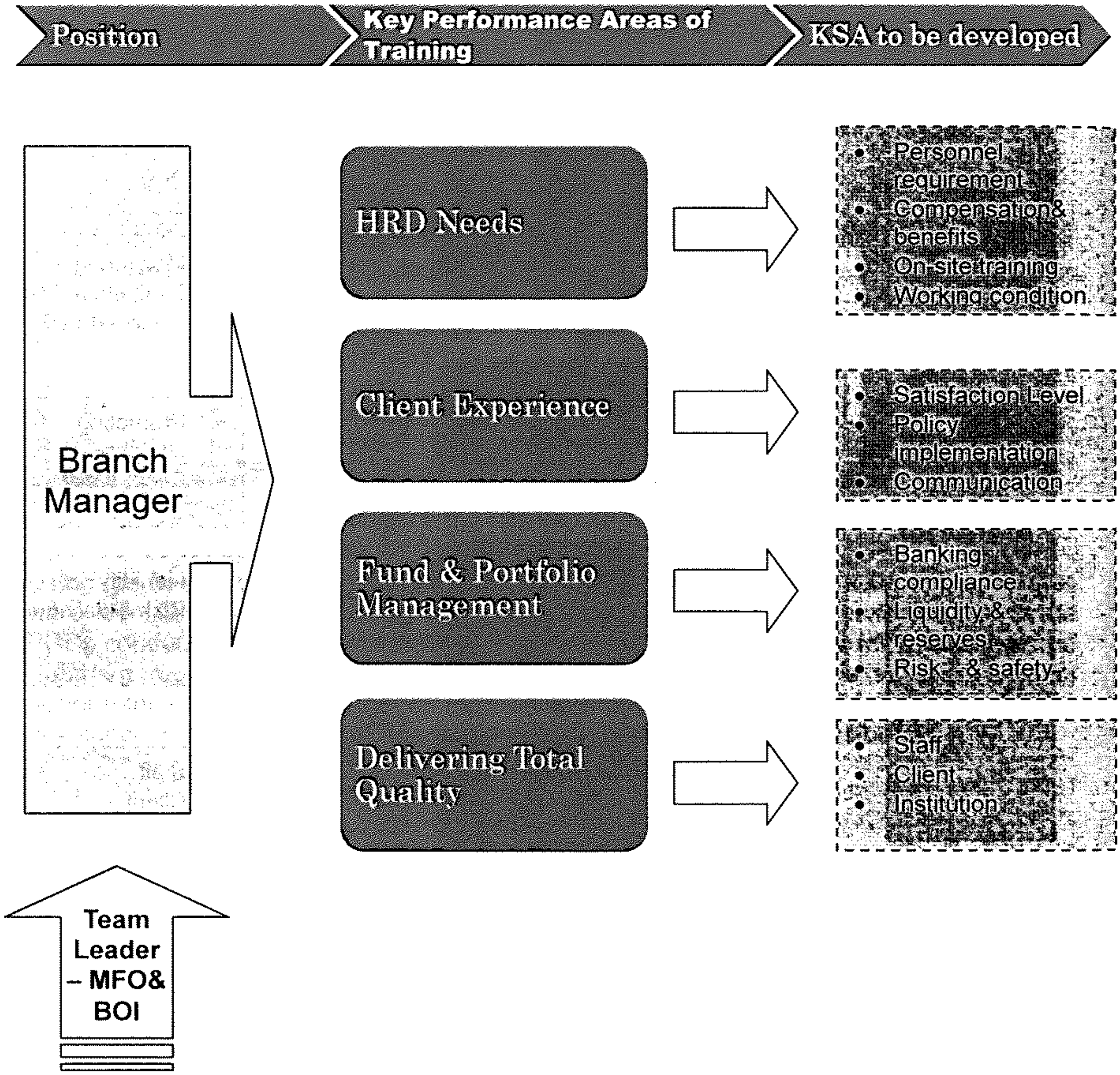
APPENDIX 1: Preliminary Carrier Progression Plan

1. Snapshot of Capacity Requirement in Preparing Staff to Move Up.

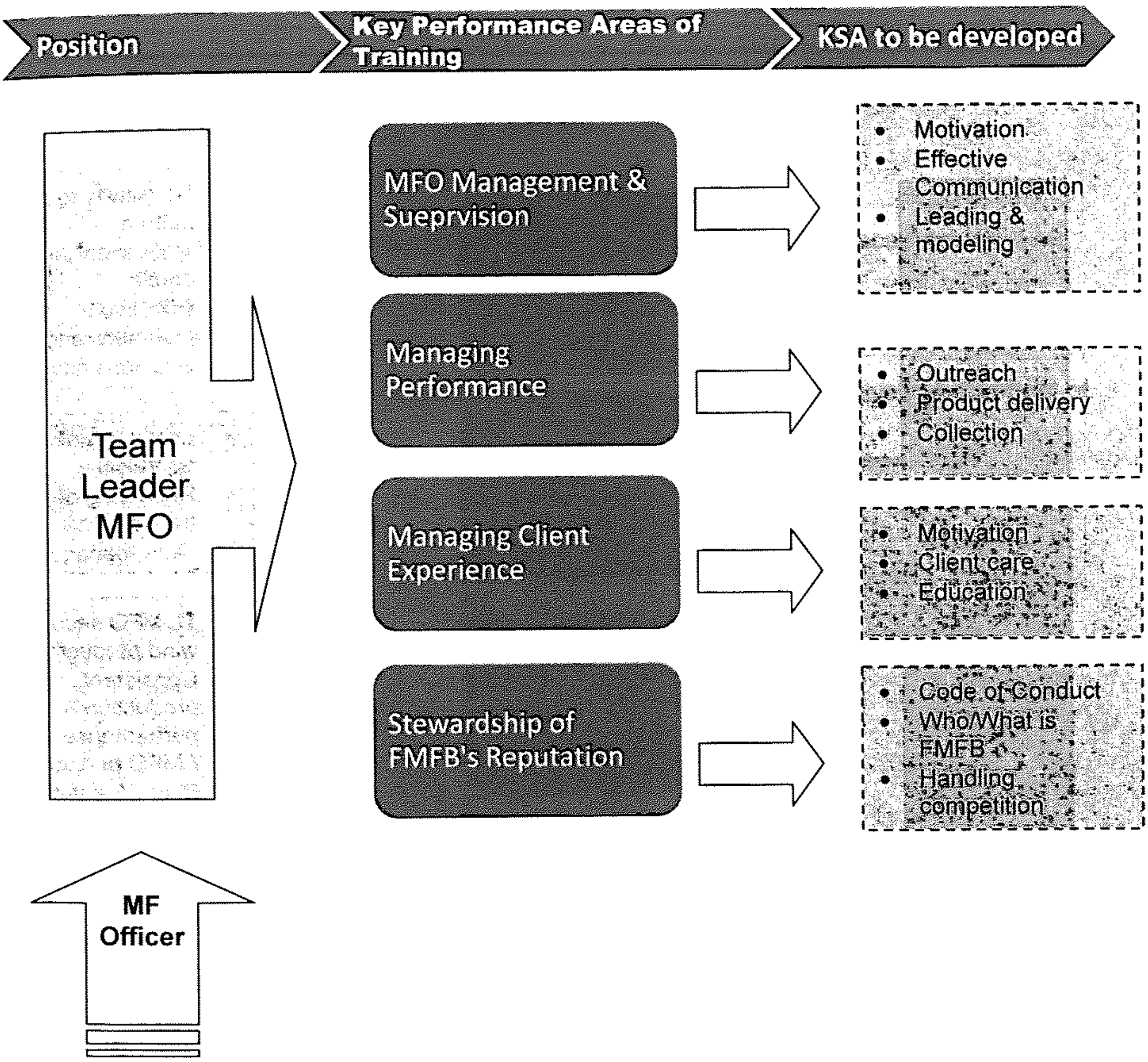
1)From Branch Manager to Area Manager



2) From Team Leader-MFO to Branch Manager

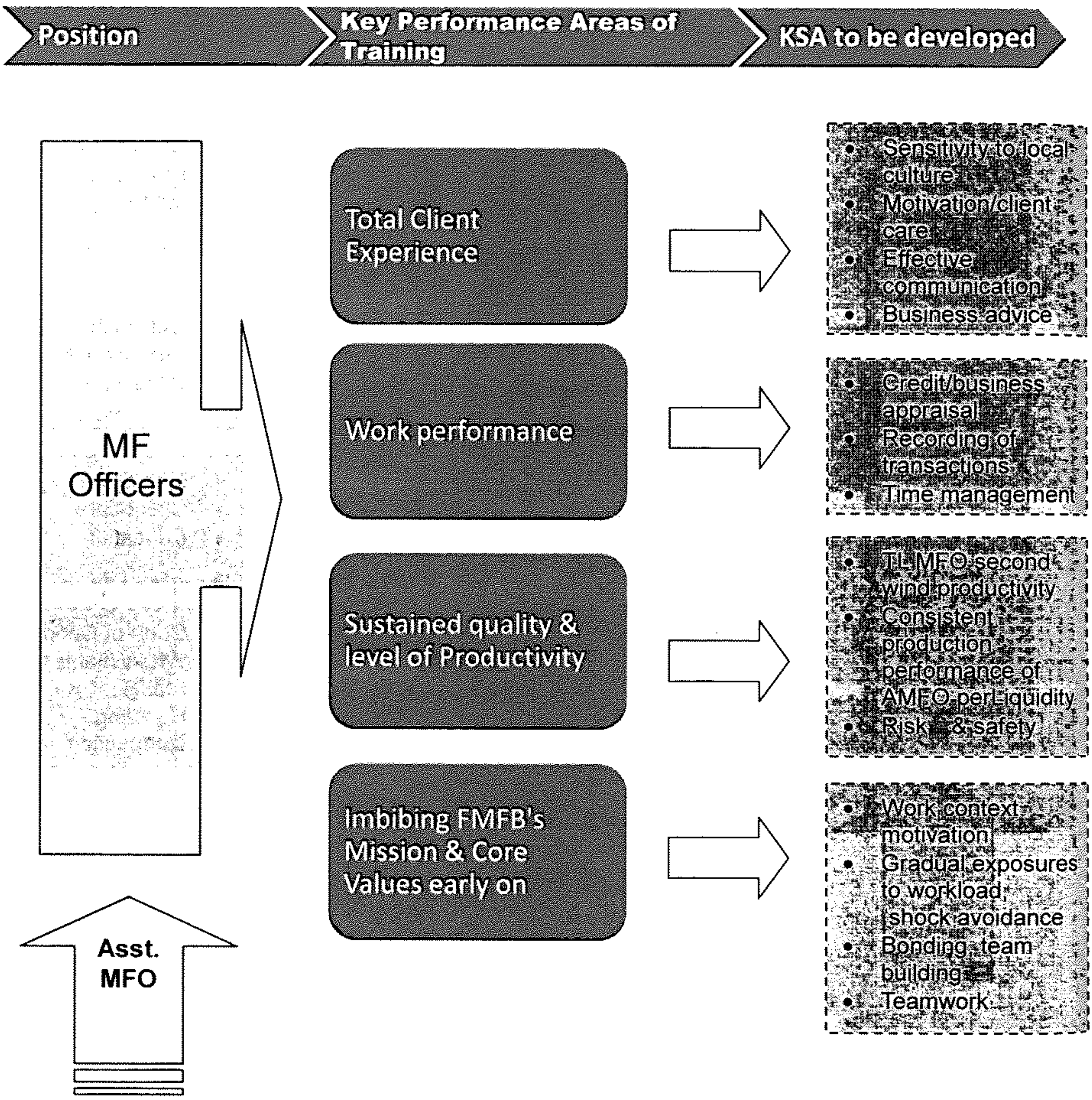


3) From MF Officer to TL – MFOfficer



APPENDIX 1: Preliminary Carrier Progression Plan

4) Asst. MFO to MFOfficer



Further Action: the way forward....

The proper preparation of staff to progress in their career is only portion of the total career path. As earlier mentioned in this document, the lack of a clear career path of the entire FMFB workforce needs to be addressed immediately as this has already resulted in de-motivation and low morale of staff in the field.

Among others, the following need to be carried out:

- A comprehensive review and analysis of the HR policies and procedures vis-à-vis actual practices,
- An assessment of each individual staff's level of performance and level of KSAs
- Rationalization and review of positions, compensation and benefits.

These must be completed in relation to the strategic direction, objectives and targets of FMFB in the next 3 years.

OVERVIEW OF PROPOSED TRAINING COURSES FOR FMFB[15]

Training Course Delivery and Approach

PlaNet Finance's approach in training is anchored on the internationally accepted experiential and adult-learning principles and methods, where participants take part in practical and simulation activities and are given the chance to share their respective work experiences and knowledge.

A wide spectrum of structured learning exercises (SLEs) such as case studies, group and individual exercises that stimulate analytical and strategic thinking, games, simulation exercises, etc., will be employed throughout the entire course duration to help participants integrate and understand the implications of concepts and principles learned from lecture presentations and discussions into practical applications in a given situation in the MFI workplace. The training courses are designed to be very participatory and interactive.

A pre-and post-training evaluation is conducted at the beginning and end of the course, respectively, to gauge any changes in the knowledge, skills and behaviors of the participants and the over-all conduct of the training.

The following matrix presents the overview of each proposed training course for FMFB management and staff based on the training needs assessment conducted by PlaNet Finance in October 2010.

