

OVERVIEW OF TOOLKITS



MicroSave
Market-led solutions for financial services

MicroSave's

INSPIRATION:

“A WORLD IN WHICH ALL PEOPLE
HAVE ACCESS TO HIGH-QUALITY AFFORDABLE
MARKET-LED FINANCIAL SERVICES”

MISSION:

“STRENGTHENING THE CAPACITY OF
FINANCIAL SERVICE PROVIDERS TO DELIVER
MARKET-LED FINANCIAL SOLUTIONS”

OVERVIEW OF TOOLKITS



WE ARE ...

MicroSave provides practical, market-led solutions to assist financial service providers succeed and achieve their mission and business objectives. It has evolved from more than a decade long experience of working in Africa and has been active in India since 2006. In response to repeated demands for technical assistance, *MicroSave* has now expanded its operations throughout Asia. *MicroSave* is a team of experienced professionals delivering technical assistance to financial institutions and has been routinely described as “the most reliable consulting firm for financial service providers”.

WE OFFER ...

- Expertise grounded in years of experience working on a variety of organisations and institutional forms – commercial banks, NGO-MFIs, Postal Banks and NBFCs throughout Africa and Asia.
- Unique tools and practical solutions that are empowering for the financial institutions and their customers.
- A history of helping financial institutions achieve very significant growth and a sustainable, positive impact.
- A market-led approach that has changed the microfinance industry.

OUR AREAS OF EXPERTISE ...

MicroSave provides premium quality technical assistance through training and onsite guidance on an applied market-led approach to providing financial services. This includes:

- Strategic business planning
- Marketing (customer service, corporate brand and identity, product marketing, staff incentives etc.)
- Institutional strengthening (basic financial accounting and management, internal audit and controls, delinquency management, governance etc.)
- Product development (market research, costing and pricing, process mapping, pilot testing, risk analysis, roll out)
- Developing and delivering savings services
- Electronic and mobile banking
- Research/documentation/dissemination
- Project/programme reviews
- Qualitative impact assessments and social performance management
- Due diligence, portfolio audits for investors

RECENT REVIEWS CONCLUDED ...

“The training courses organised by *MicroSave* have been very well received by the MFIs, with not only reported, but also clearly discernible, improvements”.

“*MicroSave* has made an undisputed contribution to the availability of better financial services for poor people across the globe”.

INTRODUCTION TO TOOLKITS



MicroSave is committed to building capacity through training delivery and use of its reference material, toolkits, among microfinance institutions (MFIs) pursuing a market-led, client-responsive approach to developing and delivering financial services.

MicroSave's approach is distinguished by its **practice-based** training philosophy and strategy :

- *MicroSave's* toolkits are developed on the basis of rigorous, **field-based research and testing** of the approaches and tools with a diverse range of MFIs operating in a variety of markets.
- *MicroSave* training then focuses on transferring the knowledge, skills and attitudes necessary for effective use of each toolkit through hands-on, **practical application of the tools** as part of the training process.
- Training is also followed by recurring **onsite technical support** to ensure correct and complete implementation of the learning.

When *MicroSave* designs training materials for a toolkit, it seeks to provide an array of resources for the user to draw on. Each toolkit includes:

1. **PowerPoint** slide presentations to guide the training; along with
2. **Handouts** which are additional reference material
3. **Exercises** to make the training meaningful, practice-rooted and participatory; and
4. A **Participant's Manual** (the Toolkit itself) that is the core reference document and outlines the topic area in detail.
5. Finally, *MicroSave* provides **relevant papers** and **2-page Briefing Notes** related to the toolkit, which are the product of its action research agenda and provide helpful information on the topic.

Thus participants in *MicroSave* training workshops are supplied with a wealth of resources to assist them implementing the toolkit and driving effective change to improve the performance of their organisation.

The combined experience of its core research and close work with a wide variety of partners in Asia and Africa has allowed *MicroSave* to develop and test a series of practice-based and practitioner-focused, training curricula and workshops.

The *MicroSave's* toolkits have been categorised, but some of the toolkits, like qualitative market research tools, process mapping etc. have diverse uses and thus can be placed under more than one category.

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- Strategic Business Planning for Market-led Financial Institutions
- Social Performance Management
- Strategic Marketing for Microfinance Institutions

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GOVERNANCE AND STRATEGIC PLANNING

- **Board and Governance for Microfinance Institutions**
- **Strategic Business Planning for Market-Led Financial Institution**
- **Social Performance Management**
- **Strategic Marketing for Microfinance Institutions**



BOARD AND GOVERNANCE FOR MICROFINANCE INSTITUTIONS

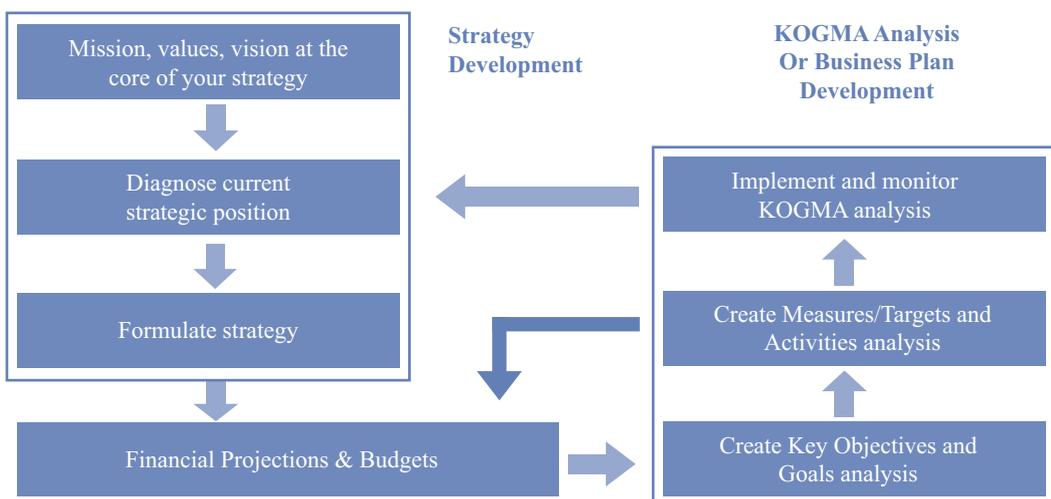
Fundamental to effective governance is the ability of individual directors to work together to accomplish a balance between strategic and operational responsibilities. Effective governance occurs when a board is able to provide guidance to management in strategic issues and is effective in overseeing management implement the strategic plan goals and initiatives. Both sets of priorities are required to successfully navigate an institution through its short and long term growth. The role of the board is discussed in detail with supporting samples to help develop systems in the MFIs. Management assumes operational authority and ensures that the institution’s programme of activities responds to the direction jointly agreed upon with the board.

The board of an institution is a unique body of individuals that functions as a group in its management oversight and strategic leadership of an organisation or business. This toolkit, developed with MEDA, highlights the specific responsibilities of the board, specifically those that cannot be delegated to others:

- Fulfilling legal corporate functions
- Managing themselves and their own performance
- Setting policy and strategic direction
- Supervision, hiring and firing of the Chief Executive Officer
- Financial monitoring of the institution

STRATEGIC BUSINESS PLANNING FOR MARKET-LED FINANCIAL INSTITUTION

This toolkit assists financial organisations review/develop their Mission, Values and Vision statements; and then develop a strategy on the basis of market, competition, institution



and macro-environment analyses. This strategy outlines the financial institution’s market and scope, its strategy towards the competition, and how it will develop and maintain a competitive advantage in the market place.

