



**BUSINESS PLANNING  
FOR  
MICROFINANCE INSTITUTIONS**

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# Table of Contents

Acknowledgments.....	iv
Introduction.....	v
Overview of the Course .....	vii
References for the Course.....	viii

## Course Materials

<b>Session 1: Welcome and Introduction</b> .....	BP-1
Handouts.....	BP-19
<b>Session 2: Introduction to Business Planning</b> .....	BP-27
Handouts.....	BP-39
<b>Session 3: Strategic Planning – Mission, Markets, and Clients</b> .....	BP-43
Handouts.....	BP-63
<b>Session 4: Strategic Planning – Environmental Analysis, Institutional Assessment,     and Strategy</b> .....	BP-71
Handouts.....	BP-93
<b>Session 5: Course Evaluation and Closure</b> .....	BP-103
Handouts.....	BP-107
<b>LEDA Case Study</b> .....	BP-111

## **Acknowledgments**

CGAP would like to thank those who were instrumental in the development and design of the original Business Planning with Microfin course: Chuck Waterfield, Janis Sabetta, Jennifer Isern, Kim Craig, Tony Sheldon, Brigit Helms, Patricia Mwangi, Shirley Lunde and Leslie Barcus, and all CGAP training hubs and partners.

# Introduction

## **BACKGROUND OF THE CGAP *SKILLS FOR MICROFINANCE MANAGERS* COURSE SERIES**

In 1997, Jennifer Isern and Brigit Helms of CGAP launched a pilot program in Africa to provide financial management courses to microfinance institutions (MFIs), based on industry-wide observation that the greatest constraint to the development of microfinance in the region was the lack of management capacity. The Pilot initiative had two complementary long-term objectives: 1) to improve the institutional viability of MFIs in Africa and 2) to enhance the human resource base in microfinance in Africa through sustainable training programs that would help develop stronger MFIs and increase the market for local training services. By 1999, the Africa Pilot program had become the MFI Training Program, with new partners in South and South-East Asia, Central Europe, and the Newly Independent States (NIS). In addition, CGAP launched AFCAP, an East/Southern Africa program focusing on 12 countries and CAPAF, the Francophone Africa program focusing on 19 countries, to build the capacity of national training service providers to offer training and consulting services. During the early years, Jennifer Isern and Brigit Helms served as overall coordinators of the MFI Training Program and regional programs with colleagues Tiphaine Crenn, Nathalie D'Ambrosio-Vitale, Mike Goldberg, and Joyita Mukherjee, and primary consultants Janis Sabetta, Ruth Goodwin, and Kim Craig.

Through this initiative, CGAP developed seven courses for MFI managers conceived to be globally relevant, short and practical, and incorporating adult training design. These courses are collectively called the *Skills for Microfinance Managers* series. Based on feedback from trainers and participants from hundreds of courses, the courses were revised and improved over several years. As the program matured, Jennifer Isern, Leslie Barcus, and Tiphaine Crenn managed the Global MFI Training Program. By the time CGAP transferred its training activities to the Microfinance Management Institute in January 2007, CGAP's 39 training partners had trained more than 12,000 people in 52 countries.<sup>1</sup> In 2007–2008, Tiphaine Crenn coordinated revisions and overall editing of the MFI courses to reflect changes in microfinance standards, especially in financial statements and ratios.

In line with CGAP's role as a global resource center on microfinance, the full trainer materials for the seven courses developed under the MFI Training Program are now being made publicly available.

## **NOTICE ABOUT USING THE CGAP *SKILLS FOR MICROFINANCE MANAGERS* COURSE MATERIALS**

In parallel to developing course materials, the program aimed to identify qualified national and regional training institutions and help build their capacity to deliver high-quality courses, expand their training markets, and offer courses on a cost-recovery basis. Hundreds of training of trainer (ToT) sessions were organized for the seven courses throughout the world. In some regions, CGAP also developed a certification process, and certified trainers were given broad access to the training materials. Certified training partners invested heavily in building their reputation for offering high-quality, useful courses and building up their businesses.