[15] *The training courses listed herein are the result of the TNA conducted on FMFB during the recently concluded mission in October 2010 under the JICA Project.*

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
1. Strategic & Business Planning Course				
The course is designed to enable managers acquire skills to plan effectively and through systematic and practical content coverage, they will develop the requisite skills for effective strategic planning in a business setting for their MFIs and familiarize with the systematic method of planning for the future built on the base of an organization's mission, vision, and values	Understand the importance of strategic thinking and planning in the context of MF business Gain knowledge on how managers should think and deal with strategic issues Craft corporate vision, mission goals and strategies Formulate a combined strategic and business plan	Regional/Area Managers	5	• Historical analysis of the organization • Assessing the current and future environment within which the MFI competes or operates • Developing or reviewing the MFIs mission, vision, and values • Identifying strengths and weaknesses • Drafting with the MFI management team a strategic planning initiative • Designing a process that fits with the MFIs time frame, resources and other characteristics • Implementation planning and phasing • Providing recommendations about the best staff structure to meet the organization's goals and resources • Facilitating meetings and activities that lead to the desired outcomes • Coaching management in the development and implementation of a strategic plan • Financial Viability Projection • Preparing and documenting the strategic plan

APPENDIX 3: Overview of Proposed Training Courses

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
2. Strategic Marketing in MFIs				
Strategic Marketing focuses on how MFIs must face the new challenges that appearas the industry of microfinance reaches maturity This course provides a perspective and emphasis that extends beyond the traditional focus on managing the marketing mix.	Provides comprehensive introduction to the strategic marketing framework and key primary strategies and information packages in making for strategic decisions. It also provides an introduction to the process of a market assessment and in developing a marketing plan both at the organizational or individual product levels	Regional/Area Managers	5	• Introduction to Strategic Marketing Framework & Strategies • Corporate Brand and Identity, • Product Strategy, • Product Delivery and Customer Service Strategy; • Competitor analysis • Strategic Maketing Process • Management Process adopted in Strategic Marketing
3. Risk Management in MFIs				
While excellent resources exist on risk management strategies for specific topics (such as credit, liquidity, or internal control), this course provides an overall framework to help MFIs organize and coordinate these specific tools into a process that anticipates and minimizes risks in a systematic fashion.	Help senior managers and directors of MFIs design a comprehensive and systematic approach to identify, anticipate, and respond to the major risks that threaten their institutions.	Regional/Area Managers Branch Managers	5	• Overview of comprehensive risk management in MFIs as an approach and its key elements. • Microfinance Risks and Challenges • Developing Effective Risk Management Policies • Implementing Risk Management • Obstacles to Risk Management

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
4. MFIs' Financial Performance Measurement &Analysis				
The course is envisioned to provide a clear and concise overview of appropriate financial ratios universally used by microfinance institutions to measure financial performance and standards, to include vital areas liquidity and asset management, profitability, leverage, market value/investment ratios, and comparative analysis. It will employ practical tools for measuring delinquency, ways to assess and maintain quality portfolio, measure efficiency and profitability. In general, the course aims to provide participants understanding on ratios that can be useful in measuring, monitoring and evaluating financial performance in conjunction with a set of financial statements.	Identify components, purpose, relationships and importance of primary financial statements, Analyze financial statements to monitor profitability, efficiency and portfolio quality, Apply financial analysis tools in own institution to improve decision making and program performance, Identify critical factors for moving towards financial sustainability	Regional/Area Managers Branch Managers	5	• Common financial definitions and terms • MFIs financial statements (Balance Sheet , Income statement , Portfolio report) • Financial statements' adjustments • Portfolio report , aging report / analysis • Portfolio quality indicators and trends • Essential Non-financial reports • Delinquency management and control • Profitability and sustainability indicators • Assets & liabilities management indicators • Efficiency indicators • Relationship between ratios • Understanding sensitivity • Other analysis frameworks • Minimum reporting requirements

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
5. Microfinance Branch Operations Management Course				
The course tackles the intricacies of the day-to-day operations in a microfinance institution require that each member of the management team is equipped with the appropriate knowledge and skills on the holistic and systematic functioning of the key areas in management.	To impart relevant microfinance management skills for effective institutional growth and development among managers Gain deeper understanding and knowledge of effective management in microfinance institutions and the best practices in key functional areas of management	Branch Managers	5	• Functional Areas of Management • Best Practice in MFI Personnel Management • Introduction to Strategic, Operations and Business Planning and Budgeting Process • Performance Reporting and Key Financial Ratios • Managing MIS and Loan Tracking System • Developing Financial Product Policies
6. Delinquency Control & Portfolio Quality Management				
This course guides MFIs to develop and improve the quality of their own credit risk management processes and focuses on problem prevention and early problem identification and control to maintain quality portfolio. It will also tackle techniques in establishing operational activities that assist in identifying vulnerabilities, designing and implementing controls and monitoring the effectiveness of controls.	To enhance knowledge and skills of MF staff on the key principles and processes in controlling loan delinquency and maintaining portfolio quality in all branches. It enables MFI staff to develop and improve the quality of their own portfolio and focuses on problem prevention and early problem identification and control to maintain quality portfolio.	Branch Managers MF Team Leaders	5	• Nature, causes, costs and measures of delinquency, • Incentives to control delinquency, • Managing a Delinquency Crisis • Loan recovery process and collection skills • Portfolio quality indicators and management • Planning loan portfolio • Defining and measuring portfolio quality (ratios and indicators) • Loan Portfolio Tracking system

APPENDIX 3: Overview of Proposed Training Courses

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
7. MF Performance Management Process				
To introduce Branch Managers and first time managers to key staffmanagement skills and a Performance Management Process.	Appreciate the importance of a Staff Performance Management Process (PMP) Understand the critical steps of a Staff PMP Know how to set performance objectives Understand effective staff management skills Understand basic training and staff development plans	Branch Managers MF Team Leaders	3	• Introduction to Staff Management, • Management, and Leadership Concepts • Staff Performance Management, Development and Training • Developing Staff Management Skills
8. Basic Credit and Business Appraisal Course				
The course covers the basic knowledge and skills required to make decisions in appraising loan/credit applications in a microfinance or financial institutions context. It is designed to help MF staff learn how to identify strengths and weaknesses of the business, examine and identify assets and liabilities of the business and determine the worth of the business	Appraise credit proposals Perform Risk Analysis on credit proposals Conduct comprehensive collateral analysis Identify entrepreneur skills and potential Guide potential entrepreneurs on how to prepare a business plan Evaluate a entrepreneur's simple business plan and proposal	MF/Loans Officers	3	• Concepts and Principles in Lending • Business Environment • Business Plan of the Clients • Marketing Concepts • Financial Statement Analysis • Credit Appraisal Process • Collateral Analysis • Loan Disbursement • Business forms • Sources of capital • Financial statements • Marketing concepts • Business Plan • Business appraisal

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
9. Advance Business and Credit Appraisal				
This Course is a higher level of the Basic Business and Credit Appraisal Course that discusses the various environmental factors that influence the business and how to analyze and assess them for sound business and credit decisions	Appraise business proposals Evaluate business/project performance of clients and give advice on the best way forward Build entrepreneurial capacity in micro-business/enterprise management	MFO Team Leaders	5	• Evaluation of the local business environment • Analysis and evaluation of the client's business plan • Analysis and evaluation of the simple financial statements • Ratio analysis- profit and loss statements • Credit Appraisal Process • Credit Risk Analysis • Credit Risk management • Sources of finance and Capital Structure • Business Process Re-engineering
10. Basic Marketing in MFIs				
Comprehensive insight into the basic principles and practices, underlying the marketing philosophy and an in-depth understanding of the functional areas of marketing in MFIs, which are relevant for the level of operation envisaged.	Understand the tasks of marketing, explain the basic concepts (P's) and tools of marketing, consumer research and MFI clients behavior, understand how to respond to market challenges	MF Officers	5	• Overview of the local microfinance and business environment, • marketing concept, • market research, • understanding client's behavior in MFI, • market segmentation, targeting and positioning, • promotion strategies, • marketing plan preparation, • implementation of marketing plan

APPENDIX 3: Overview of Proposed Training Courses

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
11. Client Care & Relations Course in MFIs				
The course discusses best skills, strategies and techniques to ensure that every MFI client experiences unique and professional customer care.	Understand the importance of customer care Understand their role as a mirror reflection of the organization Acquire knowledge and skills that will enable them handle staff and external contacts effectively	MF Officers Branch Operations Staff	3	• Understanding the nature and characteristics of MFI clients • Importance of Client Care & Relations • Measurement of Client Care & Satisfaction Levels • Management of Complaints & Redress Procedures • Coping with Client Challenges in the Workplace • Professional Ethics/Practical Guides in Client Care and relation
12. Effective Communication Skills (Oral Presentation and Technical Writing)				
Tackles the range of communication techniques and strategies to become better, more effective and confident communicator.	Demonstrate skills to communicate effectively Understand the process and importance of communication Understand the process of managing meetings and writing of minutes Understand the process of report writing	Branch Managers	3	• Introduction to effective communication • Barriers to effective communication • Effective verbal and non-verbal communication • Business letter and report writing • Effective oral communication

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
13. Effective Managerial Leadership				
This course tackles the combined management and leadership skills necessary in carrying out the Branch Management functions, especially in implementing the vision and mission of the MFI.	Learn how to develop skills to effectively motivate, empower and lead staff in dealing with the intricacies of daily branch operational activities and the challenging nature of the MF operations in the	Branch Managers	3	• Understanding Branch Manager's role as leaders • Leading and Managing with a Vision for the MFI • Translating vision into realities • Defining, understanding and evaluating staff's roles and priorities • Employing motivational strategies • Change process and planning for change • Motivating staff through change process • Coping strategies through a change process
14. Leadership & Supervisory Skills Course				
Tackles effective management skills needed to direct and motivate work group, tools and techniques that will enable managers and leaders to get the best out their subordinates and in lead others effectively to achieve performance objectives.	Gain knowledge on being effective leader and manager; result oriented and understand and appreciate their roles in institutional development Provide effective monitoring and institutional controls Communicate effectively	MFO Team Leaders	3	• Functions and responsibilities of a supervisor • Leadership role of a supervisor • Monitoring and control skills of Supervisors • Planning, organizing and delegating work • Problem solving and decision-making • Performance evaluation

Course Title & Description	Learning Objectives	Participants	Duration (days)	Course Key Content
15. Fundamental Principles & Best Practices in Microfinance Operation				
The course tackles the various basic concepts and principles of microfinance, its evolution, its contribution to economic development and poverty alleviation, key differences from traditional banking, risks associated in MF operations, implementing MF program and internationally known best practices as those from Eastern Europe the and the Balkan Region	Equip participants with the following: General basic knowledge and understanding on the key concepts, principles and practices of microfinance adopted both in the local and international contexts and advocated by CGAP; Importance and contribution to local economic development and poverty alleviation; Differentiate the main approaches to microfinance development; Various dimensions in managing a microfinance operations and the risks associated with it; Lessons learned from various best practices worldwide	MF Officers Branch Operations In-charge Tellers Os BOIs All other relevant staff in the branches	5 days	• Basic concepts, principles and evolution of microfinance • Importance, Philosophy and Mainstreaming MF into Formal Financial System • Microfinance Lending Methodologies and Approaches and Processes • Implementation of MF program and risks associated in operations • Issues and Challenges in Microfinance and Best Practices adopted

Sample Job Description: Branch Manager (BM)

Number	Responsible	Written by	valid as of	Replaces version of
			[dd/mm/yy]	[dd/mm/yy]

Description of the Position

Title of Position:	Position Code:	HQ/ Branch:	Division:	Reports to:
Branch Manager (BM)		Branch	Client Market	AM

Responsibilities within the Position:

1. Operational, financial and administrative tasks within the branch.
2. Development, supervision and control of all the activities within the branch.
3. Ensure all the policies and procedures are complied.
4. Carry out plans and achieve targets set by the management team.
5. Professional development of branch staffs.

Is authorised to:	Equipment, related to the Position:
- Approve loan applications - Approve branch expenses up to XXXX	

For conducting the tasks, the following is essential:

Qualification:

- 5-7 years of experience in both microfinance and commercial banking.
- At least 2 years of experience in managerial and supervisory role.
- Minimum college graduate in finance, economics, business management, and other related fields.

Knowledge:

- Social economic and cultural understanding of the environment
- Market and competitor knowledge
- Advanced microfinance knowledge (FMFB's product and services)
- Advanced banking operation knowledge
- Banking compliance and regulatory knowledge
- Risk management

Skills:

- Managerial leadership skill
- Strategic planning skill
- Strong mathematical and analytical skill
- Problem solving and decision making skill
- Team building, people management and delegation skill
- Intermediate computer skill

Attitude:

- Up-right and transparent
- Active team player
- Dynamic and open to learning
- Endurance and diligence
- Self-motivated

Position held by:

Name:	First Name:	Place and Date of Birth:	Since:	Fixed salary p.a.

Sample Job Description: Branch Manager (BM)				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

Description of Main Activities relating to Branch Manager

#	Activities (what has to be done)	Objectives of Activities	Share of Work Time in %
1	Strategic planning a) Translate general objectives and plans of the institution into individual plans at the branch level b) Prepare daily/monthly activity plan and targets c) Organize tasks according to plan	Set the direction of the branch	10%
2	General branch management a) Set individual targets for branch staffs and evaluate their performance b) Provide financial, operational, and progress report to the Area Manager on monthly basis c) Ensure all the reports and documents are completed in a timely manner d) Participate in the recruitment of new staffs at the branch level e) Ensure branch's premises and equipment management f) Conduct branch staff meeting	Achieve branch target	20%
3	Branch operations management a) Oversee day to day operation of the branch b) Ensure all policies and procedures are understood and complied c) Chair the credit approval committee and give final approval d) Visit clients to ensure the quality of MFOs' work, clients' satisfaction and compliance to credit policies e) Ensure discrepancies identified by the internal audit is rectified	Achieve branch target	25%
4	Branch financial management a) Ensure that the financial target of the bramch is met b) Control entries to the accounting system and make back ups c) Control branch expenses within the approved budget	Achieve branch target	25%

5	Marketing a) Perform groundwork with local authorities to expand the operation in new areas b) Study the needs assessment report of the targeted area and recommend a strategy to the senior management c) Perform special projects assigned by the Area Manager	Expansion of branch operation	10%
6	Staff management and development a) Support and mentor branch staffs for their professional development b) Identify training needs of branch staffs and propose a training plan to the HR & Training department c) Ensure HR policies are communicated and complied at the branch level	Professional growth of branch staffs	10%

Sample Job Description: Microfinance Officer-Team Leader (MFO-TL)				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

Description of Position

Title of Position:	Position Code:	HQ/ Branch:	Division:	Reports to:
Microfinance Officer-Team Leader (MFO-TL)	CM-04	Branch	Client Market	BM

Responsibilities within the Position:

1. Supervise, monitor and evaluate performance of MFOs
2. Review and recommend all credit appraisal forms
3. Recover difficult cases of non-performing loans (NPL)
4. Offer good visibility and image of the institution.
5. Support, train and mentor MFOs

Is authorised to:	Equipment, related to the Position:
-	

For conducting the tasks, the following is essential:

Qualification:

- 5-7 years of related experience in MFBs, MFIs, NGOs and development sector organizations.
- Minimum college graduate in finance, economics, management, and other related fields.

Knowledge:

- Social economic and cultural understanding of the environment
- Market and competitor knowledge
- Basic microfinance knowledge (FMFB's product and services)
- Banking compliance and regulatory knowledge
- Portfolio quality management
- Credit operation risk management

Skills:

- Supervisory and leadership skill
- Sound decision making and judgement skill
- Interpersonal communication and negotiation skills
- Credit and business appraisal skills
- Promotion and customer care
- Intermediate computer skill
- Mathematical and organizations skills

Attitude:

- Active team player
- Dynamic and open to learning
- Endurance and diligence
- Self-motivated

Position held by:

Name:	First Name:	Place and Date of Birth:	Since:	Fixed salary p.a.

Sample Job Description: Microfinance Officer-Team Leader (MFO-TL)				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

Description of Main Activities, relating to (Title of Position)			
#	Activities (what has to be done)	Objectives of Activities	Share of Work Time in %
1	Planning a) Prepare daily/monthly activity plan and targets b) Organize tasks according to plan	Efficient organization of work	5%
2	Marketing a) Conduct financial needs assessment	Expand customer base	10%
3	Provision of financial services a) Review and recommend all credit appraisal forms b) Coordinate with area's risk management department for scheduling and approval of loans	Portfolio development	52
4	Supervision of MFOs a) Supervise MFOs to acheve their targts. b) Assign zones to MFOs andpredically switch zones amongst them c) Prepare, review and discuss weekly MFO perforamcne reports with each MFO c) Prepare daily/monthly activity plan and targets d) Conduct weekly meetings to review each MFO's performance e) Perform bi-annual performance appraisal of MFOs f) Ensure dicipline, team work, and a high level of motivation among MFOs g) Organize and conduct on-the job training to newly recruited staff	MFOs to achieve targets	40%
5	Monitoring of microfinance operation a) Ensure that the credit process is adhered to by all MFOs by conducting field visits b) Ensure necessary reports and documentations are completed as per bank's requirement c) Ensure transactions are accurately entered in the software d) Ensure discrepancies identified by the internal audit are rectified	Compliance	30%

Sample Job Description: Microfinance Officer (MFO)				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

Description of Position

Title of Position:	Position Code:	HQ/ Branch:	Division:	Reports to:
Microfinance Officer (MFO)	CM-05	Branch	Client Market	MFO TL

Responsibilities within the Position:

1. Offer FMFB's financial services to the poor.
2. Analyse clients' needs for loan and their repayment capacity.
3. Manage his/her portfolio to maximize the volume of loan while maintaining portfolio quality.
4. Offer good visibility and image of the institution.
5. Support and train Trainee MFO assigned to him/her.