Having a strategy is one thing – implementing it, another. The toolkit assists participants develop a business planning framework that clearly lays out the:

- **Key Objectives** (the issues that are critical to the successful implementation of the strategy)
- **Goals** (that must be met to realise the key objectives)
- **Measures/Targets** (the financial and non-financial indicators that will be tracked to assess progress towards achieving the goals) and
- **Activities** (or projects that will be implemented to achieve the goals)

This analysis then allows the institution to develop its strategic business plan in a participatory manner thus getting inputs/insights from all levels, building buy-in/understanding at all levels and optimising implementation.

SOCIAL PERFORMANCE MANAGEMENT

MicroSave’s Social Performance Management (SPM) tool is designed to assist MFIs, consultants or potential investors in MFIs conduct rapid diagnostics of a microfinance organisation and determine how its processes are aligned with its social objectives, with emphasis on client feedback.

On the basis of this assessment, all involved can see the areas where the MFI is likely to require improvements particularly in the institutionalisation of social performance management and putting its mission into practice. Furthermore, as social performance management is



Important Aspects of Social Performance Management

integrated at an MFI, investors and other stakeholders will not only see improvements in financial performance, but also evidence of a strong commitment to its social objectives and a definitive way forward in achieving the financial and social goals of microfinance.

The focus is on understanding:

- The intent (Mission, Vision) and how clearly the social aspects of the intent are spelled out;
- The process of implementing the intent, – client targeting, methodology, products and services offered, staff training and incentives, management information systems; and
- The results – client outreach and characteristics, dropouts and perceptions/feedback on products and services.

MicroSave's low-cost social performance management tools do not simply measure the depth of outreach but also allow the MFIs to improve their business performance. They are focused on providing valuable and usable information that will allow the MFI to improve its products and services, and the systems that will deliver them, thus yielding improved customer satisfaction and loyalty.

STRATEGIC MARKETING FOR MICROFINANCE INSTITUTIONS

“Marketing attempts to understand the needs of the client and to adapt operations in order to meet those needs and achieve greater sustainability. It addresses the issues of new product development, pricing, the location of operations and the promotion of the institution and its products. Marketing is a comprehensive field aimed at strengthening the institution by maintaining focus on the client.” - Kotler, 1999

Building on a comprehensive review of the marketing efforts of its partner financial institutions, TMS Financial and *MicroSave* developed a strategic marketing framework for use in the microfinance industry. The marketing strategy comprises three pillars:

1. Corporate brand strategy
2. Product strategy
3. Product delivery and customer service strategy

The Strategic Marketing toolkit and training focus on evaluating an institution's ability to deliver in each of these pillars. It also prepares the institution to develop a comprehensive strategic marketing plan, including marketing systems to collect client feedback and respond to market demand within the mission and strategy of the institution.

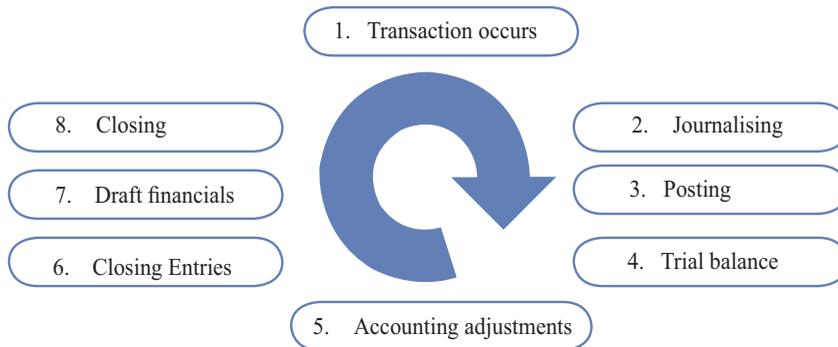
FINANCIAL MANAGEMENT

- **Strategic Business Planning for Market-Led Financial Institution**
- **Financial Accounting Systems**
- **Financial Management and Ratio Analysis**
- **Advanced Accounting and Financial Management**
- **Management Information Systems**
- **Capital Structuring and Equity Valuation**



FINANCIAL ACCOUNTING SYSTEMS

Accounting is the process of classifying, recording and summarising economic events, which leads to the preparation of financial statements useful for management control and decision-making. A good accounting system is essential in a microfinance institution. This course introduces the generally accepted accounting principles and concepts that guide accounting practice and procedures. It is designed for bookkeepers, accountants or trainers that work in or provide support to a range of MFIs and Self-Help Groups.



The Accounting Cycle

This toolkit, developed with MEDA, includes the following topics:

- What is accounting
- Overview of microfinance accounting systems
- Accounting documents
- The accounting cycle
- Internal control procedures
- Accounting procedures for microfinance
- Financial statements and reports

FINANCIAL MANAGEMENT AND RATIO ANALYSIS

One of the objectives of the accounting process is to produce financial statements and reports that are meaningful for analysis, monitoring and decision-making. In a microfinance institution, financial ratio analysis is one of the key ways to do that. Ratio analysis explores relationships and trends between information in the portfolio report, the balance sheet and the profit and loss statement. It can provide insight into the health of the portfolio, the operating efficiency, and the strength of the financial position of the institution.

This implies that MFI managers need a fairly high degree of skills and understanding in financial management. In the past two years, concerted efforts have been made to arrive at consensus on a common set of definitions and ratios that can be used as a standard across the microfinance industry. The ratios and their calculations, addressing non-deposit taking institutions are laid out clearly in SEEP’s publication, *Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring*.

This toolkit, developed with MEDA, addresses the legal and local requirements of Indian microfinance institutions and organisations, which may be over and above the industry-wide standards. It is appropriate for accountants, managers or trainers that work in or provide support to a range of MFIs and Self-Help Groups.

ADVANCED ACCOUNTING AND FINANCIAL MANAGEMENT

The microfinance sector is undergoing more rapid change today than ever before in its brief history.

- Competition for clients, staff and market share are growing
- Innovations and technology are on the rise
- Social, private and commercial investors are interested in microfinance
- Regulators and formal financial institutions are paying attention to microfinance
- Increasing convergence to International Financial Reporting Standards (IFRS) by national accounting bodies and
- Increasing economic and financial globalisation is affecting everyone, including the microfinance sector.

This dynamic environment demands that microfinance leaders and managers develop increased financial skills, gain more technical financial knowledge, and have access to expertise for complex tax, legal and financial information.

A high level introduction to the key concepts and issues for International Financial Reporting Standards (IFRS) are presented, together with links and references to additional materials and resources. In addition, the toolkit provides more extensive discussion and application of different financial statements, including the Statement of Changes in Financial Position (i.e. the Statement of Cash Flow) and the Statement of Changes in Equity. Analytical adjustments for inflation, in-kind subsidies and portfolio at risks are also presented and discussed. These adjustments are useful for an MFI to understand their true performance, had the various factors affecting their performance been taken into account in their financial systems. The adjusted financial ratios are analysed from the perspective of both the MFI and external stakeholders, such as investors, donors and the MIX.