Although the CGAP *Skills for Microfinance Managers* course materials are now publicly available, CGAP recognizes only those partners and trainers who went through the certification process as CGAP training partners. Others who offer a course using materials from one of the CGAP *Skills for Microfinance Managers* course should not refer to themselves as CGAP trainers or CGAP-certified.

CGAP also requests that all those who offer the “Business Planning” course use the following text in their marketing materials and course descriptions: “The Business Planning course is based on the materials developed by CGAP which are publicly available on <http://www.cgap.org>. CGAP is a leading

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<sup>1</sup> By December 2008, the number of people trained was closer to 14,000, given the ongoing training activities of CAPAF's 19 training partners in Francophone Africa.

independent resource for objective information, expert opinion, and innovative solutions for microfinance. CGAP works with the financial industry, governments and investors to effectively expand access to financial services for poor people around the world.”

## HOW TO WORK WITH THE COURSE MATERIALS

The CGAP *Skills for Microfinance Managers* course materials are all organized in the same manner, with eight to twelve sessions in each course. Each session generally consists of the following sections:

1. **Trainer Instructions** give step-by-step instructions to trainers on how to lead the session, including when to show which PowerPoint slide, distribute handouts, organize participant activities, discuss during short lectures or general discussions, etc. The instructions include suggested timing, although this should be adapted according to the context. The first page (Session Summary) of the Trainer Instructions section in each session lists all the supplies, technical materials, overheads, handouts, and case study sections that will be required for that specific session. ***Optional overheads and handouts, which are included in the course material for use at the discretion of the trainer, are clearly identified within shaded boxes in the Session Summary.*** If there are additional technical materials in the session, the Trainer Instructions include a section called Trainer Materials, marked M in the right-hand top corner. Trainer Instructions are not intended for participants. If technical explanations are included in the Trainer Instructions, they are also generally provided in the handouts for the participants.
2. **Overheads** introduce topics, underscore key messages, and summarize issues. Overheads are clearly marked O in the right-hand top corner. (For example, BP3-O2 means that this is the second overhead of the third session in the Business Planning course.) ***Optional overheads*** are identified by black (as opposed to white) reference numbers. The overheads are in PowerPoint format but can be printed out on transparencies and shown using an overhead projector. Overheads are not meant to be distributed to participants since the handouts in the same session will cover the same points, generally in greater detail.
3. **Handouts** are marked H in the top right-hand corner, in the same manner as the overheads. Handouts include exercises, instructions, and financial statements, as well as additional reading and in-depth information on the topic. Some handouts give instructions to the trainers about a publication to distribute, and these publications may need to be ordered or downloaded separately.
4. **Case studies** are used in most of the CGAP courses. Files for the case study are sometimes kept separate from the other handouts. The instructions in the Trainer Notes explain the section of the case study at each point in the session. Printing case studies on colored paper (and using different colors for different sections of the case) makes it easier for participants to organize their materials.
5. **Reference materials** and additional reading are listed for each course. Excerpts or the entire document are often included in the handouts. On the Web site, each course home page contains a box on the right-hand side with links to download the documents, if they are available publicly, or information on how to purchase them.

Please note that the overheads in PowerPoint format need to be downloaded separately. The course file contains the trainer instructions, the trainer technical materials, the overview of the overheads, the handouts, and the case study. The pages are formatted to be printed double-sided and blank pages are included as necessary.

# Overview of the Course

The “Business Planning for Microfinance Institutions” course was originally entitled “Business Planning with Microfin” and is one of the four courses in the Operational Management Curriculum, along with “Product Development,” “Information Systems,” and “Operational Risk Management.” The original five-day course, launched in 2002, guided participants through the process of strategic and operational planning and to develop the financial planning skills necessary for the long-term health of an MFI. The greater part of the course focused on using the Microfin financial projections model, an Excel-based business modeling tool specifically designed for MFIs. A detailed case study gave participants practice applying strategic and operational planning principles with Microfin through a detailed case study and an opportunity to analyze the key factors for sustainability.