Is authorised to:	Equipment, related to the Position:
- Make first contact to clients - Recommends for the review and approval of loans to the credit committee/management	

For conducting the tasks, the following is essential:

Qualification:

- At least 2 years of related experience in MFBs, MFIs, NGOs and development sector organizations.
- Minimum college graduate in finance, economics, management, and other related fields.

Knowledge:

- Social economic and cultural understanding of the environment
- Market and competitor knowledge
- Basic microfinance knowledge (FMFB's product and services)
- Banking compliance and regulatory knowledge
- Portfolio quality management
- Credit operation risk management

Skills:

- Sound decision making and judgement skill (client selection)
- Interpersonal communication and negotiation skills
- Credit and business appraisal skills
- Promotion and customer care
- Basic computer skill

Attitude:

- Active team player
- Dynamic and open to learning
- Endurance and diligence
- Self-motivated

Position held by:

Name:	First Name:	Place and Date of Birth:	Since:	Fixed salary p.a.

Sample Job Description: Microfinance Officer (MFO)				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

Description of Main Activities, relating to (Title of Position)			
#	Activities (what has to be done)	Objectives of Activities	Share of Work Time in %
1	Planning a) Prepare daily/monthly activity plan and targets b) Organize tasks according to plan	Efficient organization of work	5%
2	Marketing a) Conduct financial needs assessment of clients b) Canvass the area defined by the branch manager c) Promote and present the products to communities according to FMFB policies and procedures	Expand customer base	10%
3	Provision of financial services a) Explain complete and accurate policies and procedures of financial products to clients. b) Conduct thorough credit and background investigation c) Prepare complete documentation d) Cross verification of information provided during credit appraisals e) Loan sanction	Portfolio development	50%
4	Follow-up of clients a) Condut monitoring visit after loan disbursement b) Review reports on dues and overdues c) Make phone calls or visits to NPL clients on need basis d) Attend monthly meetings and ensure that clients comply with policies and procedures e) Perform customer care	Portfolio quality control	15%
5	Reporting a) Input accurate entries of transaction in the software system	Portfolio management	10%
6	On the job training a) Support and train entry level TMFOs	Groom new MFOs	10%

Sample Job Description: Assistant Microfinance Officer (AMFO)

Number	Responsible	Written by	valid as of [dd/mm/yy]	Replaces version of [dd/mm/yy]

Description of Position

Title of Position:	Position Code:	HQ/ Branch:	Division:	Reports to:
Assistant Microfinance Officer (AMFO)	CM-06	Branch	Client Market	AMFO

Responsibilities within the Position:

1. Assist MFO in offering FMFB's financial services to the poor.
2. Assist MFO in analysing clients' needs for loan and their repayment capacity.
3. Offer good visibility and image of the institution.

Is authorised to:	Equipment, related to the Position:
- Make first contact to clients	

For conducting the tasks, the following is essential:

Qualification:

- 1.5-2 years of related experience in MFBs, MFIs, NGOs and development sector organizations.
- Minimum college graduate in finance, economics, management, and other related fields.

Knowledge:

- Social economic and cultural understanding of the environment
- Market and competitor knowledge
- Basic microfinance knowledge (FMFB's product and services)

Skills:

- Interpersonal communication and negotiation skills
- Basic Credit and business appraisal skills
- Promotion and customer care
- Basic computer skill

Attitude:

- Active team player
- Dynamic and open to learning
- Endurance and diligence
- Self-motivated

Position held by:

Name:	First Name:	Place and Date of Birth:	Since:	Fixed salary p.a.

Sample Job Description: Assistant Microfinance Officer (AMFO)				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

Description of Main Activities, relating to (Title of Position)

#	Activities (what has to be done)	Objectives of Activities	Share of Work Time in %
1	Planning a) Prepare daily/monthly activity plan and targets b) Organize tasks according to plan	Efficient organization of work	5%
2	Marketing a) Assist in the conduct financial needs assessment of clients b) Promote and present the products to communities according to FMFB policies and procedures	Expand customer base	15%
3	Provision of financial services a) Explain complete and accurate policies and procedures of financial products to clients. b) Conduct thorough credit and background investigation c) Prepare complete documentation d) Cross verification of information provided during credit appraisals	Portfolio development	55%
4	Follow-up of clients a) Condut monitoring visit after loan disbursement b) Review reports on dues and overdues c) Make phone calls or visits to NPL clients on need basis d) Attend monthly meetings and ensure that clients comply with policies and procedures e) Perform customer care	Portfolio quality control	15%
5	Reporting a) Input accurate entries of transaction in the software system	Portfolio management	10%

Sample Job Description: Trainee Microfinance Officer (TMFO)

Number	Responsible	Written by	valid as of [dd/mm/yy]	Replaces version of [dd/mm/yy]

Description of Position

Title of Position:	Position Code:	HQ/ Branch:	Division:	Reports to:
Trainee Microfinance Officer	CM-07	Branch	Client Market	MFO-TL

Responsibilities within the Position:

1. Assist in the offering of FMFB's financial services to the poor under MFO's mentoring.
2. Analyse clients' needs for loan and their repayment capacity under MFO's mentoring.
3. Assist MFOs in managing his/her portfolio to maximize the volume of loan while maintaining portfolio quality.
4. Offer good visibility and image of the institution.

Is authorised to: none	Equipment, related to the Position:

For conducting the tasks, the following is essential:

Qualification:

- Fresh from graduate or 1 year of related experience in MFBs, MFIs, NGOs and development sector organizations.
- Minimum college graduate in finance, economics, management, and other related fields.

Knowledge:

- Social economic and cultural understanding of the environment
- Basic microfinance knowledge (FMFB's product and services)

Skills:

- Interpersonal communication and negotiation skills
- Credit and business appraisal skills
- Promotion and customer care
- Basic computer skill

Attitude:

- Active team player
- Dynamic and open to learning
- Endurance and diligence
- Self-motivated

Position held by:

Name:	First Name:	Place and Date of Birth:	Since:	Fixed salary p.a.

Description of Main Activities, relating to (Title of Position)

#	Activities (what has to be done)	Objectives of Activities	Share of Work Time in %

Sample Job Description: Trainee Microfinance Officer (TMFO)				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

1	Planning a) Prepare daily/monthly activity plan and targets b) Organize tasks according to plan	Efficient organization of work	5%
2	Assist MFO in marketing a) Canvass the area defined by the branch manager b) Promote and present the products to communities according to FMFB policies and procedures	Expand customer base	15%
3	Assist MFO in provision of financial services a) Conduct financial needs assessment of clients b) Explain complete and accurate policies and procedures of financial products to clients. c) Conduct thorough credit and background investigation d) Prepare complete documentation	Portfolio development	55%
4	Assist MFO in follow-up of clients a) Condut monitoring visit after loan disbursement b) Review reports on dues and overdues c) Make phone calls or visits to NPL clients on need basis d) Attend monthly meetings and ensure that clients comply with policies and procedures. e) Perform customer care	Portfolio quality control	15%
5	Assist MFO in reporting a) Input accurate entries of transaction in the software system	Portfolio management	10%

Sample Job Description: Branch Operations in Charge (BOI)

Number	Responsible	Written by	valid as of [dd/mm/yy]	Replaces version of [dd/mm/yy]

Description of Position

Title of Position:	Position Code:	HQ/ Branch:	Division:	Reports to:
Branch Operations in Charge		Branch		Branch Manager

Responsibilities within the Position:

1. Carry out branch banking operation in accordance with the Bank's policies and procedures
2. Compliance with internal and external control mandated by the Bank and the regulators
3. Provide accurate and timely information to senior managers

Is authorised to:	Equipment, related to the Position:
- Supervise the tellers in the branch	

For performing the tasks, the following are essential:

Qualification:

- 3-4 years of banking operation experience in MFBs, MFIs, commercial banks or other financial institutions
- Minimum college graduate in finance, economics, management, or other related fields.

Knowledge:

- SBP prudential regulation on microfinance and banking in general
- FMFB policy and procedures
- Banking policies and operation procedures
- Financial management & accounting
- Basic microfinance knowledge (FMFB's product and services)
- Financial Risk management

Skills:

- Multi tasking
- Interpersonal communication and negotiation skills
- Sound decision making and judgement skill (client selection)
- Intermediate computer skill

Attitude:

- Active team player
- Dynamic and open to learning
- Endurance and diligence
- Self-motivated

Position held by:

Name:	First Name:	Place and Date of Birth:	Since:	Fixed salary p.a.

Description of Main Activities, relating to (Title of Position)

#	Activities (what has to be done)	Objectives of Activities	Share of Work Time in %
1	Planning	Efficient organization of work	5%

	a) Prepare daily/monthly activity plan and targets b) Organize tasks according to plan		
2	Internal control a) Monitor, detect and report irregular transactions b) Monitor and maintain vault cash c) Serve as Joint cusodian of vault keys d) Ensure proper security of password and system management e) Coordinate with internal and external audit team and rectify audit finding	Nulify possible frauds, forgeries and operational losses	15%
3	Compliance with banking policies a) Ensure compliance with Bank's policies & operational procedures b) Ensure compliance with SBP prudential regulations	Nulify possible frauds, forgeries and operational losses	15%
4	Supervise and monitor financial transactions a) Vault opening and closing b) Supervise tellers on their daily transactions c) Verify cash sheets and financial transaction d) Ensure accruals and liquidation of income/expenses is timely and accurate e) Bank reconciliation f) Complete check list before disbursing loans g) Ensure team work within the branch	Efficient and error free banking operation	40%
5	Customer service a) Opening/reactivating accounts b) Verification of signatures c) Assist tellers in responding to customer queries	Quality customer service	15%
6	Record keeping and reporting a) Prepare and submit daily operation report b) Prepare and submit weekly and monthly report c) Prepare and submit SBP report	Timely and accurate reporting	10%

Sample Job Description: Teller				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

Description of Position

Title of Position: Teller	Position Code:	HQ/ Branch: Branch	Division:	Reports to: BOI

Responsibilities within the Position:

1. Accurately and efficiently process and record routine transactions for bank customers including cashing checks, accepting deposits and withdrawals, processing loan payments and cash transfers.
2. Promote and advise on the bank's products and services.

Is authorised to:	Equipment, related to the Position:

For performing the tasks, the following are essential:

Qualification:

- 1-3 years of tellering experience
- Minimum college graduate, preferably in accounting, commerce, economics, business or other related fields.

Knowledge:

- Basic understanding on general banking systems, products, and services and microfinance operations
- SBP cash management policies and prudential regulations
- FMFB's banking policies and procedures
- Basic accounting and bookkeeping

Skills:

- Strong numerical skills
- Accuracy and attention to detail
- Basic computer skill
- Ability to identify fake currencies

Attitude:

- Self-motivated
- Honest and trustworthy
- Diligent and hard-working

Position held by:

Name:	First Name:	Place and Date of Birth:	Since:	Fixed salary p.a.

Description of Main Activities, relating to (Title of Position)

#	Activities (what has to be done)	Objectives of Activities	Share of Work Time in %
1	Planning a) Prepare daily/monthly activity plan and targets b) Organize tasks according to plan	Efficient organization of work	5%

Sample Job Description: Teller				
Number	**Responsible**	**Written by**	**valid as of** [dd/mm/yy]	**Replaces version of** [dd/mm/yy]

2	Financial transactions a) Receive and count working cash at beginning of shift b) Identify customers, validate and cash checks c) Accept cash and cheques for deposit and check accuracy of deposit slip d) Process cash withdrawals e) Receive and verify loan payments f) Process account transfers, telegraphic transfers, and online cash/transfer transactions g) Record all transactions promptly, accurately and in compliance with bank procedures h) Balance currency, cash and checks in cash drawer at end of each shift	Efficient and error free financial transaction	70%
3	Reporting a) Submit daily cash transaction report	Timely and accurate reporting	5%
4	Customer service a) Answer inquiries regarding checking and savings accounts and other bank related products b) Attempt to resolve issues and problems with customer's accounts c) Explain, advise on and promote bank products and services to customers	Customer satisfaction	20%

PlaNet Finance

Delinquency Control and Portfolio Quality Management Modules[1]

Trainer's Guide

February 2011

[1] *This Facilitator's Guide is developed by the PlaNet Finance Asia for the First Microfinance Bank (FMFB) in Islamabad, Pakistan, under the joint JICA-funded project to enhance the institutional capacity of FMFB.*

APPENDIX 4:

Trainer's Guide – Delinqency Control Portfolio Quality Mgmt

Table of Contents

SECTION A. COURSE OVERVIEW

SECTION B. COURSE CONTENT

Module/Session Discussion: For each module and corresponding sessions, the following subsections will be used to tackle each main and sub topic of the course.

1. Module Overview
2. Learning Objectives
3. Duration *(time allotted for each module)*
4. Discussion Guide *(instructions, comments questions; key discussion points)*
   4.1. Exercises/Activities
   4.2. Visual Aids (slides, flipcharts, etc.)

The following icons will be used in the module

	Session Objectives
	Session Time & Duration
	PowerPoint Slides
	Exercise/Activities/Visual Aids

SECTION A

COURSE OVERVIEW

I. Module Title and Description

Delinquency Control and Portfolio Quality Management

II. Module Description

This course tackles the basic concepts regarding the nature, causes and effects of loan delinquency. It provides an understanding of the importance of portfolio quality, how delinquency affects the profitability of the whole institution, how it can be measured, practical ways to prevent delinquency and mitigate it after a crisis occurs, and how to manage and maintain portfolio quality.

III. Intended Participants

This course is intended for branch staff directly involved in microfinance operations.

IV. Learning Goal

The goal of this course is to enhance the knowledge and skills of First Microfinance Bank operations staff on the key principles and processes in controlling loan delinquency and maintaining portfolio quality at the branch level.

V. Learning Objectives

After completing this course, the participants will be able to

- Understand and analyze the nature, causes, costs and implications of loan delinquency on microfinance operations
- Appreciate the importance of mitigating delinquency
- Gain deeper understanding on maintaining and managing loan portfolio quality
- Understand the process of maintaining loan quality portfolio

VI. Learning Methods and Approach

The training is designed to be highly participatory and interactive. The delivery method of this course will be based on experiential learning methods anchored on adult learning principles and popular education, where participants take part in practical activities and, together with the trainer/facilitator, serve as sources of information during all training activities.

The participants will be immersed in an array of case studies, group and classroom exercises, and best practices that will help them understand the implications of their decisions and integrate the concepts and principles learned from lecture presentations and discussion into practical applications in the microfinance context.

VII. Key Course Materials

All participants will be given a Learner's Guide, which contains all the information, materials, handouts and self-assessments that will be used during the training.

Trainer's Guide

This Trainers Guide provides comments, tips, exercises and examples for presenting the materials contained in the PowerPoint Slides and handouts.

Using the structure outlined below, each training module is broken down into training topics, with a suggested time and process to deliver the material on that topic. The corresponding page number in the Learner's Guide is provided on the right, and beside it is a reference to the corresponding PowerPoint slide. The column on the left provides information on the content of the PowerPoint slide as well as additional comments and tips for the trainer. Exercises and discussions are also provided with instructions and timing.

PowerPoint Slides
Each training module is guided by a separate PowerPoint presentation which may be modified to suit the training schedule and context. The PowerPoint file name includes the corresponding Training Module number, and each slide within that file is numbered, starting at 1. The Trainer's Guide indicates the appropriate PowerPoint file and slide number that corresponds with the training material.

Training Equipment
The equipment necessary to deliver the course include:
- LCD projector and screen
- Flipcharts and stands
- Markers
- Masking tape
- Metacards

VIII. Training Curriculum & Duration

This guide organizes the training into seven separate training sessions. The total training time is 5 days (30 hours).