The toolkit also presents detailed information and illustrations in advanced financial management topics related to debt and equity investments, and the capital structure of a microfinance institution. The importance of credible business plans and projections is explored, taking into consideration the perspective of an investor. The unique features and implications of various debt and equity instruments are also discussed and analysed.

Three valuation approaches commonly used by investors is also discussed in the training. Although advanced and technical in nature, there are few resources and similar tools available to the microfinance sector in these areas, particularly at a time when debt and equity investments and valuations are becoming more common.

MANAGEMENT INFORMATION SYSTEMS

With the current trend in the microfinance community towards significant scale-up of activities, managers of many microfinance institutions are increasingly recognising the pressing need to improve their information systems. The information needs of the microfinance sector range from the basic client information before joining the microfinance group to detailed portfolio performance statistics and the post-funding information on the clients to assess the impact of microfinance on their lives.

An MIS is not simply a computer programme, and more is involved than just calculating numbers. The primary roles of the MIS are:

- To capture information
- To analyse and create new information
- To store information and
- To convey information to the user.

The Management Information System defines the flow of information within an institution and comprises: chart of accounts; all forms used by the institution, from receipts to loan applications to staff vacation requests; meetings; reports; policies and procedures; staffing structure; job descriptions; the planning process; and, indeed, the computer software.

The development, implementation and maintenance of a solid MIS is one of the most important tasks facing most MFIs. To endeavour to scale-up without adequate information is an invitation to disaster. This toolkit enables users to build an understanding, relevance and benefits of a Management Information System of global reliability and standards.

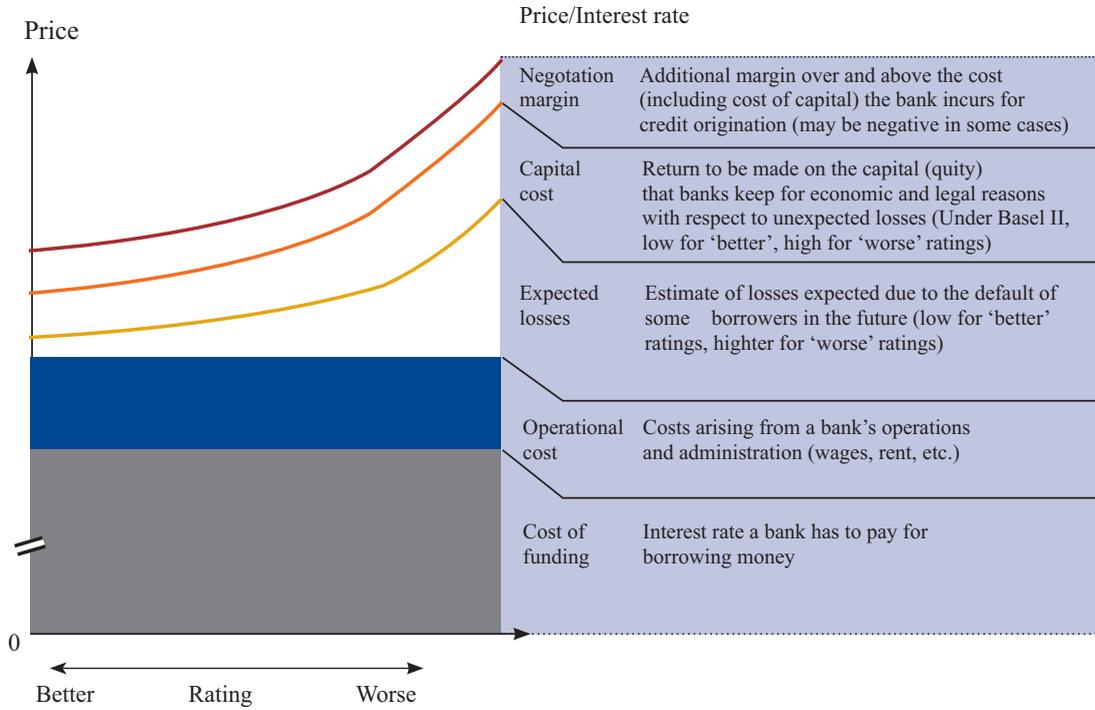
CAPITAL STRUCTURING AND EQUITY VALUATION

MFIs, like many other organisations, reach points in their life-cycle in which strategic funding decisions are needed to fuel further growth, maximising financial and social returns. It is very important for MFIs to understand and appropriately assess all funding options in order to make the right decisions. By setting common ground between MFIs and potential funders, this toolkit promotes a smart access to funding and consequently to the development of the microfinance industry.

This toolkit provides the reader with detailed information to guide MFIs to make decisions on capital structuring and equity valuation matters and covers:

1. **Capital structuring** describes the range of financial instruments available to gain access to debt and capital financing, and discusses key topics that are aimed at identifying the optimal capital structure.
2. **Valuing an MFI** provides different techniques commonly used to value a MFI in order to assess the most appropriate value of equity stakes offered to investors.
3. **Reading the investor's** mind describes different aspects that MFIs should consider when approaching different types of investors, including topics such as control issues, exit strategies and return expectations that a MFI needs to be aware of.

This toolkit is for CEOs and CFOs of MFIs, and is also helpful for banks and investors interested in providing and/or intermediating funding to MFIs by means of loans, debt and equity capital markets transactions, structured finance products, and/or private equity investments.



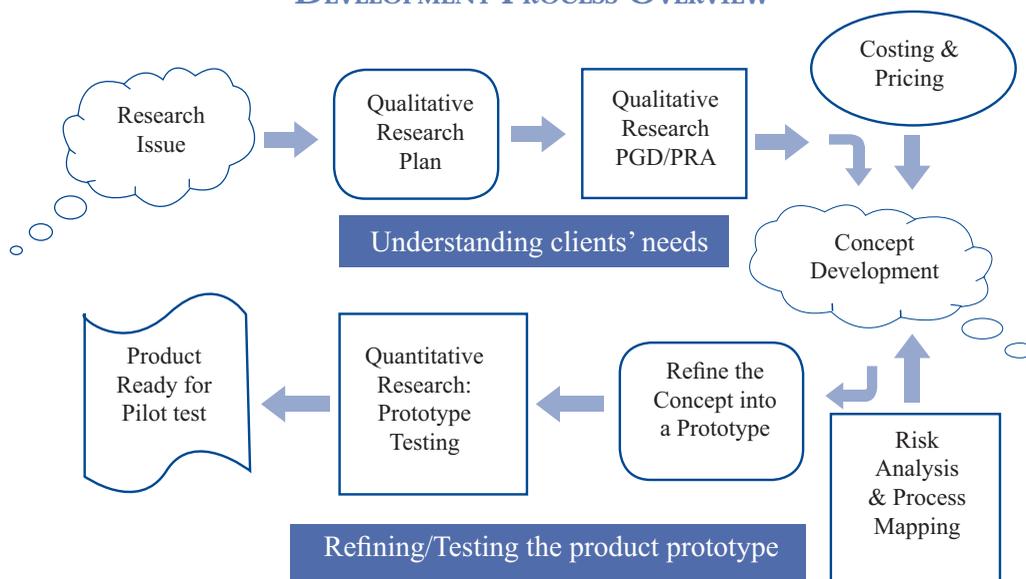
Bank's Perspective on the Price of a Loan (McKinsey & Company 2005)

PRODUCT DEVELOPMENT

- **Costing and Pricing of Financial Services**
- **Planning, Conducting and Monitoring Pilot Tests (Savings/Loans) for MFIs**
- **Product Roll-out: Expanding a tested product throughout the market**
- **Product Marketing Strategy**



MARKET RESEARCH AND PRODUCT DEVELOPMENT PROCESS OVERVIEW



COSTING AND PRICING OF FINANCIAL SERVICES

Institutions offering a range of services need to understand how their different products contribute to the costs and income, and thus to financial viability. A clear understanding of cost structures is necessary for new products to be developed and priced appropriately for pilot testing and later rollout.