The present version of the course has been significantly reduced from the original course to remove the Microfin case study and references to the CGAP handbook *Using Microfin 3.0*. As of November 2008, the Microfin software is now on version 4.0 and has changed significantly from the version used in the original course. However, Chuck Waterfield and colleagues continue to offer a specialized course on Microfin in various locations globally. Microfin 4.0 can be downloaded from <http://www.microfin.com>, along with the manual, self-help tutorials, and other useful information.

This November 2008 version of the business planning course includes all the sessions of the original course that precede using Microfin to do financial modeling—namely, defining institutional mission, goals, and objectives, understanding clients and markets, carrying out environmental and institutional assessments, and designing a strategy. CGAP hopes that these sessions can be useful to potential trainers either as stand-alone sessions or as part of a larger course.

## INTENDED AUDIENCE

This course is recommended for Executive Directors, Finance Managers, Credit Managers, Operations Managers, Branch Managers and Board Members from Microfinance NGOs, credit unions, banks and other financial institutions, microfinance networks, apex institutions, national government regulators and donors, and consultants.

## COURSE OUTLINE

*Session 1: Welcome and Introduction*

*Session 2: Introduction to Business Planning*

- The purpose and elements of business planning
- Linking basic business planning knowledge to planning for microfinance

*Session 3: Strategic Planning – Mission, Markets, and Clients*

- The components of and how to write a mission statement
- Defining markets and clients for microfinance
- Strategies for planning and how to apply them to a case study of LEDA, a fictional MFI

*Session 4: Strategic Planning – Environmental Analysis, Institutional Assessment, and Strategy*

How to:

- Identify environmental opportunities and threats
- Identify institutional strengths and weaknesses
- Identify objectives and activities for LEDA
- Design a strategy for LEDA

*Session 5: Course Evaluation and Closure*

***Date of last substantive update: 2002***

# References for the Course

(updated in 2008)

## KEY DOCUMENTS

### Financial Projections

Lunde, Shirley A. 2001. *Using Microfin 3: A Handbook for Operational Planning and Financial Modeling*. Washington, D.C.: CGAP.

### General Information

Ledgerwood, Joanna. 1999. *Microfinance Handbook: An Institutional and Financial Perspective*. Washington, D.C.: World Bank.

## OTHER DOCUMENTS

Isern, Jennifer, and Julie Abrams with Matthew Brown. 2008. *Appraisal Guide for Microfinance Institutions. Resource Manual*. Washington, D.C.: CGAP, March. <http://www.cgap.org/p/site/c/template.rc/1.9.2972>

Isern, Jennifer, and Julie Abrams with Matthew Brown. 2008. *Appraisal Guide for Microfinance Institutions. Revision of 1999 Appraisal Handbook*. Washington, D.C.: CGAP, March. <http://www.cgap.org/p/site/c/template.rc/1.9.4394>

Isern, Jennifer, Julie Abrams, and Kim Craig with Matthew Brown. 2007. *Appraise.xls: Spreadsheet for Appraisal Guide for Microfinance Institutions*. Washington, D.C.: CGAP, March. <http://www.cgap.org/p/site/c/template.rc/1.9.2968>

## WEB SITES

Microfin financial projections model: <http://www.microfin.com/>

MicroSave Toolkits: <http://www.microsave.org>

USAID microLINKS: <http://www.microlinks.org>

# SESSION 1: WELCOME AND INTRODUCTION

## Session Summary

**OBJECTIVES:** By the end of the session participants will be able to:

- State each other's names
- State the training objective and agenda
- Relate objectives to their own expectations