Module/Session	Learning Objectives	Contents	Duration
Module 2: Delinquency Control in an MFI	Equip branch managers with enhanced knowledge and skills required to control delinquency problems and maintain loan portfolio quality in the branches		3 days (18 hrs) @ 6 hrs per day (excluding breaks)
➔ *Introductory Session*	Review on various risk faced by an MFI	✓ Various types of risks ✓ Credit Risk	✓ 1 hr
➔ *Session 1: Basic Concepts & Principles in Delinquency Control*	Review/familiarize the various terms used in delinquency control and management and classify the types of delinquent clients/borrowers.	✓ Definition of terms used in Delinquency Management ✓ Types of delinquent borrowers	✓ 2 hr
➔ *Session 2: Cost and Implications of Delinquency and How to measure it*	Understand why delinquency is a matter that should be taken seriously, its implications and tools to measure its cost	✓ Costs associated in Delinquency ✓ Implications to MFI, borrower and credit officers ✓ Tools to measure cost of delinquency	✓ 3 hrs
➔ *Session 3: Analyses of the Causes of Delinquency*	Distinguish and classify the different causes of delinquencies	✓ Institutional-related causes ✓ Client-related causes ✓ Credit officer-related causes ✓ Group-related causes ✓ Externally-driven causes	✓ 3 hrs
➔ *Session 4: Delinquency Prevention Strategies and Incentives*	Familiarize with PlaNet Finance 10-point action plan that must be put in place when setting up a delinquency prevention program.	✓ Strategies and 10-point action plan for preventing delinquency ✓ Incentive schemes to prevent delinquency	✓ 3 hrs
➔ *Session 5: Steps to*	Gain deeper knowledge on key	✓ Detecting delinquency	✓ 3 hrs

APPENDIX 4:

Trainer's Guide – Delinqency Control Portfolio Quality Mgmt

Module/Session	Learning Objectives	Contents	Duration
deal with Delinquency: Detection & Action	steps necessary when confronted with a delinquency crisis	warning signals ✓ Macro and Micro level indicators to detect delinquency	
➔ *Session 6:Action to take after Delinquency Crisis*	Determine the various actions an MFI should take to deal with the aftermath of a delinquency crisis to prevent its recurrence	✓ Revision of policies and procedures ✓ Revision of human resources policies ✓ Rescheduling and refinancing of delinquent loans ✓ Suspension of lending operations ✓ Write-offs of non-performing loans	✓ 3 hrs
Module 3: Portfolio Quality Management in an MFI	Understand and interpret portfolio reports and indicators and be able to describe what is involved in portfolio management		2 days (12 hrs effective excluding breaks)
➔ *Session 7: Defining and measuring Portfolio Quality*	Gain in-depth understanding in determining and measuring an MFI's portfolio quality	✓ Definition of a microfinance portfolio • The performing portfolio. • Non-performing portfolio • Gross loan portfolio • Portfolio at risk ✓ Indicators of portfolio quality	6 hrs
➔ *Session 8: Managing Loan Portfolio Quality*	Familiarize on process in managing loan portfolio quality	Process & strategies managing loan portfolio quality ✓ Trade-offs in maintaining loan portfolio quality	2 hrs
➔ *Session 9: Loan Portfolio Tracking System*	Determine the parameters of an effective loan portfolio tracking system	✓ Information needed in tracking and monitor loan portfolio ✓ Challenges in tracking loan portfolio ✓ Qualities of an effective loan tracking system	2 hrs
➔ *Session 10: Practical Exercise: Strategies to Maintain FMFB Portfolio Quality*	Apply knowledge gained on how to maintain portfolio quality	✓	2 hrs

SECTION B

COURSE CONTENT

Introductory session

Session Objectives	• Understand the various credit risks of an MFI to appreciate the importance of delinquency control and portfolio quality management
Session Time	1 hour 45 minutes
PowerPoint Slides	Slides 1-15
Exercise	Exercise 1: Understanding risks Exercise 2: Types of risks that MFIs face

Introduction: Operational Risks and the Importance of Managing Them

15 minutes

Exercise 1

Divide the participants into two groups. Explain that, as in children's fairy tales, there are three kinds of people: giants, dwarves, and magicians. Giants beat dwarves, dwarves beat magicians, and magicians beat giants. Each of the three requires an action to show which you are.

Let each group decide on their own which one of the three they will be. Then they line up facing away from each other and, on a signal from the trainer, turn around and make the action/gesture associated with the person they as a group decide to be. Play the game for several rounds

Process: How did you feel about the exercise?

The goal is to win. In the process of achieving your goal, you employ strategies. But in determining your strategy, you don't know in advance whether you will win or not. In fact, even if you plan your strategy well, you may still lose. Regardless of how good, effective, timely, and well planned your strategy is, there is always uncertainty whether you will win or lose. What do we call this uncertainty: risk.

Risk is uncertainty. Risk is part of natural law: no one knows the future. No one knows what will happen.

15 minutes

Exercise 2

Distribute metacards and ask the participants to write down at least one risk that the MFI faces.

Responses may include:

- Natural disaster
- Political uncertainty
- Financial risk
- Reputation risk
- Fraud by staff
- Misuse of loan
- Policy/procedures not applied
- Portfolio risk
- Credit risk
- Inability to appraise the business
- Business failure
- Reputational risk

Place the metacards on the floor and begin to categorize them in front of the participants. Ultimately, there should be 4 kinds of risks:

- Internal risks
  - Operational (especially credit risk)
  - Financial (management)
  - Institutional
- External

45 minutes

Slides 3-15

The goal of this short section is to explain to the participants why delinquency control and portfolio quality management is so important for a microfinance institution. Begin by stating that MFIs must deal with many different kinds of risks every day. Of those, operational risks are paramount. **Operational risks** are the vulnerabilities confronting a microfinance institution in its daily operations that can ultimately result in the loss of its assets. Stimulate a discussion on the kinds of risks the participants see the MFI or their branch facing. Lead the discussion toward the conclusion that the most serious kind of operational risk is **credit risk**.

Next, draw the connection between risks and risk management.

Is risk only the concern of the risk management department? No. Risk should be in the consciousness from the board down to the client. Even the guard (because the guard is responsible for protecting the branch building). Everyone in the MFI should understand how each type of risk influences the business.

Risk and impact:

Operational risks	Impact/type of loss	Primary Perpetrator
Credit risk	Poor portfolio quality	Clients
Fraud	Cheating	MFI staff
Security risk	Theft	Non MFI persons

Credit risk: since most loans are unsecured, delinquency can spread from a handful of loans to a significant part of the portfolio. The contagion is worsened by the the fact that microfinance portfolios tend to have a high concentration in just a few business activities (espeically agriculture). A large number of clients may be exposed to the same kind of threat, making a large portion of the portfolio go bad at once.

Once a loan is issued, a lender's risk management expands from controls that reduce the potential for lost to the controls that reduce actual losses.

Four credit risk controls:

- Loan product design
- Client screening
- Credit committee
- Delinquency management strategies

There are two ways to control risks: prevent them or detect them as soon as possible. The first step is to have a good undertanding of delinquency.

Faciliate a discussion regarding the participants views on what both kinds of risk control strategies (prevention and detection) might entail.

Conclude with the statement that risks cannot be avoided, so they must be managed. Delinquency control is an important aspect of managing credit risk.

SESSION 1: Understanding Basic Concepts & Principles of Deliquency Control

Session Objectives	This session introduces the basic terms and concepts in delinquency management. After this session, participants should be able to: • Understand the terms used in delinquency management • Understand the types of delinquent borrowers
Session Time	2 hours
PowerPoint Slides	Slides 16-24
Exercise	None

1.1 Definition of terms used in Delinquency Management

1 hour

Slides 16-22

Past due

This is a loan installment that has not been paid at the period stipulated in the loan contract. The payment is in arrears (not the loan).

Arrears

Refers to a late payment, partial payment or a skipped payment. The payment is in arrears (not the loan).

Non-performing loan

According to IMF definition, a non-performing loan (NPL) is a loan that is near default – delinquent past 90 days

Default

Default refers to a situation where a borrower cannot or will not repay the loan and the MFI no longer expects to receive payment. Each MFI usually defines in its credit policy when a loan is in default. It is often defined in terms of a number of skipped or partial repayments or non-repayment for a given number of weeks/months. For instance, if a client fails to make a payment for four consecutive installments, the loan may be considered defaulted as per the institution's policy.

The loan is in default, not the payment.

Delinquency

In general terms, this term refers to a situation where a loan is "past due" but not yet in default. A loan account is termed as delinquent when repayment is due and a borrower has failed to honor a payment obligation at the stipulated time. A loan account can be past due when the loan date has passed or one week after the due date or one entire cycle.

In practice, any loan that has an installment payment late by even one day is "delinquent." Zero tolerance means even one day of missed payment!

The loan is delinquent, not the payment.

When discussing the issue of delinquency, the institution's policy document should state very clearly at what point they consider a loan to be in arrears, past due, defaulted or delinquent in terms of timelines. For instance, there are some MFIs that define past due as one day after the due date while others may consider a loan in arrears as one month past the due date.

The trainer should ensure the participants understand the key differences between delinquency and default. These include:

- Timing: delinquency occurs before default; it occurs one day after the first missed payment
- Chances of recovery: changes of recovery are higher for a delinquent loan than for a loan in default
- Collection: whether delinquent or default, the MFI will still try to collect on the loan. Only when the loan is written off does collection generally stop...and even then not always. Collection of a loan written off becomes "other income" for an MFI. Some MFIs continue to try to collect on a loan until either the borrower leave the country or dies.

1.2 Types of delinquent borrowers

45 minutes

Slide 23-24

There are 3 types of delinquent borrowers:

1. The sudden non-paying borrower

This type of borrower is one who has been paying on time and then suddenly stops due to a major problem beyond his or her control, such as illness in the family or a natural disaster. Such borrowers will usually notify the institution about the problem and ask for help to enable them to cope with the problem causing them to become delinquent. The person in this category generally has a willingness to repay the loan.

2. The occasional non-paying borrower

This is a borrower who is late with a payment once in a while, often due to the nature of his or her business (e.g., frequent travel or late payment from customers) or poor cash flow management. Whatever the reason for the occasional late payments, the person in this category usually responds to reminders and has a willingness to repay the loan.

3. The chronic non-paying borrower

This is a borrower who makes a habit of being late with his or her payments, and lets payments lapse for long periods of time. Even if they bring payments up to date, this type of borrower is likely to let it lapse again. Those in this category will ideally want to pay as and when they wish, ignoring the terms of credit that they signed and wanting to repay on their own terms.

The trainer should facilitate a discussion among the participants the various levels of risk associated with each type of delinquent borrower. Allow the participants to draw from their own experiences. The key point to stress is that while a more lenient approach to the sudden and occasional non-paying borrowers vs. the chronic non-paying borrower might seem natural, it must be done carefully so as to avoid a breakdown of the credit culture among other clients, especially those in the same group.

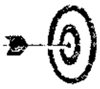
Trainer's Note:
Some microfinance institutions that have a banking element classify their loans into different categories. Below are some of the common categories:

- **Late account**: This is an account in which a borrower misses a single payment and usually repays when reminded; it is also known as a first-time notice.
- **Slow account**: This is an account that is twenty days or more past due and the borrower has not responded to notices.
- **Chronic account:** This is an account that is constantly past due.
- **Skip**: This is a borrower with a delinquent account who has relocated their business premise to another part of town or who has left the country and is thus deliberately avoiding repayment.
- **Loss**: This is an account that is almost impossible to collect.

5 categories of delinquent loans in FMFB:

Type of loan	Days delinquent	Provisions
OEAM Other assets especially mentioned	30-59 days	
Sub-standard	60-89 days	25%
Doubtful	90-179 days	50%
Loss	180-209 days	
Write-off	above 210 days	

SESSION 2: The Costs and Implications of Delinquency and How to Measure it

Session Objectives 	This session is designed to convey to the participants why delinquency is a matter that should be taken seriously. It discusses the implications of delinquency to: • The MFI • The borrowers • The credit officers The tools used to measure delinquency are also discussed.
Session Time 	3 hours
PowerPoint Slides 	Slides 25-41
Exercise 	Exercise 3: Calculating the cost of delinquency Exercise 4: Calculating the effect of delinquency on PAR

2.1. Implications of delinquency

FMFB team presentation:

"Delinquency is non-payment of debt"

Impact

- Lost income
- Reputation
- Effect on other borrowers (snowball)
- Others won't get loan
- Bad debts -> low income -> lower growth -> fewer loans
- Pressure on MFOs = leads to lower performance (and lower pay)

 **1 hour**

 **Slides**

2.1.1 Implications for the microfinance institution

It is critical for any microfinance institution to understand the implications of default and delinquency. Specific implications of delinquency are the following:

- Delinquency has a negative effect on the MFI's portfolio in that it slows the portfolio turnover, reducing the institution's ability to pay expenses due to reduced cash flow. When the principal amount is not recovered at the scheduled time, it affects the ability of the institution to make loans to other borrowers, meet the demand for savings withdrawal, make timely repayment of borrowed funds, or pay operational expenses.

- Delinquency can break group cohesion, leading to low morale among borrower groups. This can engender a "domino effect" leading to further delinquencies.

- As delinquency mounts, field (loan) officers must devote more time to following up delinquent borrowers. This not only reduces their efficiency and ability to expand the loan portfolio, it also demotivates them, making it more difficult and expensive for the MFI to hire and retain good staff.

2.1.2 The implication of delinquency to the borrower is:

- Borrowers, especially those who guarantee others, tend to lose their savings because their savings are used to pay for other group borrowers when a delinquency occurs.

- Borrowers waste a lot of time chasing other borrowers who are delinquent, thus reducing the time they spend on their business.

- Once a borrower in a group becomes delinquent, other group borrowers especially those waiting to get loans suffer because the MFI cannot disburse loans to them.

- Delinquency sometimes lead to breakup and disintegration of groups especially when majority of the borrowers are in default or the group leaders themselves are in default. This affects the well-paying borrowers in the group.

- Delinquency lowers the borrower's image and hence creditworthiness such that getting other lines of credit becomes very difficult.

2.1.3 Implication of default and delinquency to the credit officer

- Micro credit officers undergo a lot of stress chasing defaulting borrowers who in most cases go into hiding to evade paying.

- In cases where a loan officer has to follow up "willful defaulters" a lot of time is wasted at the expense of other duties that are supposed to be done resulting to low productivity and sometimes is confronted with physical danger.

- Credit officers workload increases where they have to deal with chasing defaulters or individuals who are delinquent, a temptation would be to chase the delinquent borrower at the expense good borrower

2.1.4 Summary: why delinquency is not acceptable

1. While low levels of delinquency engender pride among the MFI staff, high delinquency levels create a sense of frustration, and even futility, especially when attempts to control delinquency do not succeed. The loan staff and their supervisors, who have the continual personal contacts with the borrowers, are the most directly affected and they can infect the morale of the entire staff.

2. Word of repayment problems travel quickly among the MFI's clients by word of mouth. They would know who repaid their loans, who did not, and what happens to those who do not.

3. External sources of loanable funds for expansion of the MFI's lending operations are less likely to support institutions that have trouble getting their loans repaid.

4. Also lower income, portfolio, and ability to leverage funds reduces the ability of the MFI to serve more microenterprises.

5. High penalty charges, legal fees (in case of legal action), confiscation of mortgaged properties, bankruptcy of business, ending up in jail

2.2 Understanding the cost of delinquency

1 hour

Slides

MFIs will find it very hard to know the extent of the delinquency problem because costs to recover cannot be quantified.