The *MicroSave* Costing and Pricing of Financial Services toolkit allows the MFI's management to:

- Determine the full-costs of delivering products
- Determine the profitability/contribution of the products (including analysis over changes time)
- Refine of cost/profit centres and the MFI's management information systems
- Identify hidden-costs (especially at a departmental level)
- Instil cost-consciousness amongst product /service department managers
- Price current/future products
- Make informed decisions about selection of products (including cost/benefit and marginal cost analysis)
- Improve business planning and investment decisions (e.g. which product to market etc.)

The toolkit outlines a three-step approach to pricing, which considers cost, competition and value. First consider the cost of delivering the product, secondly, consider the prices charged by the competition, thirdly determine whether there are any product features that clients

particularly value that can justify premium pricing. The toolkit examines marketing related pricing along with how pricing can influence customer behaviour. The tool can also be used for branch based costing to assess branch and regional performance.

PLANNING, CONDUCTING AND MONITORING PILOT TESTS (SAVINGS/LOANS) FOR MFIs

In the process of product development, the pilot test is one of the most important steps and yet one of the least well implemented ones. This toolkit provides a user-friendly guide to the critical pilot testing process. It allows financial institutions to design and implement pilot tests in a controlled and scientific manner and includes spreadsheets to facilitate the performance projections for new products under testing.

The Planning, Conducting and Monitoring Pilot-Tests for MFIs toolkit covers the ten steps of pilot testing:

1. Composing the pilot test team
2. Defining the objectives
3. Documenting the product definitions and procedures
4. Developing the testing protocol
5. Modelling the financial projections
6. Developing customer marketing materials
7. Installing/instituting all systems
8. Training the relevant staff
9. Commencing the product test
10. Reviewing the product as per the protocol

PRODUCT ROLL-OUT: EXPANDING A TESTED PRODUCT THROUGHOUT THE MARKET

Rolling out new products and taking them to scale after the completion of a pilot-test is a difficult and complex process. This toolkit covers the steps necessary for a financial institution to roll-out a new product in a controlled manner in a user-friendly manner with tips, check-lists and ideas for optimising rollout process.

The topics covered include:

- Preparation
- The hand-over package
- The moving day – handing over to the operations department
- Financial matters – projections and costing
- Systems including the feedback loop
- Human resources
- Marketing
- Assessing the rollout

PRODUCT MARKETING STRATEGY

The product marketing strategy includes the development and differentiation of products. This is a process of continually and systematically assessing needs of the market and its different segments to support product development and innovation that caters for those needs in the most feasible and profitable manner. Selling products is made considerably easier when approached in a systematic manner. There is a relatively straight-forward method for preparing the key messages for a product marketing strategy that is built on taglines, ultimate selling propositions and benefit statements. A financial institution’s sales strategy will depend on its products and its target market. These will dictate the balance between pull-and push-based strategies to selling the products.

This toolkit covers:

- Definition of marketing and its role
- Examining the product – what customers want
- Benefit statements
- Unique selling proposition
- Product brands
- Exaggeration and expectations
- The tag line
- Positioning
- Market segments
- Customer service
- Marketing plans

PRODUCT MARKETING PLAN DEVELOPMENT



RISK MANAGEMENT

- **Process Mapping**
- **Institutional and Product Development Risk Management**
- **Internal Audit and Controls for MFIs**
- **Loan Portfolio Audit**
- **Delinquency Management for Group-Based MFIs**



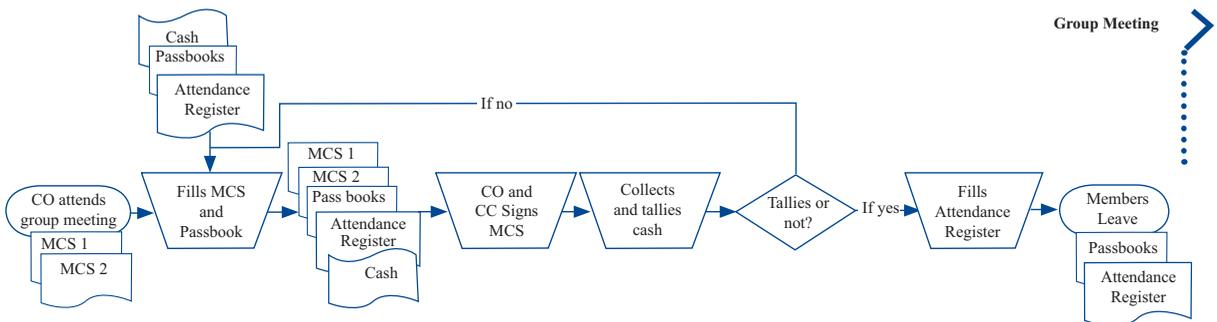
PROCESS MAPPING

Effective process mapping allows financial service providers to analyse and improve many important functions and activities within the institution. Process mapping can play a key role in optimising:

- Policies, procedures and works flows
- Staff training
- Risk analysis
- Internal control
- Customer service
- Activity Based Costing

This toolkit, developed with Shorebank and Women’s World Banking, provides a comprehensive overview of why and how to conduct process-mapping using a four-tiered process mapping framework that encompasses:

- Flowcharting the processes
- Describing the processes
- Analysing the risks in the processes
- Analysing the internal controls and other risk management strategies to manage the risks



<p>Description</p>	<ul style="list-style-type: none"> • Credit Officer (CO) goes to the group meeting with collection sheet filled with the names of all group members. • On reaching the meeting, the CO fills the collection sheet in duplicate as per due amounts. The CO then collects the passbooks from the centre leader and fills up as per scheduled amounts. 	<ul style="list-style-type: none"> • While the CO does the documentation, group members come to the meeting and start collecting the cash (loan repayments and deposits, fines, if any). After all the cash is collected, centre leader counts the cash and hands over amount to the CO. • The CO and the centre chief signs the collection sheet . • The CO counts the cash given by the centre chief. • CO makes necessary changes in Passbook and collection sheet, if cash does not tally. 	<ul style="list-style-type: none"> • CO prepares the attendance register and group members present in the meeting sign the register. • CO signs attendance register and if any member is absent, writes reason for absence after enquiry from other members. • If a fine has been collected from a member for being late, the CO adds the amount to the previous balance and signs attendance register. • Group members take the oath as listed in the passbook. • Group members leave the meeting. Passbooks are retained by the centre leader.
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INSTITUTIONAL AND PRODUCT DEVELOPMENT RISK MANAGEMENT

Proactive risk management is essential to the long-term sustainability of financial institutions. The Institutional and Product Development Risk Analysis Toolkit, developed with Shorebank, presents a framework for anticipating and managing risk in microfinance institutions with a particular emphasis on new product development. The discussion is tailored to senior managers who play the most active role in setting the parameters and guidelines for managing risk.