**TIME:** 90 minutes

**SUPPLIES:** Flipchart paper and markers for each group  
Name tags  
Name tents (sample included)  
Masking tape  
Index cards  
LED projector  
Overhead projector (optional)

### TRAINER MATERIALS

BP1-M1 Sample Name Tents  
BP1-M2 Suggested Duration of Sessions

### PARTICIPANT MATERIALS

**OVERHEADS:** BP1-O1 Workshop Expectations Exercise  
BP1-O2 Goal  
BP1-O3 Objectives

**HANDOUTS:** BP1-H1 Workshop Expectations Exercise  
BP1-H2 Business Planning – Precourse Skills Audit  
BP1-H3 Business Planning Goal and Objectives

## Session 1: Welcome and Introduction

**Note to trainers:** The present version of the CGAP Business Planning course has been significantly reduced from the original course to remove the Microfin case study and references to the CGAP handbook *Using Microfin 3.0*. As of November 2008, the Microfin software is now on version 4.0 and has changed significantly from the version used in the original course. However, Chuck Waterfield and colleagues continue to offer a specialized course on Microfin in various locations globally. The November 2008 version of the course includes all the sessions of the original course that precede using Microfin to do financial modeling—namely, defining institutional mission, goals, and objectives, understanding clients, and markets, carrying out environmental and institutional assessments, and designing a strategy. CGAP hopes that these sessions can be useful to potential trainers either as stand-alone sessions or as part of a larger course.

### WELCOME

1. (2 minutes) Have a representative of the sponsoring organization welcome participants and open the workshop.
2. (2 minutes) Have remarks from official guests.
3. (2 minutes) Have the sponsoring organization representative or official guest introduce the trainers and hand over the workshop to them.

### SETTING THE STAGE

4. (5 minutes) Welcome participants to the course, using the following points as a guideline:
  - Over the past 20 years, a microfinance industry has emerged in response to the lack of access to formal financial services for most of the world's poor. Microfinance institutions serve an ever-increasing number of poor clients, but the demand for such financial services still far outstrips their capacity.
  - To meet this demand, most microfinance institutions plan to increase their outreach. But rapid growth strains an institution's systems and changes its financial dynamics. Without effective planning and projection tools, microfinance institutions can—and often do—undermine themselves.
  - Many microfinance institutions have business plans. They are often overambitious, because the underlying projections are insufficiently detailed to reveal the hurdles that the institution must overcome in order to expand. Often they are prepared by outsiders, created in response to requirements of potential funders, and remain on the shelf once funding is received, rather than serving as an ongoing management tool.
  - CGAP commissioned the Microfin model and designed the original Business Planning course to help microfinance institutions develop their own business plans. Because the Microfin model has continued to be upgraded since the first

CGAP Business Planning course was launched in 2002, the present course does not include the original sessions on using Microfin and doing financial projections, since they are no longer compatible with the 4.0 version of Microfin currently in use. Microfin 4.0 can be downloaded from <http://www.microfin.com>, along with the manual, self-help tutorials, and other useful information.

- The original course provided guidelines for preparing strategic and operational plans and, most especially, detailed how to make accurate financial projections to accompany those plans. Such plans and financial projections are certainly not secure predictions of the future—under the best circumstances they involve **assumptions** that will always need adjustment in the face of changing realities. But even if good business plans are not crystal balls, the exercise of preparing one, with participation by staff at all levels, can help an institution in three ways:
  - (1) The institution’s stakeholders will have to face, and arrive at, a consensus on key strategic and operational issues that the exercise will bring to the surface.
  - (2) If the financial and operational planning is carefully done, the process almost always shows participants important dynamics of their business that they did not understand before.
  - (3) The plan that results can serve as a roadmap to the institution’s goals. With a good map in hand, one that is periodically updated, management will know when the institution is deviating from those goals and in which direction it needs to move to get back on track.
- During this course you will be introduced to how to develop those plans and review some basic concepts of planning. The planning exercises using the case study should start you and your organizations on your way to developing a solid business plan that will help your organizations achieve your operational goals.