It is common among lending institutions to blame their delinquent borrowers (e.g. loan diversion) or natural calamities for most of their delinquency problems. MFIs only recognizes the reasons attributed to the borrowers failure to pay on time. Little do they know that at times, that MFIs failed to control the occurrence delinquency at their own level. Had they anticipated problems which are likely to occur before a loan has been granted, probably delinquency could have been prevented.

People tend to skip on their own obligations if they see others getting away with it. The moment word gets out that others can get away from paying their obligations, others would presume that it is okay not to pay on time and worse not to even pay at all!

The costs to the MFI come in two types: quantifiable and non-quantifiable. Quantifiable costs can be calculated, but non-quantifiable costs can be more expensive!

- Quantifiable costs
  - Higher expenses for collection, loan-loss provisions, legal fees

    Effects on the cost structure include:
    - additional costs for monitoring
    - more frequent visits to delinquent borrowers
    - more extensive analysis of the portfolio
    - legal fees for pursuing seriously delinquent borrowers
    - costs related to repossession of mortgaged assets

    Some of these costs are paid by the delinquent borrowers (e.g. penalty fees, legal fees) and some by all borrowers in the form of higher interest rate to cover for the increase in operating costs.

    Nevertheless, the more time, effort and resources put into dealing with delinquent borrowers, the less there will be available for the MFI to reach new clients and cover new areas.

  - Lower income from delayed interest payments, slower portfolio rotation, slower growth

    Effects on income include:
    - Delinquent loans imply delinquent interest, or postponed income. If the loans are not recovered, the interest is not recovered either, resulting in lost income for the MFI.
    - Delinquency slows down the rotation of the portfolio resulting in lost income from the additional loans that could have been financed from the flow of on-time repayments.
    - As the quality of the MFI's loan portfolio decreases, it needs to provide for a bigger loan-loss reserve. The establishment of these reserve implies and expense for the MFI.
    - Even with a reserve, loan losses eventually decreases the MFI's assets by de-capitalizing its portfolio. To replace these losses, the MFI must charge enough interest rate to generate sufficient income.

Exercise 3

Below are two examples of exercises that can be used to show the quantifiable costs of delinquency to a microfinance institution:

Example 1

A loan of 3000 Euros, with a 46-week term, weekly payments, and an interest rate of 15% flat[2] becomes delinquent after 14 weeks of payment. To make up for the lost principal and interest, 16 additional loans of 1000 Euros must be made.

Calculating the cost of delinquency on a microfinance portfolio

Item	
Initial loan amount	3,000
Loan term	46 weeks
Weekly repayment amount	75
Payments received	14 weeks (1,050)
Payments overdue	32 weeks (2,400)
Total amount lost	2,400
Of which, lost revenue =	312
Of which, lost principle =	2,088

Revenue earned on a loan of 1,000 for 46 weeks = 150

Number of loans required to earn lost principle

$$= \frac{\text{Lost principle}}{\text{Revenue per loan}}$$

$$= \frac{2{,}088}{150} = \textbf{14 loans of 1,000}$$

Number of loans required to earn lost revenue **and** principle

$$= \frac{\text{Lost revenue and principle}}{\text{Revenue per loan}}$$

$$= \frac{2{,}400}{150} = \textbf{16 loans of 1,000}$$

Source: Ledgerwood 1996

[2] A flat interest rate is used here for demonstration purposes only – its not intended to suggest that this is the best way to price a loan

Example 2

Example 1 only takes into account the gross revenue of 150 earned per 1,000 loan. It does not consider any operating or financing costs associated with the loan.

To accurately determine the full cost of replacing lost principal, the variable costs associated with disbursing and managing a loan must be taken into account. To do this, the annual contribution margin is calculated by reducing the revenue per 1000 Euro outstanding by the variable cost per 1000 Euro outstanding. This presents a much more accurate analysis of the costs of delinquency by determining the total costs to the MFI of replacing the lost principal:

Calculating the cost of delinquency to a microfinance portfolio

Item	
Initial loan amount	3,000
Loan term	46 weeks
Weekly repayment	75
Payments received	14 weeks (1,050)
Payments overdue	32 weeks (2,400)
Total amount lost	2,400
Of which, lost revenue =	312
Of which, lost principle =	2,088

Revenue earned on a loan of 1,000 for 46 weeks = 150
Variable cost per loan of 1,000 = 90
Contributing margin outstanding= 60

Number of loans required to earn lost principle

$$= \frac{\text{Lost principle}}{\text{Contributing margin per 1,000}}$$

$$= \frac{2{,}088}{60} = \textbf{35 loans of 1,000}$$

Number of loans required to earn lost revenue and principle

$$= \frac{\text{Lost interest and principle}}{\text{Revenue per loan}}$$

$$= \frac{2{,}400}{60} = \textbf{40 loans of 1,000}$$

Source: Ledgerwood 1996

- Non-quantifiable costs
  - Loss of staff morale
  - Breakdown of credit discipline among clients
  - Damage to MFI's reputation
  - Less access to investment funds needed for expansion

2.3 Measuring delinquency

1 hour

Slides

Only ratios with "total loan portfolio outstanding" in their formula can measure the quality of a portfolio. The total loan portfolio outstanding is the balance of principle of all outstanding loans at a given point in time

For example, Portfolio at Risk (PAR) =

$$\frac{\text{Unpaid principle balance of loans with at least one late payment}}{\text{Outstanding Portfolio}}$$

PAR is the best indicator to measure potential losses.

> **Example 1: calculating the amount "at risk"**
>
> A client receives a loan of 2000.
>
> She made two payments of 250, of which 200 is principal and 50 is interest. Then she misses two payments of 250 each, for a total of 500.
>
> At the time she started to miss payments, the remaining balance was 2000-(2*200)=1600. 1600 is the amount of the loan considered to be "at risk".

Exercise 4

> **Calculating the effect of delinquency on PAR**
>
> 2 loans are released on the same day
>
> Client A receives a loan of 2000 and must pay 5 installments.
>
> Client B receives a loan of 3000 and must pay 6 installments.
>
> Client A pays regularly, but client B pays only once and missed the 2nd and 3rd installments before paying all the other installments.
>
> Assuming the MFI has no other loans outstanding, calculate the PAR after every installment.

Exercise 4 answer:

	Just after	1st insta	2nd insta	3rd insta	4th insta	5th insta	6th insta
Payme nts		400	400	400	400	400	
Payme nts		500	Miss ed	Miss ed	500	500	500
Outsta nding	5000	4100	3700	3300	2400	1500	1000
Unpaid balance (1 missed	0	0	2500	2500	2000	1500	1000
PAR.	0%	0%	67.5 %	75.7 %	83.3 %	100 %	100 %

DAY 2

Review of Day 1

Session Objectives	Review the key points discussed in the second day: • The terms and concepts in delinquency management • Why delinquency is important – what its implications are
Session Time	30 minutes
PowerPoint Slides	None
Exercise	None

Spend a few minutes welcoming the participants back in order to let them settle in, get comfortable again in the classroom and in a talkative mood.

Then start reviewing the major themes discussed the previous day. Rather than lecturing, ask the participants what they recall about each session, picking volunteers first and facilitating the conversation so that as many of the participants have spoken during the review session.

The participants should be allowed to glance at their notes and course materials. The idea is not to ensure that they have memorized everything taught the previous day, but that each of the key themes are vocalized for all to hear:

- The terms and concepts in delinquency management
- Why delinquency is important – what its implications are

The most time should be spent on why delinquency is important because this is the motivating factor for the remainder of the training.

SESSION 3: Analysis of the Causes of Delinquency

Session Objectives	Through this session, the participants should be able to identify the various ways in which the five major causes of delinquency can arise: • Institutional-related causes • Client-related causes • Credit officer-related courses • Group-related causes • Externally-driven causes
Session Time	3 hours
PowerPoint Slides	Slides 42-54
Exercise	Exercise 5: Realise the importance to understand the cause s of delinquency Exercise 6: Causes of Deliquency – participants write in each card causes of deliquency that they know of

20 minutes

Exercise 5

This exercise aims to have the participants realize the importance of understanding the causes of delinquency.

Group the participants into two, and line them up facing each other so that each one has a counterpart/partner. Instruct the to stare into each other's eyes without smiling. As one smiles, they drop out and their unsmiling partner is paired with another until one or a few are left.

Process: how did you feel about the exercise?

Discuss the causes of the smiling. Smiling is the effect, caused by other factors.

In the case of delinquency, non-payment of a loan is an effect. It is important to understand the causes.

3. The causes of delinquency

1 hour

Slides

There are five main causes of delinquency:

1. Institutional-related causes
2. Client-related causes
3. Credit officer-related courses
4. Group-related causes
5. Externally-driven causes

Exercise 6

Probe questions on the causes of delinquency using metacards. Facilitate a dialogue with the participants regarding examples of each kind of cause. Group the cards after all has written based on the above groupings. A sample list of each type of cause is below.

The most important points to stress during this session are:

- Delinquency can sometimes be caused by factors beyond the control of the borrower or the MFI
  - A number of instances may occur sometime in the future that may not be avoided. Sometimes, these are natural factors and some may be due to forces driven by market forces or government interventions.
  - Illness or death in the family may adversely affect the repayment as it will mean temporary closure of the business of prioritizing expenses for medicines
  - Natural calamities like flood may dislocate or prolong the recovery of the business thereby putting the loan in jeopardy
  - Price fluctuations may also trigger delinquency as the cash flow might affect the repayment capacity of the client
  - External factors may also be attributed to diversion of the loan amount from its intended purpose.

- However, delinquency is primarily caused by factors within the MFI's control
  - Poor product design
  - Poor client selection
  - Poor service delivery
  - Poor loan management

- Avoid the impulse to blame the client first; it may not be true, and it will only make the situation worse.

If you will notice, it is the MFI who is mostly in control of the loan from pre-loan to post loan. It is the MFI who is largely making the decision to approve or disapprove a loan proposal. The borrowers cannot be wholly blamed once the MFI had delinquency on hand. There are no borrowers, but only bad loans. Next time don't fault your clients for the MFIs admitted inconsistencies.

Loan delinquency could not be entirely blamed on factors related to the borrowers environment. Even if the client would want to strictly adhere to the credit discipline, but the AO's and the MFI itself are not really keen on imposing such discipline, delinquency would surely come in. If the MFI grants loans to those clients that do not meet the standards set forth, delinquency would likely happen.

3.1. Institutional related causes

1 hour

Slides

There are a number of ways in which an institution's own policies and practices can lead to delinquency among clients. These fall into several categories, including the institution's approach to outreach and loan appraisal, it's HR policy (especially incentives it gives to loan officers), and it's management of delinquency issues:

<u>Delinquency caused by poor product design</u>

i) Delinquency can arise if an MFI has not clearly identified and pursued its target clientele. Lack of a clearly defined target group means that the MFI has not designed and developed financial products that meet real needs. The result is that the wrong clients are given loans (or the right clients are given the wrong loans. Either way, the clients cannot service loans that do not match their needs, which encourages delinquencies and defaults.

ii) Delinquency can occur as a result of issuing inappropriate loans to clients. For example, if an MFI provides fixed asset loans to clients but these loans do not generate sufficient income, money has to be generated elsewhere to repay the loan. While it is often the case that borrowers use the loan funds for multiple purposes (including non-income generating uses), when the alternative source of income fails, it can often lead to delinquency.

iii) Inadequate penalties for late payments: penalties for late payments are part of product design and should be included to encourage on-time payments.

<u>Delinquency caused by poor client selection</u>

iv) Delinquency is encouraged when the MFI does not adequately appraise the client. This is not uncommon, especially when the MFI employs a group-lending mechanism. Without proper guidance and input from the MFI's field officers, some borrowers may take advantage of the freedom to appraise loans themselves by issuing large loans for which they may not have the capacity to service.

v) A thorough assessment of the applicant determines the credit worthiness. It ensures that the loan product meets the credit needs of the applicant. By doing as assessment also means collecting subjective information about the character and trustworthiness of the applicants. It also gives the MFI an opportunity to educate the client on the MFI's motives and credit mechanisms. Establishing contact through interviews and visits forges a positive working relationship between the MFI particularly the account officer and the applicant.

vi) Experiences of the rural MFIs from the past will tell us that accommodation breaches sound client assessment. I am not making a sweeping statement but stockholders can carry a big burden on the portfolio quality of the MFI. Relatives that are sometimes very difficult to be turned down can also pull down the quality of the portfolio. We may encounter instances that your uncle or your aunt would approach you and request for a loan. Friends are likely to approach you for a loan. There are also instances that you may have an existing borrower who might be delinquent at times in the repayment of the loan

vii) The product may lack the a thorough analysis of the cash flow of the business. Most of the times, we just take for granted the importance of the cash flow of the applicant because we tend to look at the collateral rather than the repayment capacity of the applicant.

viii) At times, the MFI should subject the business to some sensitivity analysis. Existing stalls in the public market may lose business once the market will be transferred to the new site. Are we going to lend to this sector knowing fully well that they will be going to be dislocated and possibly cannot acquire a new leasehold right simply because they cannot afford the new rate? Being aware of what is going to happen is also being proactive.

ix) Automatic step-up increases in loan amounts can be the equivalent of issuing inappropriate loans. Before a larger loan is issued, even to a good client, the proper analysis must be done to ensure it meets the client's needs and the client can pay the loan back.

<u>Delinquency caused by poor service delivery</u>

x) The credit delivery method an MFI operates on can be a critical factor contributing to defaults and delinquencies, especially where the credit method does not encourage proper selection of clients. For example, in cases of group lending, a group may be formed for other purposes than to access credit, poor approval techniques used, steps of the loan process not followed, weak collateralization arrangements, poor loan documentation, lack of proper records and ineffective loan collection methods.

xi) Lateness in loan disbursement: if an MFI has been late in disbursing a loan, sometimes a borrower will take "revenge" by not paying on time or using the loan for purposes other than those for which it was intended, which may result in delinquency.

Delinquency caused by poor loan management

xii) Management Information System or MIS plays a very vital role. The lack or inaccurate MIS would lead to erroneous/ unreliable reports on installments due for the day; week; or for any particular period. A defective MIS will not give you accurate information on all past due based on installments and principal, You will not be able to know how long has these past been in your books which will give you a better perspective on how to calculate your loan loss provisions. An erratic MIS will definitely not give the total portfolio at risk which the determination of which was presented to you earlier by another resource speaker.

xiii) The MFI may be extending its outreach long enough that the present manpower complement would be inadequate to collect from all the borrowers.

xiv) Maybe the existing staff do not really have the determination and the drive to collect. The staff may have insufficient follow up on past due amounts increasing the probability of losses for the MFI.

xv) The loan staff should visit clients regularly and in the process may be able to detect early signs of delinquency.

xvi) Faulty collection system may be be a factor. The loan staff might be collecting from the client weekly instead of the agreed daily. Or the staff may be contended on what the client will give short of the required repayment amount and worse does not follow up on the balance the earliest possible time.

xvii) If an MFI does not give field officers incentives to maintain on-time payments from borrowers, they may not be vigilant in ensuring that delinquencies do not occur or, if they do occur, are dealt with swiftly.

xviii) Credit officers sometimes face pressure (and incentives) to reach out to more clients, especially when an MFI's goal is to achieve self-sustainability. In such cases the field staff will be rushed to disburse as much credit as possible, thereby failing to screen clients thoroughly, which in turn can lead to delinquency.

xix) Delinquency can be contagious. If some borrowers learn that others are not repaying their loans and the MFI is letting them get away with it, some will naturally do the same and stop repaying their loan. MFIs that do not have procedures in place to identify delinquency at its earliest stages often find that by the time they have decided to act, the problem is very large and more difficult to resolve than if they had acted sooner.

xx) Even if they do act quickly, MFIs that do not have well defined policies and procedures for handling delinquency often find that they cannot resolve the problem satisfactorily.

xxi) Even a well-defined policy of loan recovery, if perceived as too lenient because the MFI does not want to appear "commercial", can send a message to some borrowers that delinquency is acceptable.

xxii) Management style and the information system can significantly contribute to delinquency though lack of well organized management and credit operations structure, unclear allocation of duties, poor accounting and documentation, employment of credit officers without knowledge of credit operation, weak policy and systems of communication of procedures and poor system of measuring portfolio quality and performance.

xxiii) Finally, the philosophy and image of the lending institution can also be a critical factor. If an MFI portrays its activities "semi-charitable" it can be the case that borrowers perceive the loan as a gift that is part of its mission and thus feel less pressure to repay it.

xxiv) Supply verses demand forces can also lead to delinquency. When an MFI has a high liquidity base, it can face pressure from investors to issue larger loans in order to utilize its funds. In doing so, it can issue more credit than what is actually demanded from the borrowers. Some clients will take advantage of this situation, borrowing more money than they need and using this money for the wrong purpose (e.g., consumption), leading to a situation that they cannot fully repay the loan.