There are five parts to the toolkit. Parts 1-III lay out a general framework for identifying, assessing, mitigating and monitoring risk in the MFI or bank as a whole. The document emphasises the inter-relatedness of risks and the need for a comprehensive approach to manage them. Part IV focuses on risks inherent to new product development and suggests tools to help manage the process. Part V reflects on the challenges in institutionalising risk management within financial institutions.

INTERNAL AUDIT AND CONTROLS FOR MFIs

One of the most significant risks that an MFI incurs is operating risk. The nature of staff activities, high levels of decentralisation and vulnerability of the client sector expose an MFI to high levels of operating and credit risk. Risk is inherent in the life of institutions, but they must adopt a risk management strategy that mitigates the possibility of risk, and manages the negative effects when things do go wrong.



A strong internal control system – trained and motivated staff, policies and procedures (that address segregation of duties and independent checks), and an efficient, timely management information system is the best antidote to fraud and loss in an MFI. An internal audit process ensures that there is compliance to policies and procedures and evaluates the operations of an MFI from a risk-based perspective. Internal audit is an important part of the risk management feedback loop. This toolkit developed with MEDA includes the following topics:

- Risk and risk management
- Overview of internal control systems
- Preventive control: Human resource issues
- Preventive control: Policies and procedures
- Preventive control: Information systems
- Role of the internal audit
- Implementing the internal audit function

LOAN PORTFOLIO AUDIT

The loan portfolio is the primary income-generating asset for MFIs but is often subject to misstatement. Most failures amongst financial institutions stem from the deterioration in the quality of the loan portfolio. An assessment of the risks inherent in a financial institution's portfolio therefore assumes tremendous importance and this is the most important objective of a 'loan portfolio audit'. MFI credit (lending) operations have unique characteristics that portfolio assessors/auditors must first understand and this loan portfolio audit course exposes them to these special characteristics so that they can understand the inherent risks, in an appropriate manner. Specifically, the loan portfolio audit toolkit assists users identify:

- How to conduct a loan portfolio audit
- The key procedures to be performed and the determination of the sample of loans for review
- The tools to use, when and how
- How to review loan policies, and
- How to assess the internal controls over the lending activities.

The toolkit, developed with the Microfinance Consulting Group, allows users to safeguard the financial institution's primary asset - the loans to its clients – and enables stakeholders to understand the risks inherent in the MFI's loan portfolio and systems/procedures used to mitigate this risk. The Loan Portfolio Audit toolkit provides MFIs/investors/regulators a great opportunity to identify opportunities to improve the governance and management of MFIs' loan portfolios and to bring them into line with international norms.

DELINQUENCY MANAGEMENT FOR GROUP-BASED MFIs

Delinquency Management is central to the effective and sustainable management of any financial institution. This toolkit examines delinquency, its definitions, how to account for it, as well as its causes and how it might be managed in a humane and caring manner. The toolkit assists microfinance institutions and their staff:

- Understand the importance of delinquency
- Differentiate between repayment rates, arrears and portfolio at risk and what these different measures mean for the organisation
- Understand rescheduling and refinancing of loans and how these should be accounted for within the delinquency measures
- Account for delinquent loans, and
- Adjust loan loss provisions and write-off loans that are considered irrecoverable.

The toolkit also examines the causes of delinquency from several perspectives and how it can be managed and controlled by the financial institution. Steps and procedures for loan recovery are outlined as well as a client oriented approach to delinquency management that builds on *MicroSave's* market-led approach to microfinance.

HUMAN RESOURCE MANAGEMENT

- **Human Resource Management**
- **Advanced Human Resource Management**
- **Designing and Implementing Staff Incentive Schemes**
- **Training of Trainers**



HUMAN RESOURCE MANAGEMENT

MFIs have two major resources: capital and people. Though capital has always received more attention, top managers are beginning to understand that the success of MFIs also depends on paying careful attention to human resources. HR issues have gained more importance with the growing number of service providers, which has led to increased competition. In a competitive environment, the quality of the human resources and the institutional culture created, can be the basis of invaluable brand differentiation and provide a key competitive advantage. It is thus essential that people throughout an organisation are managed well, and appropriate HR systems are in place to reinforce this.

This toolkit, developed with MEDA, outlines the critical elements of strategic human resource management and provides practical tools and HR systems primarily for nascent MFIs or for those who are just now creating a human resources department. Issues covered include:

Human Resource Policies: This section analyses HR policies and management systems for small, medium and large MFIs. It assesses the cost-benefit trade-offs and the management challenges of adopting standard HR policies and procedures for each size/type of MFI. The institutional prerequisites for developing a comprehensive HR policy are also thoroughly discussed. This section of the toolkit also provides detailed guidance for MFIs on how to create an HR policy manual.

Salary, Benefits and Incentives: High levels of performance in an MFI are often a function of balanced and effective management of staff compensation, with a focus on meritocracy and employee satisfaction. The toolkit divides the compensation structure into 3 different forms: salary, benefits and incentives; and discusses each in detail.

Recruitment, Selection and Orientation: HR management is about ensuring that the right person is in the right position at the right time. The direct and indirect costs of hiring the wrong person is elaborated in the toolkit, providing details of the factors and steps for making good hiring decisions and how to design an excellent induction programme to optimise recruits' understanding of the organisation and their role in it.

Staff Performance Management, Development and Training: Staff performance management is key to the success of an organisation. However, analysis and the design of deliverables of a Performance Management System (PMS) are strategic issues for any MFI. The toolkit provides guidance on developing a PMS framework and cycle. The toolkit also discusses the plan for succession and options for optimising this in MFIs.

ADVANCED HUMAN RESOURCE MANAGEMENT

The complexity associated with Human Resource Management (HRM) compounds as the organisation expands and scales up at a faster pace – and achieving the best out of staff at all levels of the organisation becomes even more important. This has made the job of HR managers more complex and challenging. With a large number of MFIs now

ready for, or already undergoing, huge expansion and change, *MicroSave* and ShoreCap Exchange collaborated to develop an Advanced Human Resource Management training programme, based on ShoreCap's previously developed Advanced HRM manual. This training programme focuses on complementing *MicroSave*'s basic Human Resource Toolkit by discussing previous topics in more depth and new, more complex topics, supported by actual case studies of MFIs. This toolkit helps an MFI go beyond the "transactional" way of conducting human resource management by moving past the basics and focusing on human resources as a key component to the overall MFI's success. This toolkit elaborates on certain topic from the previous toolkit, such as the recruiting, interviewing selection and orientation processes, but in a more strategic, holistic way, rather than as a stand-alone silo.