## **PARTICIPANT INTRODUCTIONS AND EXPECTATIONS**

*(As appropriate, substitute other experiential activities that achieve these goals, such as learning who the participants are and eliciting their expectations.)*

5. *(5 minutes)* Say: Before getting started, let us find out who is here and why you came! Distribute expectation cards. Ask all participants to write down several reasons why they came to this workshop and to list several points on what they expect to get out of it—that is, what they want to learn or be able to do as a result of this workshop.
6. *(20 minutes)* Show BP1-O1 and Handout BP1-H1, Workshop Expectations Assignment, and briefly explain that in their groups, participants should first introduce themselves by saying their names, then describe their jobs, and end by briefly summarizing what they wrote on the card about why they came to the workshop.

Then ask each group to prepare a drawing that reflects the main things that they want to learn and do at the workshop (their expectations).

Emphasize that the goal is not to produce a drawing of a “planning process” or an organizational chart. They should try for a more creative expression, like a happy institution that results from their planning efforts. Use a previously prepared flipchart to illustrate this point (see Trainer Notes).

Divide participants into groups of four or six people (depending on total group size) by asking them to count off. Tell members of each group to meet under the sign with the number corresponding to the group. Hand out flipchart paper and markers to each group, and explain that they have 15 minutes to complete the drawing process.

Check on the small groups as they work, keeping them aware of the time remaining for the task.

## **INTRODUCTIONS AND PRESENTATIONS**

7. *(20 minutes)* Reconvene the large group and begin subgroup presentations. Remind participants of the main rule—everyone must speak! Call each group to the front of the room and post its drawing somewhere in the room. All group members should come forward to introduce each other and present the drawing to the large group.

As expectations emerge from the reports, make notes on a flipchart labeled “Expectations.” When all the groups have taken a turn, ask if there are any other key expectations that have not been included on the flipchart and write down any responses. Collect index cards to supplement the expectations.

## **PRECOURSE SKILLS AUDIT**

8. *(15 minutes)* Explain that in order to fine-tune the course, it is helpful for the facilitators to understand what participants already know. Tell the group members that now they will take a precourse skills audit, and remind them that if they knew all the answers, there would be no need for them to attend this course! Joke: We hope there are some blank spaces so that we can keep our jobs! Distribute BP1-H2. When the audits are complete, collect them for later analysis and use for group formation and course emphasis.

## **EXPECTATIONS AND SCHEDULE**

9. *(5 minutes)* Using overheads BP1-O2, Workshop Goals, and BP1-O3, Objectives, hand out BP1-H3 and briefly go over the workshop goals and objectives, tying the sessions to the expectations expressed by participants earlier. If certain expectations will not be met, candidly explain why. Distribute Training Schedule, which the trainers should have prepared based on the suggested duration of sessions for the course (BP1-M2) and review.

10. (2 minutes) Complete a list of ground rules for the workshop by soliciting input from the participants (for example: start on time, everyone must participate, ask if anything is unclear, no smoking, one person speaks at a time, there is no such thing as a “stupid” question, and so on).

Introduce the concept of the “energizer” and determine a way to fulfill this role. For example, say “The last person to enter the room is the energizer of the day.” Explain that when they feel as if they are dragging a bit, they should request to have someone lead a one-minute “energizer” to perk them up, including telling a joke, leading the group in calisthenics, and so forth).

Review any logistics (hotel, meals, break times, and so on).