1 hour

Slides

3.2. Credit officer-related causes

i) Credit officers can contribute to delinquency. This can occur in many ways. If they lack skills to correctly conduct credit appraisals and underwriting, they will make inappropriate loans that the clients cannot pay back. If a credit officer is too confident in carrying out underwriting this could lead to an increase of delinquent loans. Conversely, when a credit officer ignores warning signs or sometimes feeling inferior when dealing with clients, especially those taking large loans, or is absent from group meetings, delinquency can arise. Cases where a credit officer over delegates his responsibility to the group (for group lending) are also contributing factors to delinquency.

ii) Credit officers who have poor client relation skills contribute to delinquency. If an officer undermines clients, is rude to clients, does not give feedback to clients, lacks negotiation skills, and favors some clients over others, cases of delinquency can arise.

iii) The credit officer can contribute to delinquency if the officer is involved with fraudulent activities such as issuing loans to "ghost clients" (i.e., non-existing clients), or colluding with clients to embezzle funds.

3.3. Client-related causes

i) Perhaps the most significant client-related cause of delinquency is poor performance of the business. Increased competition, macro and micro factors that cause a decline in revenues, external factors such as natural disasters, or illness of the borrower can cause revenues to drop, preventing the borrower from meeting the repayment schedule.

ii) Another major cause of delinquency is an inadequate understanding of borrowing and its implications. Applying for a larger loan than needed for the business or poor cash flow management are causes of delinquency. Even more common is when a client uses some of the loan for personal needs (e.g., for consumption or to pay doctor's bills for a sick family member). All of these can lead to delinquency.

iii) A related cause is when a borrower, due either to an inadequate understanding of the implications of borrowing or to financial pressure, makes too many financial commitments (e.g., multiple loans), which they cannot adequately service.

iv) Clients may perceive microfinance loans as gifts that need not be paid back especially where the microfinance operates as an NGO with a strong (and strongly communicated) social mission. In cases where NGOs provide financial services, some clients may have the attitude that loans should be grants that do not need to be repaid, or that they should receive special treatment (e.g., loan forgiveness) if they have trouble repaying.

v) Some clients may test the MFI to see if it is serious about collecting loan payments. So if they perceive laxity on the part of the MFI in collections then they would also relax in repaying their loans.

vi) In cases of group lending, poor group leadership is a major contributing causeof delinquency. If group leaders are not vigilant in ensuring members repay or are lax in repaying their own loans the borrowers clients will follow suit. Therefore delinquency will trickle down firm group leadership to group borrowers.

3.4. Group-related causes

In group lending modalities, group officials play an important role. Poor training as well as abuse or corruption of their position can lead to delinquency in a number of ways:

i) If the group leaders keep poor records about the members' accounts, members are likely to lose confidence in the group as well as in the MFI and therefore stop repaying their loan.

ii) Group leaders can manipulate client records, using the group's credit line to pay for their loans, or manipulate group savings to pay for their loans.

iii) Group leaders may demand bribes from group borrowers, especially when conducting loan appraisal. If a group borrower is wrongly appraised this may contribute to such a borrower defaulting, either due to being given the wrong loan or as a reaction to the group leadership.

iv) Conversely, sometimes a clique of powerful borrowers in a group may bribe group leaders when conducting loan appraisal, especially those leaders whose financial position is lower than theirs. Such borrowers would be appraised in such a way that they get larger loans than they can service hence leading to delinquency.

v) A breakdown of group cohesion due to poor leadership or internal squabbles can lead to weak payment enforcement in a group. If the group's cohesion is a challenge then peer pressure ceases to operate which leads to delinquency because group borrowers cannot use pressure to enforce repayment.

3.5. Externally-driven causes

i) Disasters such as earthquakes, fires, floods and drought may affect the client's ability or willingness to repay. If a client's business is damaged the resulting cash flow may not be sufficient to repay the loan.

ii) Similarly, emergencies such as illness cause clients to redirect their loan to those purposes and away from generating the income needed to repay the loan.

iii) The state of the local and global economy may contribute directly or indirectly to a client's business' decline or failure, thus leading to delinquency.

SESSION 4: Delinquency Prevention Strategies

Session Objectives	Through this session, the participants should understand the PlaNet Finance 10-point action plan and various incentive schemes that must put in place when setting up a delinquency prevention program.
Session Time	3 hours
PowerPoint Slides	Slides 55-63
Exercise	

4 The PlaNet Finance 10-point action plan for preventing delinquency

3 hours

Slides

Doctors often say that "prevention is the best medicine". This applies in a microfinance setting as well, especially when dealing with delinquency. A microfinance institution should be vigilant about preventing delinquency before it occurs. The following 10-point action plan should be put in place when setting up a delinquency prevention program:

1. Provide value

   Create value for the clients:
   a. Ensuring that the loan products suit clients' needs;
   b. That the delivery process is convenient;
   c. That the clients feel that the organization respects and cares about them;
   d. It is also possible to go beyond lending to support the client in other ways (e.g., financial literacy training, attending family events).

This encourages the borrowers to repay in the hope of receiving a loan in the next cycle.

2. Appraisal of clients

Screen the clients and properly understand their financial (and educational) needs so that sizes and terms are appropriate and thus repayment is not difficult. Use automatic loan size increases carefully

3. Read early warning signs

Put in place a system for rapidly identifying delinquencies and analyzing their cause. Regular meetings between the loan officers and the clients/groups is partly to read early warning signs that a delinquency problem may develop. This allows the MFI to try to address a budding problem or at least prepare for it.

4. Client incentives and penalties

Establish a system that uses both financial and non-financial incentives to borrowers to encourage on-time repayments. The consequences of loan default must be sufficiently unappealing to clients (e.g., no further access to credit and/or penalties) to dissuade them from becoming delinquent. Conversely, incentives can be used to encourage them to keep to their repayment schedule.

Incentives to clients can include the following:

- Clients with excellent repayment history may avail of a repeat loan. Depending on the repayment capacity based on the new cash flow, clients may avail of a higher loan amount. This incentive would motivate good clients to pay on time to avail of a repeat loan and to some extent higher loan amount as additional working capital.
- Clients with excellent repayment record may avail of interest rebate for every timely installments made. Another scheme is to give rebate once the loan had been fully paid on time provided that all installment payments are made on time.
- Recognition of the best clients—maybe client of the year
- Training offered to the best group or clients
- A trip organized for the best clients
- Place photos of the best clients in the newsletters to encourage others to aspire to get there
- Financial rewards (especially to group leaders) are also possible

Penalties to clients can include the following:

- delinquency fees pegged to the number of days late
- limiting access to repeat loans based on repayment performance
- escalation of penalties, including judicial action (MFI must be prepared to follow through)

5. Staff Incentives

Credit officers should also be provided for both financial and non-financial incentives to ensure on-time collection from clients (without forcing them to put undue pressure on the borrowers to repay).

a. Financial incentives entail minimum portfolio quality criteria for incentive eligibility
b. In addition, staff should carry bad debt in their portfolio for a significant period of time (at least six months, preferably until either the client leaves the country or dies) to ensure that they are held accountable for making credit decisions. Even if the loan is written off, the loan officer should still try to collect
c. Non-financial incentives include branch and loan officer competitions and special recognition for top performers

6. Information system

Ensure the information system (not just MIS but also all forms of information, from whiteboards in the branch to accounting and documentation to the portfolio report) provides the proper (timely and accurate) information that field staff needs to collect payments on time and that branch managers and others up the hierarchy can monitor the situation.

7. Delinquency policy

Establish a complete policy for delinquency management and thoroughly train field staff on it. Delinquency needs effective follow up procedures, and these should be documented in the operations policy manual. The delinquency policy should answer the following questions:

- How will the MFI learn about missed payments?
- Who should contact the delinquent borrower?
- How soon after missing a payment should a borrower be contacted?
- How soon and how frequent after the first contact should the borrower be contacted again?
- What method should the MFI use for making these contacts?
- At what point should a delinquency be turned over to a higher authority?
- Who is the higher authority?
- What actions the higher authority should take?
- When should loans be written off?
- What is an acceptable level of delinquency

8. Risk management

Put in place a risk management strategy to cover loans against externally-driven causes of delinquency such as co-variant shocks, illness or death.

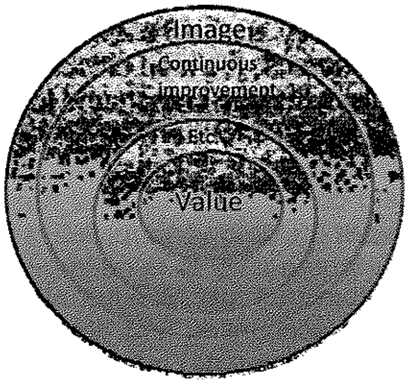
9. Continuous improvement

Set in motion a practice to continually monitor and improve systems and policies. They are not written in stone.

10. Maintain image/reputation

Establish an organizational philosophy and create an organizational image that is communicated both internally (to staff) and externally (to current and prospective clients) that the institution does not consider late payments acceptable.

From top to bottom, these go from the "core" of the MFIs operations to its outer level. Present this in a bull's eye format, with value at the core and image on the outer ring.



Process further: map each strategic idea with the 5 causes of delinquency:

- Institutional
- MF officer
- Client
- Group
- External

The participants will notice that all the causes that can be addressed through the 10-point action plan are either institutional or MF-officer-related. This is because these are the causes that are under the MFI's control.

DAY 3

Review of Day 2

Session Objectives	Review the key points discussed in the second day: • What the key factors are causing delinquency • The PlaNet Finance 10-point action plan to prevent delinquency
Session Time	30 minutes
PowerPoint Slides	None
Exercise	None

Spend a few minutes welcoming the participants back in order to let them settle in, get comfortable again in the classroom and in a talkative mood.

Then start reviewing the major themes discussed the previous day. Rather than lecturing, ask the participants what they recall about each session, picking volunteers first and facilitating the conversation so that as many of the participants have spoken during the review session.

The participants should be allowed to glance at their notes and course materials. The idea is not to ensure that they have memorized everything taught the previous day, but that each of the key themes are vocalized for all to hear:

- What the key factors are causing delinquency
- The PlaNet Finance 10-point action plan to prevent delinquency

The most time should be spent on the causes of delinquency because they are the issues that will be addressed in the next session.

SESSION 5: Steps to Take in a Delinquency: Detection and Action

Session Objectives	Through this session, the participants should understand the tools needed to detect the warning signs of a developing delinquency crisis and learn the basic steps to be taken when a delinquency crisis starts in order to determine the causes and in order to address them and prevent them from spreading.
Session Time	3 hours
PowerPoint Slides	Slides 64-87
Exercise	Exercise 7: Calculating the key ratios

5.1 Delinquency warning signals

1 hour 45 minutes

Slides

Delinquency must be detected as early as possible in order to prevent it from snowballing out of control. The problem is that a crisis can start very slowly and it is easy to ignore these signs as isolated or "one-off" incidents.

Understanding trends at both the level of the clients and the portfolio as a whole is key to detecting the onset of a delinquency crisis.

There are two main sources of information through which a MFI can detect a growing delinquency crisis:

- At the micro level: information about the borrowers and their businesses
- At the macro level: information about the portfolio at the branch or head office

Micro level indicators that a delinquency crisis may be about to develop

Trouble signs in the business

- Business-specific warning signals
  - Reduced inventory
  - Old, dilapidated or idle equipment
  - Visits by other loan collectors
  - Reduced business days or hours
  - Replacement of workers
  - Letting go of staff

- General warning signals
  - Increased competition
  - Sectoral trends
  - Seasonal trends
  - Declining performance of similar types of enterprises in the surrounding community

Trouble signs in the household

- Family problems
- Termination of spouse or family member's employment
- Abandonment of business by spouse or family member
- Large withdrawal from savings
- Illness or hospitalization of borrower or family member

Macro level indicators that a delinquency crisis may be about to develop

Some field staff members may be aware that some clients are not repaying or that the warning signs noted above are gathering. However, it may not be the case that the field staff conclude that the problem is systemic and could soon spiral out of control. This may be the case for many reasons, including:

- The borrowers make a convincing case that they will soon resume loan repayments
- It may seem that delinquencies by certain clients are isolated or one-off events and not due to systemic problems
- It feels reasonable to give more time for the problem to work itself out
- Some field staff fear repercussions if they report that their clients are not repaying

These are the very causes that can let a small problem spiral out of control.

But how can you know whether a delinquency problem is growing? It is important to review information about the quality of the loan portfolio as often as possible to detect trends.

In order to ensure that you are well aware of any problems long before it gets too serious to be able to correct, you need a good management information system, a system that both contains the right data and secondly, can produce the reports that you need in a timely manner.

In order to determine if you have a delinquency problem, you need to measure the quality of your loan portfolio. Three key ratios should be available to you at any given time:

- Portfolio at risk ratio

Unpaid principle balance of loans with at least one late payment

Amount of Loans Outstanding

- A conservative measure of portfolio risk
- The most important determinant of portfolio quality

- Portfolio in arrears ratio

Amount of Payments in Arrears

Amount of Loans Outstanding

- It gives an indication on how common is non-payment
- But it may over-represent portfolio quality, particularly in a growth environment

- Loan loss reserve ratio (risk coverage ratio)

Loan Loss Reserve

Portfolio at risk > X days

It is necessary to look at these ratios (and other information) over time - to see if the delinquency situation is improving, deteriorating and whether what you have implemented is having the desired effect.

5.2 The basic approach to a delinquency crisis

1 hour 45 minutes

Slides 73-87

Even institutions with thorough prevention strategies will experience delinquencies. They most important thing is to control it. One of the biggest problems with delinquency is that it can snowball. If a few delinquencies are not adequately dealt with and information about it gets out, other clients may also stop repaying and/or field staff may stop being vigilant about collecting.

In the case of a delinquency crisis, an institution can adopt a number of strategies. The key to this process is to identify the cause(s) in order to address them and prevent them from spreading.

Perhaps the most important thing to remember in dealing with a delinquency crisis is to avoid a reflexive action of blaming the borrower first. The MFI should be sure that institutional-related causes and credit officer-related causes (as well as externally-driven causes, if applicable) are ruled out before focusing on group-related or client-related causes. Very often the causes of a delinquency crisis comes from inside the institution. Immediately blaming clients demonstrates a lack of respect for them and could make the situation worse.

5.3 Steps to take in a delinquency crisis

1. If rising delinquency has been identified from the MIS system, the first step is to ensure that the MIS's information is correct. A call to the relevant branch manager(s) and loan officer(s) should suffice to verify that the MIS system's information is correct.