The toolkit also elaborates on more complex issues such as the following that most MFIs have not addressed in a systematic way:

- *Giving Feedback and Coaching*: This section discusses the need for regular expectations and goal setting, and provides tools and information to how to train and coach managers.
- *Conducting Performance Reviews and Staff Development Planning*: The focus of this section is on performance reviews, and the factors that lead to their success or failure. It goes on to provide guidance on how organisations can optimise performance reviews. It gives ideas for influencing managers to follow through on performance reviews and development planning. It trains managers to conduct reviews that ensure clarity, thoroughness, timeliness, and just-in-time support.
- *Career Planning*: This section will help MFIs think through planning careers of all employees in a comprehensive, standard manner. The participants will learn how to create career maps and paths, how to create succession plan programmes (and decide which type is right for the organisation) and how to identify and nourish "High Potential Individuals."
- *Managing Promotions*: Promotions are critical to both staff satisfaction and institutional growth. The toolkit discusses a framework demonstrating the connection between business strategy and promotions. It helps develop guidelines for designing a system that manages the promotions process and ensures clear career paths for staff throughout the organisation.

While the toolkit can be used in its entirety, it can also be used in a modular way to allow MFIs to focus on certain areas important to their current context.

DESIGNING AND IMPLEMENTING STAFF INCENTIVE SCHEMES

Well designed staff incentive schemes can have powerful, positive effects on productivity and quality of portfolios and deposit liabilities. Conversely, poorly developed schemes can

have seriously detrimental effects. The toolkit provides detailed discussion of incentive schemes for credit and savings and an overview of incentive schemes for management and employee share ownership.

Incentive schemes must be transparent and fair so that all staff members can easily understand the mechanics of the calculation. The system should not be overly complex and should contain as many objective variables as possible. The scheme should be made known to everyone and should not be changed arbitrarily. The scheme should be perceived as fair, the goals set out by the scheme should be attainable and better performing staff must indeed be rewarded with higher salaries.

The toolkit, developed with CGAP, provides a detailed examination of:

- The principles of incentive scheme design
- Incentive scheme objectives, targets and mechanisms
- Calibrating and conducting cost benefit analysis on the draft scheme
- Pilot testing, communicating and then monitoring the scheme

TRAINING OF TRAINERS

MicroSave designed the Training of Trainer's toolkit to assist its Certified Service Providers and others using the *MicroSave* toolkits to delivery high quality training. The toolkit is designed to refresh your skills in design and delivery. The TOT in its complete form is 5 days long, but can be sub-divided into three parts. Day 1 focuses on adult learning techniques, day 2-3 focuses on designing quality training materials, while days 4 and 5 focus on effective training delivery techniques.

The toolkit works best when used in a forum of several trainers, which enables them to practice their skills, exchange ideas on design and provide feedback on ways to strengthen their delivery.

INDIVIDUAL LENDING

- **Individual Lending for Credit Managers**
- **Individual Lending for Credit Officers**
- **Delinquency Management for Individual Lending**



INDIVIDUAL LENDING FOR CREDIT MANAGERS

Many institutions are moving from group-based schemes to individual lending products, or are developing cash flow based loans for the first time. The individual lending toolkit developed along with Shorebank is designed to provide practical tools and suggestions to credit managers for various processes involved in handling individual lending methodology. It also gives special attention to typical risks faced by MFIs, implications of a proactive risk management programme, influences on credit risk in an MFI, developing an understanding of influences of credit function on institution risk profile and ways to manage and measure non-credit risks inherent in the lending function. The toolkit considers the introduction of individual lending, credit risk management through five steps of the lending process, collections and problem loans and reporting.

INDIVIDUAL LENDING FOR CREDIT OFFICERS

The second module of the Individual Lending Toolkit draws from years of experience, and introduces credit officers to a cash-flow based individual lending approach, which is complemented by appropriate field visits, asset appraisal and portfolio monitoring. This toolkit helps in enhancing the current level of the loan appraisal and credit decision-making skills. It will explore areas of improvement with respect to bringing greater effectiveness to the entire credit appraisal process, both individually and collectively. The toolkit considers the introduction of individual lending, ingredients of successful lending, process of loan appraisal, cash flow analysis, loan structuring, loan approval and delinquency management.

DELINQUENCY MANAGEMENT FOR INDIVIDUAL LENDING

Individual lending requires different set of skills to be acquired by the staff. Loan appraisal techniques based on a thorough cash flow assessment of individual borrowers is key to a successful individual lending programme. The toolkit focuses on the need for preventive measures for delinquency management and the processes involved in acquiring and maintaining quality portfolio.

The toolkit assists microfinance institutions and their staff:

- Understand the importance of delinquency
- Differentiate between repayment rates, arrears and portfolio at risk and what these different measures mean for the organisation
- Understand rescheduling and refinancing of loans and how these should be accounted for within the delinquency measures
- Account for delinquent loans and
- Adjust loan loss provisions and write-off loans that are considered irrecoverable.

The toolkit also provides concrete guidance on:

- Tracking and managing a portfolio of cashflow-based individual loans
- The role of the financial institution's staff and the loanee's guarantors in the collection process
- How to respond to individual delinquent clients and situations where the portfolio is chronically and systemically challenged.

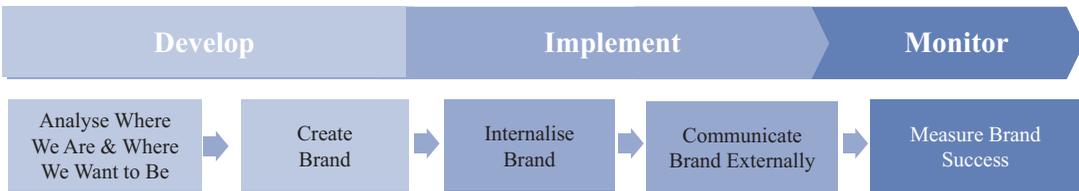
MARKETING FINANCIAL SERVICES

- **Strategic Marketing for Microfinance Institutions**
- **Corporate Branding and Identity**
- **Product Marketing**
- **Customer Service for Financial Services**



CORPORATE BRAND AND IDENTITY

Brands are often thought of as logos or taglines, but brands are much more than that ... A brand is the essence of what the institution stands for in the market - the organisation's personality from the market's point of view and the experience the customer has every time they interact with it.



Corporate branding is a strategic approach to:

- Analysing the institution's current position in the market
- Assessing where the institution should position itself in the market
- Developing internal and external strategies to implement and monitor the brand.

A good corporate brand is important because it provides instant recognition, differentiates you from the competition, increases credibility (especially when mobilising savings), facilitates promotion and builds goodwill for stakeholders. This toolkit, developed with Ogilvy Mather and Women's World Banking, provides a simple approach to assessing the institution's image in the market; developing a new brand, including the brand identity (logos, colours and other visuals); preparing the institution is able to deliver on the brand promise and internal and external communication strategies.

CUSTOMER SERVICE FOR FINANCIAL SERVICES

Good service keeps customers, builds word of mouth business and can help an institution overcome other competitive disadvantages. Customer service is often considered to be a front office activity. However, it is appropriate systems, processes and procedures that enable the delivery of excellent service. The Customer Service toolkit considers this broader definition of customer service, with sections on diagnosing and monitoring customer service, developing customer service standards and customer service strategy.