## CONCLUSION

11. (2 minutes) Take any questions that participants have at this point. Close by pointing out that:
- The participants are a vital part of the learning process. They will be able to build upon the experience and knowledge of other participants, and share their own knowledge and experience to benefit others.
  - Emphasize that they will be working in small groups on a detailed case study.
  - Explain that they will be using the latest in adult education methods, for which the foundation is learning by doing. They will not be lectured at, as they might have expected to be the case. Ask participants to be patient and allow the process to run its course. Say: While we are available to answer questions as needed, we do believe that the best remembering comes from your own discoveries! Let’s get started!!

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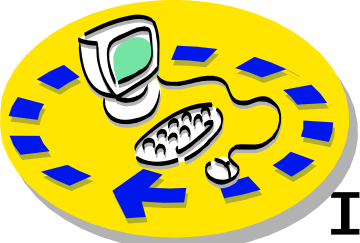
## Trainer Notes

- Before the session: Consider preparing a flipchart with two simple drawings to demonstrate a creative approach to a “happy house.” On the top half, draw a shape like an organigram, with layers of boxes connected by lines. Draw a big “X” through this drawing. On the bottom half make a simple drawing of a house and a family of “stick people” outside the house. Before asking the group to prepare a drawing, direct their attention to the flip chart so participants can see what is being asked for.
  - Create and post signs labeled 1, 2, 3, 4 in corners of the room, indicating where the subgroups should gather.
  - If desired, during the introduction/expectation portion of the session, substitute other experiential activities that achieve the goals of learning who the participants are and obtaining participants’ expectations as appropriate.
  - After completing this session: Remember to evaluate the precourse skills audits; participants should be evaluated on their planning experience and knowledge of financial management. Make a list of subgroup options, keeping in mind that participants from the same organization should be in different subgroups so that institutional experiences can be shared across institutions.
-

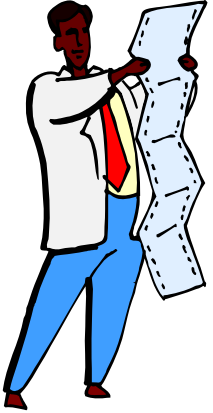


## Sample Name Tents

Participant Name Goes Here



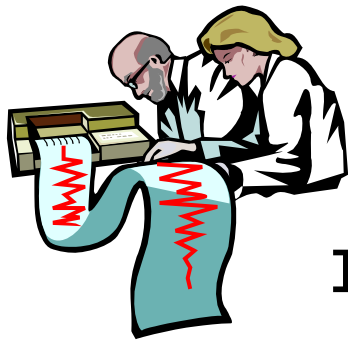
I hear, I forget  
I see, I remember  
**I do, I understand**



To Use: Cut along solid lines, then fold on dotted line. Make sufficient copies (preferably copied on hard paper) for all participants. Distribute to participants and ask participants to write their name in the space provided.



# Participant Name Goes Here



I hear, I forget

I see, I remember

**I do, I understand**





# Participant Name Goes Here



I hear, I forget

I see, I remember

**I do, I understand**





## Suggested Duration of Sessions

### BUSINESS PLANNING COURSE (without Microfin sessions)

	<i>Minutes</i>	
	<i>Min</i>	<i>Max</i>
1. Welcome and Introduction	90	90
2. Introduction to Business Planning	80	110
3. Strategic Planning—Mission and Clients	120	145
4. Strategic Planning—Environmental/Institutional	175	185
5. Closure and Evaluation	30	30
<b>Total minutes</b>	<b>495</b>	<b>560</b>
<b>Total hours (<i>divide by 60</i>)</b>	<b>8.25</b>	<b>9.33</b>
<b>Total 6-hour days</b>	<b>1.38</b>	<b>1.55</b>
<b>Total 6.5-hour days</b>	<b>1.27</b>	<b>1.44</b>



# Overheads

**THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP BUSINESS PLANNING OVERHEADS"**



# Workshop Expectations Exercise

IN 15 MINUTES

1. Introduce yourself
2. Talk informally about your expectations of the workshop
3. Prepare a drawing which reflects the group's expectations of the workshop
4. **EVERYONE** in the group must present someone or some part of the drawing! Everyone must say something!!