If confirmed, the branch manager(s) and loan officer(s) will likely offer explanations for the rising delinquency; these explanations should be confirmed independently through the following steps:

2. Discuss with the internal auditor regarding any irregularities have been identified at the affected branch(es) in the past or recently at any branch that can shed light on the causes of the current crisis.

3. Review the information system itself and the paper trail that leads to the credit officer to determine whether the information it provides about repayment time and amounts is correct. It is important to rule out whether the credit officers have been given the wrong information about when and how much borrowers should be repaying.

4. Determine whether the incentives provided to the branch manager or credit officers have been perverse (i.e., rewards or pressure to make more or larger loans).

5. Review the recent training of field staff in the affected branch(es) to determine whether inadequate training (e.g., lack of knowledge leading to non-compliance with policies) is the cause of the delinquencies.

6. Review the loan appraisal and collection policies themselves to determine gaps that may be causing delinquency.

7. Deploy the internal auditor to the affected branch(es) to verify the explanations provided by the managers and credit officers.

At this point, it should become clear whether the cause of delinquencies is systemic (e.g., due to factors such as incorrect information from the MIS, poor accounting and documentation, improper measurement of portfolio quality and performance, late loan disbursements, perverse incentives, poor training, improper loan appraisal policies or improper collection practices, or external factors) or isolated incidents (e.g., the conduct and behavior of individual credit officers or a group of officers under poor branch management, including fraud).

If none of these factors seems to be the major cause of the rise in delinquencies it is time to determine whether client-related factors or group dynamics are the root cause.

8. One-on-one interviews or focus group discussions with the borrowers should be conducted to determine whether the institution is perceived to be lenient toward non-repayment or lax in collecting payments.

9. Meetings with individual delinquent borrowers and, separately, group leaders, can determine whether group dynamics are to blame.

10. At this point it is also important to determine whether the "contagion affect" is at play; that is, whether some borrowers have heard about delinquency elsewhere and are following suit.

11. Whether the contagion affect is at play yet or not, steps should be taken to communicate to both field staff and clients that non-repayment of loans is unacceptable and reiterate the penalties to both that will be incurred if delinquencies rise.

5.4 Steps to take when dealing with clients

1. After payment is delayed one day
   - Credit officer verifies reason for non-payment and reminds borrowerof his/her obligation and the penalty for late payment
2. After payment is delayed 3 days
   - Credit officer reminds borrowers of other adverse consequences of non-payment (negative credit rating)
   - Credit officer reminds co-borrower and co-makers and reminds them of their obligation
3. After payment is delayed one week
   - First warning letter is sent
   - Supervisor visits borrower, co-borrower and co-makers and remindsthem of the adverse consequences of continued non-payment
4. After payment is delayed two weeks

- Second warning letter is sent
- Branch Manager visits borrower, co-borrower and co-makers andwarns all concerned of their possible inclusion in the MFI's listof blacklisted borrowers if loan payments are not immediatelyupdated

5. After payment is delayed three weeks
    - Third and final letter sent
    - Borrower, co-borrower and co-makers warned that the MFI will take legal action if the loan is not fully repaid within one week
    - Borrower required to come to the MFI to fully repay the loan

SESSION 6: Action Steps after a Deliquency Crisis

Session Objectives	Through this session, the participants should be able to list the various actions an institution should take to deal with the aftermath of a delinquency crisis to prevent its recurrance: • Revision of policies and procedures • Revision of human resources policies • Rescheduling and refinancing of delinquent loans • Suspension of lending operations • Write-offs of non-performing loans
Session Time	3 hrs
PowerPoint Slides	Slides 88-97
Exercise	None

2 hrs

Slides 88-92

Once a delinquency crisis has been brought under control, an institution should take remedial action to prevent its recurrence. This can involve some or all of the following:

- Revision of policies and procedures
- Revision of human resources policies
- Rescheduling and refinancing of delinquent loans
- Suspension of lending operations
- Write-offs of non-performing loans

6.1. Revision of internal policies and procedures

a) Review credit policies and operations procedures for their appropriateness
b) Set up ex-post control capacity to measure refinancing requests, delinquent accounts and on-time accounts against new policies.

c) Separate the poorest performing loans and transfer the non-performing loans to a specialized unit to follow up.

6.2. Revise human resource policies

d) Evaluate the extent to which loan officers are complying with credit policies and operations procedures
e) Review the field staff training program to ensure complete knowledge of credit policies and operations procedures
f) Revise the incentive system

Incentive schemes are important when dealing with delinquency. Incentives should be given to clients who make prompt payments. The MFI should reward staff whose portfolios are performing and at the same time punish staff whose portfolios are not performing well.

Incentives to staff can include the following:

- Monetary rewards
- Promotions
- Recognition in the form of certificates, staff of the quarter award, staff of the year etc.
- Increased bonuses
- Trainings and exposure visits

Note that designing an incentive system, it should be well thought out and some of the following questions should be answered:

1. Who will qualify? All staff? Field staff?
2. What will the incentive be based on? Portfolio size? Quality? Profitability?
3. How will the size of the pool and distribution be determined?

Incentives schemes for lending should combine profitability, quality and size. Incentive system should be designed to cater for portfolio growth, client retention, and quality through portfolio at risk and loan repayments.

g) Set deadlines for improving performance

h) Lay off loan/credit officers and other field staff whose performance is poor and unacceptable or who encourage delinquency.

6.3. Rescheduling and Refinancing

Rescheduling and refinancing loans are techniques used for reducing arrears, defaults and delinquencies. However this method can be used well or misused. The refinancing of some clients who have a genuine potential to repay loans should be done judiciously.

Note that rescheduling and refinancing are appropriate actions in certain circumstances but can be extremely dangerous and costly to the microfinance institution if used improperly. They have an effect of reducing the financial health of an MFI.

Rescheduling and refinancing should be authorized at the highest possible level in an MFI.

Rescheduling of loans is the process whereby a loan payment schedule is changed to a later date to avoid arrears and a new payment is put in place. This method enables a client not to fall in arrears by giving him a chance to make a clean start.

Refinancing a loan is the process by which lent more money is given to a borrower with an outstanding balance. The new loan is usually used to pay off the previous loan and to provide some new financing by adding an additional amount to the previous balance. Refinancing and rescheduling can be used to convert a delinquent loan into one back on schedule with no arrears.

Refinancing works well in instances when arrears are as a result of co-variant shocks. Nonetheless, refinancing or rescheduling loans may be done only after temporary respite and may encourage even higher levels of delinquency in the future. Furthermore refinancing and rescheduling may have a spill over effect where if other clients know that it's an open option then they will opt for it hence deliberately falling into delinquent situations thereby encouraging more delinquencies.

6.4. Suspension of lending activities

It is important for a microfinance institution to portray a zero tolerance on debts to its clients. Prudent debt management shows that loans should not be issued to clients or groups that have arrears since this portrays a bad message. A microfinance finance institution should therefore suspend lending to new clients until the portfolio at risk (over one day) ratio falls below 10% thus sending a clear message that arrears are taken seriously by the MFI's management and the board of directors.

6.5. Loan write-offs

Writing off loans is a last resort action that MFI's take especially when the portfolio at risk is aging and the loans are deemed unrecoverable by the microfinance institution.

However writing of a loan does not mean that efforts of loan recovery should stop. Writing off loans removes the defaulted loan from the portfolio.

In most cases it is advisable that the clients are not informed that their loans are written off because the effects could be contagious to other clients. A microfinance institution must have a loan loss reserve to cater for write offs.

Ideally the MFI should set aside a sinking fund to cater for loan write-offs. A rule of thumb is that write-offs should only occur for loans that are delinquent more than 6 months.

Case study – A Microfinance Program in Crisis

Exercise 7

CASE STUDY: MICROFINANCE PROGRAM IN CRISIS

John, the chief accountant of DARDANIA Credit Program, was in a slight panic after he had completed a training program on delinquency management. He realized that many of the procedures, measures and attitudes that were proposed in the training were not being used at DARDANIA, like taking measurements beyond the simple 'amount past due' formula to monitor portfolio quality, or ageing arrears. He had only been at DARDANIA for a year, but as far as he knew no non-performing loans had been written off in DARDANIA's four years of existence, nor did DARDANIA ever refinance loans with overdue payments. What is more, DARDANIA did not really have a clear standard for delinquency rates other than its motto " keep it low". As chief accountant, he was sure that DARDANIA did not have a loan loss reserve in its accounting books.

John's fears were well founded. Even with the inadequate loan tracking system of DARDANIA (which had not been updated since the organization started), he determined that the delinquency rate using the 'portfolio at risk' formula was 42% last year. The credit program has seen steady growth in portfolio size, and this had apparently helped conceal the problem. Despite this growth, DARDANIA also had unused loan funds, since donors keep supplying DARDANIA with new capital.

Other measurements John took were equally worrisome, so the DARDANIA management committee set up a taskforce to do something. They put John in charge since he had found the problem.

A rapid study of the credit program revealed that the loan portfolios of a small number of loan officers had far worse repayment rates than the average although these loan officers claimed they were unaware of this because of limited information from DARDANIA tracking system. The study also found that a sampling of borrowers with delinquent loans seemed not to have real reasons for late payment and were rather unconcerned about being in arrears. DARDANIA's program uses both individual and solidarity-style credit methods, and the latter type of loan was performing much better.

Members of the taskforce proposed four solutions: automatic refinancing, much faster growth to cover the problem, immediate write-off of all loans over six months in arrears to improve repayment rates and redefining delinquency so XYZ would look better. John decided to call his fellow course participants for advice.

How would you advise John to act?

Case study questions

1. Discuss the appropriateness of the four solutions. Give reasons for your position on each proposed solution.

2. Suggest up to five immediate actions that might contribute to quick improvement of the DARDANIA situation (be as bold as you think appropriate)

3. Give John guidance on what action the Task Force should propose to the Management Committee that should be taken within the next year. John says the bosses want up to ten new ideas a clear explanation of how each will help and a sense of priority among the proposals so they know where to start.

Synthesis and Recap

Facilitate a discussion around the following questions:

1. How does the image of the MFI impact delinquency?

   Whether borrowers pay back loans on time depends, to a large extent, on the borrowers' perception of the costs and benefits of timely repayment.

2. How do you create a culture of zero tolerance?

   The level of delinquency would depend on the MFI's culture of zero tolerance and how this culture has been ingrained from top management down to the lowest level of the MFI's organizational structure. Management should never allow borrowers to plead their case of non-payment to the supervisors if the account officers stood pat on collecting from them. On the other hand, MFI supervisors should never allow the account officers to relax its rules on zero tolerance paving the way to the gradual collapse of the credit discipline.

   The culture of zero tolerance projected by the MFI to the community will indicate to the borrowers if they will be paying their loans on time, all the time.

3. What is the most common cause of delinquency and what should an MFI do about it?

   High levels of delinquency should not be blamed on the borrowers but on the credit institution. To mitigate the effects of uncontrollable factors, the MFI should be able to adjust its methodology, and quickly identify and resolve the factors on a case-by-case basis.A good information system is critical to controlling delinquency. The refinancing and rescheduling of delinquent loans should be used sparingly in specific justifiable causes.

DAY 4

Review of Day 3

Session Objectives	Review the key points discussed in the third day: • Tools needed to detect the warning signs of a developing delinquency crisis • The basic steps to be taken when a delinquency crisis starts • The various actions an institution should take to deal with the aftermath of a delinquency crisis to prevent its recurrance
Session Time	30 minutes
PowerPoint Slides	None
Exercise	None

Spend a few minutes welcoming the participants back in order to let them settle in, get comfortable again in the classroom and in a talkative mood.

Then start reviewing the major themes discussed the previous day. Rather than lecturing, ask the participants what they recall about each session, picking volunteers first and facilitating the conversation so that as many of the participants have spoken during the review session.

The participants should be allowed to glance at their notes and course materials. The idea is not to ensure that they have memorized everything taught the previous day, but that each of the key themes are vocalized for all to hear:

- Tools needed to detect the warning signs of a developing delinquency crisis
- The basic steps to be taken when a delinquency crisis starts
- The various actions an institution should take to deal with the aftermath of a delinquency crisis to prevent its recurrance

  The most time should be spent on the tools needed to detect the warning signs of a developing delinquency crisis because this is th issues that will be addressed in the next session.

MODULE 3: PORTFOLIO QUALITY MANAGEMENT

SESSION 7: Defining and Measuring Portfolio Quality

Session Objectives	Through this session, the participants should gain an in-depth understanding of how to understand and measure portoflio quality, focusing on: • Understanding what a microfinance portfolio is • Understanding the various portfolio quality indicators, how they are calculated, and the relationship among them
Session Time	6 hours
PowerPoint Slides	Slides 103-131
Exercise	Exercise 9: Understanding non-performing portfolio Exercise 10: Caluculating portfolio quality indicators

30 minutes

Exercise 8

While the participants are out of the room, hide several hundred matches in various places – under chairs, under cups, etc., in varying quantities. Divide the participants into groups of 5 but do not tell them to which group they belong, so for the moment they are all working on their own. Given them 15 minutes to find as many matches as possible.

You'll most likely find that people start stealing from each other!

Count the amount of matches found vs. the amount that was hidden.

Process: the amount hidden is the total amount of loans disbursed. The amount found is the amount of loans collected. The difference is the non-performing portfolio. The causes of the non-performance of the portfolio are uncertainty, uncoordination etc.

8.1 Terms and Definitions

45 minutes

Slides

An MFI's portfolio, or "gross loan portfolio" is the principle amount of loans outstanding to clients. "Principle" means the amount lent out; it does not include interest on the loans.

The gross loan portfolio is the largest and most important asset of the MFI. It is what generates the income that allows the MFI to continue operating. The problem that every MFI must deal with is that its most important asset, the portfolio, is held outside the institution, in the hands of the borrowers. Because of that, there is a certain level of risk inherent in any portfolio because repayment by clients, which happens in the future, is uncertain.

This is why it is important to track and measure portfolio quality!

Portions of the portfolio are categorized based on the income they are expected to generate:

- The "performing portfolio" is that portion of loans that clients are repaying on time.
- The "non-performing portfolio" is that portion that clients have stopped paying and in which repayment is unlikely.
- The "non-performing portfolio" is a subset of the "portfolio at risk" which includes all loans in which even one payment is late after a certain number of days.

8.2 Indicators of portfolio quality

1 hour 15 minutes

Slides

Portfolio quality indicators measure the "performance" of the portfolio. They show how well the branch or the entire MFI are achieving their financial and social goals.

Indicators to measure portfolio quality are therefore a concern of all MFI staff.

The most important portfolio quality indicators are:

- Repayment rate
- Arrears rate
- Portfolio at risk ratio
- Risk coverage ratio
- Loan loss ratio (write off ratio)

    - Repayment rate

$$Repayment\ rate = \underline{Value\ of\ installments\ \ received}$$

$$Value\ of\ installments\ due$$

A commonly used measure of portfolio quality because it is simple to calculate

- However, since the repayment rate only looks at current cash flow and not the total value of all loans, it is not an accurate measure of portfolio quality.
- In particular, it includes payments from past due loans and pre-payments, meaning that current cash flow does not accurately measure the real repayment rate

- Arrears rate

$$Arrears\ rate =$$

- $Total\ installments\ past\ due$

$$Value\ of\ loans\ outstanding$$

Also a commonly used measure of portfolio quality

- However, it is also inaccurate.
- Measures the amount of loan principle that has come due but not been paid.
- The arrears rate shows how much of the loan has become due and not received. This tends to overstate the quality of the portfolio because it focuses only on individual payments that are late and not the entire amount of the loan that may not be paid back.