The toolkit includes a range of diagnostic tools designed to diagnose and analyse operational and institutional issues affecting service levels. Appropriate tools are provided for monitoring service levels, including the measurement of customer satisfaction and mystery shopping.

MARKET RESEARCH FOR MICROFINANCE

- **Market Research for Microfinance**
- **Quantitative Market Research Methods**



MARKET RESEARCH FOR MICROFINANCE

The evolving needs of MFI clients and increasing competition amongst MFIs has resulted in growing numbers of “drop-outs” or “exits” from MFIs’ programmes and/or multiple membership of MFIs by clients looking for more client-responsive financial services. This has resulted in increased interest of MFIs in assessing market needs using analytical qualitative research skills that help improve their products. Developing MFIs’ capacity in market research is the first, all-important step.

The qualitative skills and tools in this workshop can also be used for a wide variety of activities that are critical for a successful MFI. These include:

- Developing new products
- Modifying existing products
- Understanding clients perceptions of the MFI and satisfaction with its services/products
- Developing/refining marketing programmes
- Analysis of clients’ risks/vulnerability opportunities and how people use (formal and informal sector) financial services
- Understanding the “financial landscape”, or environment, within which the MFI is operating
- Analysing problems such as drop-outs and growing trends loan default
- Impact assessment and evaluation
- Analysis of relative depth of outreach
- Detecting fraud/rent-seeking
- Running strategic planning/staff meetings

QUANTITATIVE MARKET RESEARCH METHODS

Many practitioners feel the need to present quantitative market research data to support their decision-making progress. The toolkit assists in understanding what quantitative research is and how it should be planned, conducted and analysed. It provides examples from other microfinance institutions in how to use quantitative data to supplement other market research information, and how to avoid pitfalls in quantitative design. In addition, it prepares institutions to make decisions about outsourcing quantitative market research.

OTHER TOOLS

- **Introduction to Microfinance**
- **Rapid Institutional Assessment**
- **Branch Managers' Training**
- **MFI Out Of A Box**



INTRODUCTION TO MICROFINANCE

The Introduction to Microfinance tool is aimed at entrepreneurs and organisations interested in starting up microfinance operations, with a focus on the Indian context. It seeks to answer the following questions:

1. What is microfinance? What is market led microfinance? What are the objectives of market led microfinance (enhancing sustainability, expanding outreach, etc)?
2. How has microfinance evolved and what are the major recent (global and national) trends? Where is it today in terms of product packaging (products, processes, pricing, delivery channels, promotion etc)?
3. What is *MicroSave* and what is its role in promoting/supporting microfinance in India and elsewhere? What are the challenges to doing this in India and elsewhere? What are some of the key microfinance aspects that need close attention, in order to expand outreach and enhance sustainability?
4. What are the major microfinance models in use globally and in India? What are the salient features of these models and how are they operationalised? What are the commonalities and differences between the various models? What are the most suitable strategic contexts for the different models?
5. How to create a vibrant, scaled up sustainable microfinance sector in India?
6. How to reconcile sustainability concerns and cost effectiveness with regard to interest rates? Are they conflicting? What are possible ways forward?

RAPID INSTITUTIONAL ASSESSMENT

The Rapid Institutional Assessment (RIA) tool is designed to assist consultants or potential investors in microfinance institutions make rapid assessments of the organisation and its potential. On the basis of this rapid assessment, consultants can see the areas where the MFI is likely to require training and technical assistance and investors can make informed decisions on whether they want to proceed further with a more extensive due diligence exercise such as a rating or a full institutional assessment¹.

In essence the RIA is designed as a “quick and dirty” dip-stick to make a preliminary assessment of an institution’s capability and promise, as well as where it needs additional inputs/assistance.

The tool is designed to allow this rapid assessment to be completed in three days (subject to the full collaboration and assistance of the MFI) and results in:

- A simple SWOT analysis, backed with
- A table of basic ratios (subject to the availability and credibility of the financial statements) and
- A table outlining the areas of strengths and weakness of the institution and where it requires additional training/technical assistance.

¹Perhaps using the CGAP Institutional Assessment tool

BRANCH MANAGERS' TRAINING

This tool provides comprehensive training for Branch Managers on key aspects of their work including:

- **Operations:** Business planning and setting branch targets; planning expansion and entering into new areas; scheduling staff and the routes they serve in order to maximise efficiency; financial and liquidity management; monitoring performance and managing a portfolio; generating monthly reports and using these to optimise branch performance; ensuring good customer service; responding to competition; and reporting to head office.
- **Human Resource Management:** Leadership and how to motivate a team; responding to internal emergencies and external crises; protecting and promoting the MFIs' brand; and managing external relations – with clients, government and other key stakeholders in the community.
- **Administration:** Maintaining office assets and routines; and organising and running team meetings to optimise communication with the team.

The curriculum clearly needs modifying for each MFI to ensure that it includes their systems, and responds to the specific challenges in their areas but has proved to be an immensely valuable and highly popular training amongst *MicroSave*'s client MFIs.

MFI OUT OF A BOX

The “MFI Out Of A Box” series is an attempt to guide start-up and nascent MFIs in their effort to build professional organisations that can thrive in a highly competitive environment. An entire range of topics on the professional management of the different functional aspects of microfinance are discussed. The subject matter is thus of direct and practical relevance to many MFIs. The MFIOOAB contains videos of all key processes in an MFI. Along with a compilation of publications on a diverse range of topics, the MFIOOAB DVD has templates and manuals on the following topics.

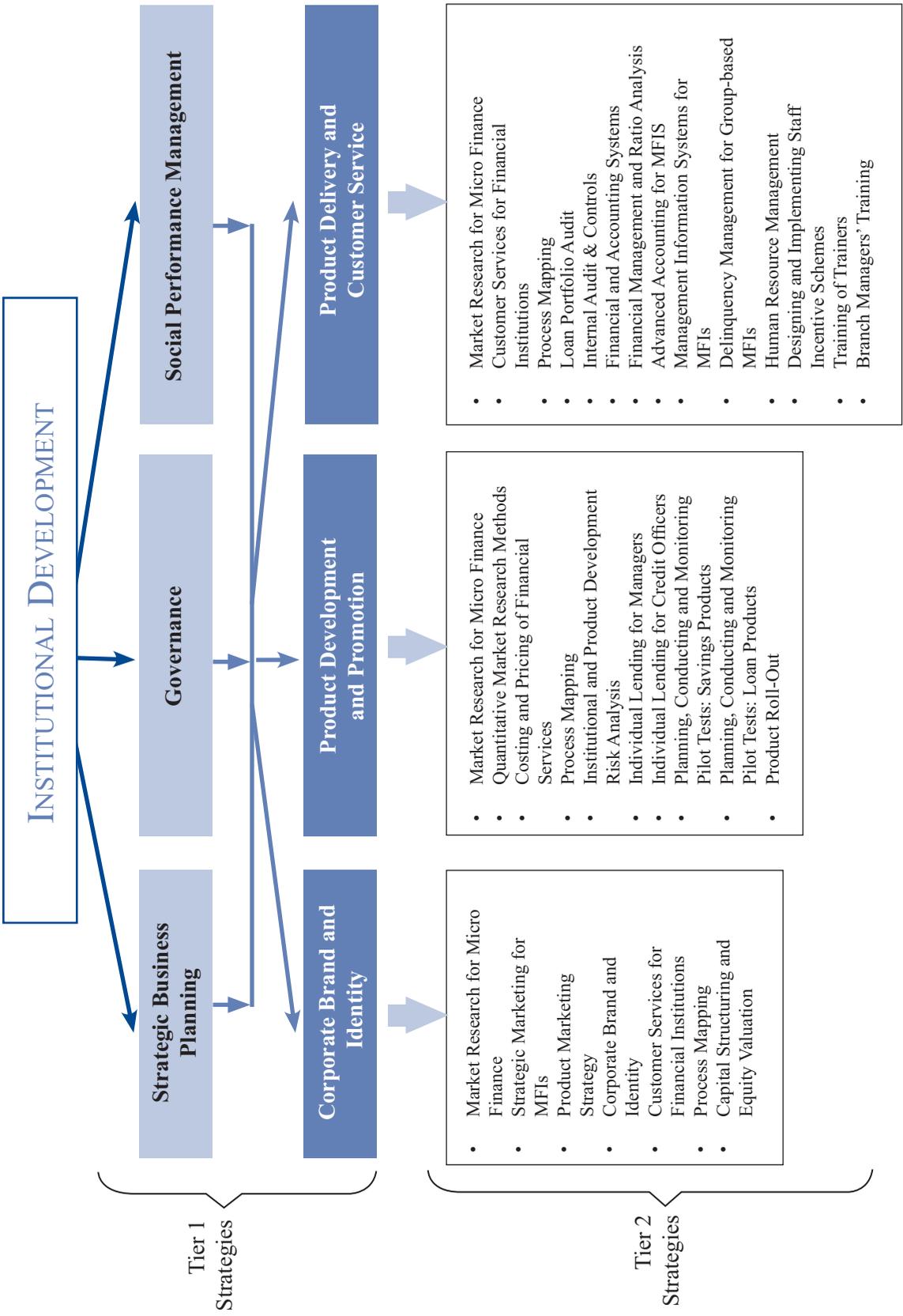


- *Strategic Business Planning (SBP)* relates to identifying what the MFI wishes to achieve and how it intends to do it, typically over a 3-5 year period or longer. In other words, it deals with the long-term goals as well as the ways to achieve it. MFIs need SBP in order to be successful in what they have set out to achieve.
- *Market Scoping in microfinance* is associated with identifying a market segment to service, understanding the characteristics of the segment and key factors that drive its decision making, and designing products and services that deliver value to the segment while simultaneously yielding the MFI its needed mix of financial and social returns.
- *Legal Form* deals with the different legal vehicles, commonly available for delivery of microfinance services, and the implications of choosing a particular form. Considerable thought needs to be given to determining which particular form is right for any new institution.
- *Governance of Microfinance institutions* introduces the subject of governance of MFIs and moves on to discuss key issues in good governance including the function of the Board of Directors; how the Board is constituted; the purpose of the different committees, how their membership is constituted and how their activities are organised; and relationship of the Board with management.
- *Developing a Human Resources Manual and Sample HR Manual*. In a people-intensive industry such as microfinance, a well-structured and comprehensive Human Resources [HR] policies manual is a necessity for effective management of MFIs. Personnel costs typically account for as much as 60% of an MFI's total administrative expenditure, with this percentage being even higher for start-up MFIs. HR policies take on particular significance given the service orientation and distributed nature of microfinance institutions, their high staffing levels and the volume of staff-client interactions on the field.
- *Operations Manual Template and Sample Operations Manual*, deal with arguably the most important activity within the MFI. Operations activities are directly related to the key mission of the MFI, and employ the overwhelming majority of the MFI's staff. A streamlined, consistent and clear operations manual is a fundamental requirement for a high performance MFI, detailing out the key processes and procedures that will enable the operations staff to carry out their work efficiently and effectively. The operations manual should serve as a reference document to the entire operations staff, from the client service staff (loan officers) to the highest level.
- *Process Maps* graphically depict the functioning of various processes across different departments in the MFI. These maps facilitate the streamlining of processes to improve efficiencies as well as serve to highlight risks. They also form the basis for the training for front-line staff.
- *Branch Manager Training and Loan Officer Training* relate to the processes of training the front line staff of the MFI. The Loan Officers represent the face of the institution to the village or slum. The Branch Managers represent the management and leadership of

the institution at the field. Their role in the organisation is of great significance, given that the vast majority of the MFI staff works in operations, and that the institution's income as well as the institutional mission is met through client transactions at the field.

- *Accounts Manual, Sample Accounts Manual and Sample Chart of Accounts* cover accounting for MFIs. An accounting system for an MFI requires the recording of client-related and other financial transactions, posting them to the appropriate ledgers, and the generation of periodic accounting reports, all to be done in accordance with generally accepted accounting principles and procedures. As the organisational hierarchy at MFIs usually includes multiple levels of operating units, decisions need to be made as to at what levels the accounts will be managed, how accounting information will flow through the organisation, and what reports need to be generated.
- *Management Information Systems* allow for information required by various stakeholders of the MFI to be available on demand, in the form needed, accurate and complete. Microfinance institutions deal with a huge volume of transactions. It is critical for the health of both the institution as well as the poor receiving micro finance services that these transactions be tracked in a timely, accurate and comprehensive manner, and that relevant information is easily extractible from them.
- *Internal Audit* is a particularly important function within an MFI, given the unique nature of its activities as –
 - distributed, dispersed financial transactions at village centres and slums
 - huge volume of transactions, with limited supervision
 - limited infrastructure in areas of operations
 - clientele from impoverished communities with low levels of education, and with limited experience exercising authority in relationships with external parties

The document discusses the composition and reporting structure of the internal audit team, the procedures for auditing operations as well as financial transactions across the organisation, and follow-up action taken when discrepancies are found.
- *Financial Management* deals with the management of the key input in microfinance, namely financial capital. It addresses the following issues:
 - What are the key sources of financial risk faced by MFIs?
 - How are these risks measured?
 - How are these risks managed?
 - On loans: What do lenders look for in an MFI? What details should a loan application contain? How should the MFI negotiate the loan deal?
 - On equity: Why is equity needed? What are the different forms of equity? What are important terms used in early stage equity financing? What should the MFI keep in mind while negotiating a private placement of equity?



MicroSave

Market-led solutions for financial services

Kenya Office

Shelter Afrique House, Mamlaka Road,
P.O. Box 76436-00508, Nairobi, Kenya
Tel : +254-20-2724801/6, +254-20-
2075724,
Fax : +254 (20) 2720133

Uganda Office

Plot 119, Kira Road,
P. O. Box 7184 Kampala, Uganda
Tel. : +256-414-533786

India - Head Office

B-52, Mahanagar Extension,
Kapoorthala Crossing
Lucknow - 226 006 (U.P.) India
Tel. : +91 - 522 - 2335734,
Fax : +91-522-4063773

India - Southern Office

23, Sai Enclave, Road No. 12,
Banjara Hills,
Hyderabad - 500 034 (A.P.) India
Tel. : +91-40-23386140

E-mail : info@MicroSave.net | Website : www.MicroSave.org