- Portfolio at risk ratio

$$Portfolio\ at\ risk = Total\ value\ of\ outstanding\ loans\ with$$

$$at\ leatst\ one\ payment\ past\ due$$

$$Value\ of\ loans\ outstanding$$

- A conservative measure of portfolio risk
- The percent of our portfolio in danger.
- The most important determinant of portfolio quality because it measures the potential for future losses based on the current performance of the loan portfolio.
- Usually the standard measure is after 30 days, but in truth even after one day late payment the portfolio is in danger. PAR_1 is thus the truest measure of portfolio quality.
- Also includes restructured, rescheduled, and refinanced loans in the numerator.
- PAR is the most widely used measure of portfolio quality in microfinance. It measures the portion of the entire loan portfolio "contaminated" by arrears as a percentage of the total portfolio.

- Risk coverage ratio

$$Risk\ coverage\ ratio = Loan\ loss\ reserve$$

$$Portfolio\ at\ risk > x\ days$$

- In some MFIs, this is called the "loan loss reserve ratio"
- This indicator shows how much of the portfolio at risk is covered by an MFI's loan-loss allowance.
- It must be higher than the PAR in order to ensure all potential losses are covered.
- Provisioning is often dependent on the aging report: the older the delinquent loan, the higher the loan loss reserve.
- Booked as a liability on the balance sheet.

- Write-off ratio (Loan loss ratio)

$$Write\ off\ ratio = \frac{Value\ of\ loans\ written\ off\ during\ the\ period}{Average\ loans\ outstanding}$$

- In some MFIs, this is called the "loan loss ratio"

- This indicator shows the percentage of an MFI's loans that have been removed from the gross loan portfolio in a given period because they are unlikely to be repaid.

Exercise 9

Divide the participants into pairs. Distribute worksheets for the pairs to calculate the varoius ratios. The intention of the exercise is to better feel and understand how the ratios are computed.

Exercise 10: Calculating portfolio quality indicators

Using the data below, calculate the following indicators:

Q1: Arrears rate

Q2: Portfolio at risk (PAR>30)

Q3: Risk coverage ratio

Q4: Write-off ratio

Table 1: Portfolio Report

	As of Dec 2010	As of Dec 2009
Total value of loans disbursed	2,200,000	990,000
Total number of loans disbursed	10,500	5,500
Number of loans outstanding	5,600	3,500
Value of loans outstanding	740,000	400,000
Total payments in arrears	59,667	40,167
Outstanding balance of loans in arrears	210,000	121,000
Value of loans written off during the period	19,000	15,000
Average loan disbursement size	210	180
Average loan balance size	132	114
Average loan term (month)	6	6

Number of credit officers	22	17

Table 2: Aging of Arrears (2010 Portfolio Information)

Days in Arrears	Number of loans	Outstanding balance
Current loans	3,800	530,000
< 30 days	1,000	130,000
31-60 days	360	40,000
61-90 days	220	20,000
91-120 days	130	12,000
> 120 days	90	8,000
Total	5,600	740,000

Table 3: Excerpt from balance sheet

ASSETS	As of Dec 2010	As of Dec 2009
Cash and due from banks	42,000	18,000
Reserves in central banks		
Short-term investments	124,000	254,800
Total loan portfolio	740,000	400,000
(Loan loss reserve)	-50,000	-35,000
Net loans outstanding	690,000	365,000
Fixed assets- property and equipment	34,800	26,400

Exercise 10 Answers

Q1. Arrears Rate=59,667/740,000=0.0806 (8.06%)

Q2. Portfolio at Risk= 210,000/740,000=0.284 (28.38%)

Q3. Risk Coverage Ratio=50,000/(40,000+20,000+12,000+8000)=0.625 (62.5%)

Q4. Loan Loss Ratio=19,000/{(740,000+400,000)/2}=19,000/570,000=0.0333 (3.33%)

10 minutes

Energizer

APPENDIX 4:

Trainer's Guide – Delinqency Control Portfolio Quality Mgmt

Energizer:

Flash the following on the Flash the following on the screen:
This test has 4 questions that analyze how you think!

Q1: (photo of a giraffe) how do you put a giraffe into a refrigerator?
Answer: Open the refigerator, put in the giraffe, and close the door

This question tests whether you do simple things in an overly complicated way. Most people tend to complicate things when they can be done simply.

Q2: How do you put an elephant into a refigerator? (Elephant bigger than a giraffe).
Answer: Open the refigerator, take out the giraffe, put in the elephant, and close the door

This question tests your ability to think of the repurcussions of your actions.

Q3: The lion king is hosting the International Animal Conference. All the animals attend except one. Which animal is not attending?
Answer: The elephant. The elephant is in the refigerator.

This question tests your memory.

Q4: There is a river you must cross, but it is inhabited by crocodiles. How do you manage to cross?
Answer: You swim across. All the animals are in the meeting.

This question tests whether how quickly you learn from your mistakes (and your long-term memory).

According to Anderson Consulting, most 90% of professionals answer all questions wrong, but many pre-schoolers got several questions right!

8.3 The portfolio report

1 hour

Slides

The purpose of the portfolio report is to represent in detail an MFI's lending activity, present the quality of the loan portfolio, and provide detail on how the MFI has provisioned against potential losses.

- The portfolio report measures the quality of the portfolio on a regular basis using the indicators discussed previously
- The portfolio report shows how the MFI or branch is performing across the variety of quality measures (repayment, portfolio quality, productivity, efficiency, and outreach)
- The portfolio is the largest income-generating asset and needs to be monitored regularly.
- A decline in portfolio quality affects good borrowers and thus the overall strength of the branch and the entire MFI.

SESSION 9: Managing Loan Portfolio Quality

Session Objectives	Through this session, the participants should become familiar with the process of managing loan portfolio quality • Understanding the importance of managing loan portfolio quality • Basic concepts in managing loan portfolio quality • The process of managing loan portfolio quality
Session Time	2 hours
PowerPoint Slides	Slides 132-182
Exercise	Exercise 11: Trade-offs in portfolio quality

9.1 Understanding the importance of managing loan portfolio quality

45 minutes

Slides

Facilitate a discussion based on the following question:

When the quality of a portfolio – as measured by PAR or other indicators discussed in the previous session – declines, what is the impact?

Portfolio quality is important to the financial success of any microfinance institution.

A decline in portfolio quality is a **cost** to the MFI. There are two kinds of costs:

- Financial costs: higher costs of business and reduced cash flow
- Non-financial costs

Often, the non-financial costs have a greater impact. While financial costs can be dealt with over time, fixing the image of the MFI in the eyes of clients and the morale of the staff takes much longer to fix – if at all!

When costs rise, cash flow drops and the MFI's image and staff morale declines, the ability of the institution to serve its clients falls dramatically.

That's why managing portfolio quality are therefore a concern of all MFI staff!

9.2 Basic concepts in managing portfolio quality

45 minutes

Slides

At the outset, the most important points to emphasize are:

- Portfolio quality management is a continuous process that begins once the loan has been disbursed and continues throughout the life of the loan.

- It is responsibility of the **microfinance officers** to ensure that the borrowers' businesses are operating as planned and that they can repay the loan.

Managing portfolio quality has two components:

- Preventing the client from not paying, which includes the following
    - Properly appraising the client's use of the loan and capacity to repay before the loan is disbursed
    - Providing clients with clear information on the terms of the loan
    - Ensuring the client understands that the institution does not tolerate late payments
    - Increasing the moral commitment of the client toward the microfinance officer and the MFI as a whole
    - Listening to the client's needs and concerns and anticipating any repayment problems that may arise in the future.

- Reacting quickly and effectively when a client misses a payment. Remain in close contact with the client so that he/she understands that you are concerned ... and will not let this slide. And do not hesitate to use penalties – financial or non-financial – as needed.

9.3 The process of managing portfolio quality

45 minutes

Slides

Frequent contact with borrower is the key to managing loan portfolio quality.

- Regular contact and discussions establishes trust and builds respect, which encourages clients to repay

- Regular contact helps the microfinance officer to better understand the client's business and economic situation. This helps the microfinance officer anticipate (and, hopefully, prevent) repayment problems.

Client monitoring begins soon after the loan is disbursed and must continue throughout the life of the loan.

When a payment is missed, certain procedures must be followed.

9.4 What to do when there is a portfolio quality crisis

25 minutes

Slides 170-173

Once a portfolio crisis hits, after the immediate action all staff, from the management to the field officers, should ask themselves what was wrong with their system that allowed it to occur:

- How did we select our clients?
- How did we follow up?
- Is our credit methodology the right one to meet the clients' needs?
- Is our information system accurate?
- Is the staff properly trained?
- Is the incentive system for clients and staff right?
- Is our monitoring activity appropriate
- What do our clients think of our image and our philosophy?

In the end, there is no bad client, there is only a bad loan developed by a bad service provider!

9.5 Trade-offs in managing loan portfolio quality

1 hour

Exercise 10: Quantity vs. Quality

Divide the participants into even groups of 4 or 5. Have them sit around a table without anything (no paper, no pens etc.).

Role play: they are consultants for an airplane company. Give each group 100 sheets of paper. Give them 5 minutes to make as many paper airplanes as possible.

Count the number of airplanes each group made.

Then, put two lines on the floor about 20 feet apart. Have each team throw their planes. The plane must cross the other line, even if on the floor.

Publish:

1) post the scores: number of airplanes vs. number that crossed the line. Calculate the % of successful planes. Usually the group with the fewest number of planes will have the highest percentage.

	Team A	Team B	Team C
# of planes produced			
# of successful planes			
Efficiency (# of successful planes / # of planes produced)			

2) Which group was most efficient?

Explain the difference between efficiency and effectiveness.

Material cost = 100 pieces of paper @ Rs. 1 per sheet = Rs. 100

Labor cost = Rs. 300/day = Rs. 43/hour = Rs. 2 for 3 minutes. For a team of 5, total labor cost is Rs 2 * 5 = Rs. 10

Unit cost for producing x number of airplanes = (# sheets used * Rs 1 + total labor cost)/x airplanes. This is a measure of efficiency.

Multiple unit cost by the number of airplanes that could fly. This is a measure of effectiveness.

Efficiency = number of output at the minimum of cost, irrespective of quality

Effectiveness takes into account quality.

Process: there is a trade-off between quantity and quality.

The number planes made is the number clients = the quota of the MFO staff.

The number of planes that fly are good/quality clients

Moreover, how you fly the plane (throw it) is important. There is a technique

The same is true in microfinance. Someone might start out being a good client, but how you deal with them can determine whether the client turns out good or bad.

<u>Effectiveness is the goal</u>. Otherwise what is the purpose?

So in microfinance. Is the goal just to make planes (get clients)? Or is it to have good quality clients? When you started to make the planes, under the instructions to «make as many as possible» you wanted to win but didn't anticipate that you'd be ask to fly the planes (which were not in the instructions, but obvious to any adult – why else would you make them?). So you rushed to make planes without anticipating the result: many wouldn't fly (e.g., clients may turn out to be delinquent).

In microfinance, the starting point is to respond to the clients' needs. But simply disbursing the loan is not enough. Like a seed needs soil, sunlight, and water, the clients need the same. And the way growing plants can be attacked by pests, floods etc., clients are affected by risks. The pests (risks) are already there. They won't go away. You need a pesticide (to manage risks and deal with delinquency). These are your delinquency prevention measures.

But even this is not enough. Just like you want the seed to grow into a strong plant that bears flowers and then fruit, this is the mission of your institution (to get out of poverty). Through your loans, you can see that your clients are now expanding their business, sending their children to school, eat regular meals every day etc. Before you reach this stage, you have to take care of the plant/client. For that you need signals = e.g., PAR etc.

This is why you have to manage your portfolio.

20 minutes

Slides

The point to emphasize in this section is that often there is a trade-off between growth (outreach, expansion) and quality – at least in the short run.

Too much emphasis on growth leads to:

- Poor portfolio quality
- Higher rate of default
- Overworked loan officers

- Poor client relations
- Higher rate of drop-outs

Outreach: setting targets. This decision needs buy-in from all levels of the organization. They need to have ownership over the plan, otherwise they'll just do the minimum and not do the best job possible. This is particularly true for outreach, because the field staff are the ones who implement it. Outreach (expansion) without a plan leads to poor portfolio quality due to a high rate of default (NPL). It also leads to overworked MFOs/loan officers, leading to poor client relations. Then clients either default or just drop out. Either is very costly. The cost of finding a new client is very high.

FMFB client retention rate is 67% and decreasing.

Too much emphasis on quality leads to:

- Slow recruitment of staff and clients
- Go for bigger loan amount
- Higher cost of credit administration (over monitoring)
- Low productivity (case load of loan officers/MFOs)
- Lower portfolio yield

The opposite of focusing on outreach (quantity) is portfolio quality. Too much focus on quality means slow growth, focusing on larger loans, over-monitoring (higher cost). All of these lead to lower productivity (case load of loan officers/MFOs). All of these lead to lower portfolio yield. This is an important indicator of profitability and sustainability. And sustainability must be achieved.

Thus, an MFI must balance quantity and quality. "Striking a balance is necessary."

→ In determining what balance to strike, you need information. And then you have to systematize it. Level and trend of PAR, arrears, etc.

This balancing should be part of the MFI's long-term strategy. And it should take into account the MFIs performance over the past years. Start by reviewing your growth trend over the past 5 years. That trend is your basis for projecting the number of clients you'll recruit. Then you think about how much PAR, arrears, and reserves you can allow in the business side of your strategic business plan.

DAY 5

Review of Day 4

Session Objectives	Review the key points discussed in the second day: • Defining and measuring portfolio quality • Managing loan portfolio quality
Session Time	30 minutes
PowerPoint Slides	None
Exercise	None

Spend a few minutes welcoming the participants back in order to let them settle in, get comfortable again in the classroom and in a talkative mood.

Then start reviewing the major themes discussed the previous day. Rather than lecturing, ask the participants what they recall about each session, picking volunteers first and facilitating the conversation so that as many of the participants have spoken during the review session.

The participants should be allowed to glance at their notes and course materials. The idea is not to ensure that they have memorized everything taught the previous day, but that each of the key themes are vocalized for all to hear:

- Defining and measuring portfolio quality
- Managing loan portfolio quality

The most time should be spent on defining and measuring portfolio quality because this is the issue that will be addressed in the next session.

SESSION 9: Understanding the Loan Portfolio tracking system

Session Objectives	Through this session, the participants should understand the basic characteristics of a loan portfolio tracking system and the importance of the system
Session Time	2 hrs
PowerPoint Slides	Slides 183-189
Exercise	Exercise

10 Understanding the loan portfolio tracking system

Information is an important element to the success of a business. For MFI, where loans are the key business, tracking loan data and information can define the success or failure of the operation, since MF operation is highly information based. Thus, two major information systems are important in an MFI's business operation, namely: portoflio tracking and accounting system.

Information: Key to Success

Good information → Good business → Successful MFIs

Characteristics of good information systems

- Timely
- Reliable
- Accurate
- Easy to use
- Appropriately detailed reports, with just "enough" information
- Meet needs of various user categories
- Secure
- Good internal controls built in
- Benefit of having information exceeds cost to produce

SESSION 10: Practical Exercise: Strategies to Maintain FMFB Portfolio Qualityy

Session Objectives	Apply the various concepts, principles and learnings to improve FMFB's loan portfolio quality.
Session Time	2 hours
PowerPoint Slides	
Exercise	Exercise 13: Group discussion: Recommendation on how to improve FMFB's portfolio quality

In this session, participants are grouped into 5 to discuss the learning they have gained in the previous session discussion and be able to recommend strategies to improve the loan portfolio quality management of FMFB.