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## Goal

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



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# Objectives

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

# Handouts



## Workshop Expectations Exercise

*Time: 15 minutes*

1. Share your names, describe your jobs, and briefly explain why you chose to attend the workshop.
2. Talk informally about your expectations for the workshop. Take notes from the discussion, and attempt to summarize the group's expectations. Share the summarized expectations and make changes if necessary.
3. As a group, prepare a drawing that reflects your expectations of the workshop, using the flip chart paper and markers provided. Be creative!
4. Be prepared to introduce each other and to explain the group's drawing to the larger group. **EVERYONE** in the group must present someone or some part of the drawing! You all must talk!!





## Business Planning – Precourse Skills Audit

Name: \_\_\_\_\_ Organization: \_\_\_\_\_

Please answer these questions to the best of your ability, including any formulas or indicators as requested. This is *not* a test, but it will help us identify which topics to emphasize during the course. Use the reverse side of this paper, if necessary, to complete your answers.

### 1. Name three components of the Business Plan.

a.

b.

c.

### 2. What is an Environmental Analysis?

### 3. What is an Institutional Assessment?

### 4. Have you been involved in developing your institution's planning process? If yes, please explain the process used and your involvement in the process. Use the reverse side of this sheet to answer.





# Business Planning

## Goal

Define the steps needed to create a business plan that leads to  
increased outreach  
and  
**PROFITABILITY**

## Objectives

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



# SESSION 2: INTRODUCTION TO BUSINESS PLANNING

## Session Summary

**OBJECTIVES:** By the end of the session participants will be able to:

- Explain the purpose and elements of business planning
- Link basic business planning knowledge to planning for microfinance

**TIME:** 80–110 minutes

**SUPPLIES:** Business Planning Framework prepared on two pieces of flipchart paper (titles and boxes only)  
Flipchart  
Markers  
Masking tape  
LED projector  
Overhead projector  
Index cards

### TRAINER MATERIALS

General Strategic and Business Planning Reference Materials  
Practical local Examples/References to Planning Process  
BP2-M1 Introductory Comments on Business Planning

### PARTICIPANT MATERIALS

**OVERHEADS:** BP2-O1 Planning Helps...  
BP2-O2 Business Planning for Microfinance Institutions  
BP2-O3 Business Planning Terminology  
BP2-O4 Business Planning Framework

**HANDOUTS:** BP2-H1 Business Planning Framework

**PREPARED FLIPCHARTS:**  
Business Planning Framework

## Session 2: Introduction to Business Planning

### IMPORTANCE AND PURPOSE OF PLANNING

1. (2 minutes) Introduce the session. Remind participants that they have just discussed the goals and objectives of this course. They are here to apply their planning skills to all aspects of planning. Say: Let's start at the beginning—what do you know about business planning?
2. (5 minutes) To focus the session, distribute index cards and ask participants individually to write their own definition of business planning. Review a few answers and explain that they should hold on to their definitions, as they will be redefining them as the course proceeds.
3. (5 minutes) Ask: Why do you think planning is important? What is the purpose of planning? After a few moments show BP2-O1. Explain that planning provides a framework for change. It is both an operational tool that guides the activities of staff and board and an evaluation tool that allows individuals to monitor progress in reaching the goals outlined in the plan. It will enhance an MFI's ability to expand outreach and increase sustainability. Emphasize that it **is not** a process to go through simply in order to get money from donors.
4. (7 minutes) Brainstorm: What are the characteristics/qualities of a good plan? Write answers on the flipchart. Answers should include:
  - Is a process—done over time
  - Has involvement of all departments,
  - Developed by a group—not one person in isolation
  - Owned by the organization
  - Enactable with resources available
  - A working document—referred to, not shelved
  - Is also concrete, measurable, and a good read!

Summarize brainstorming by highlighting that planning is an iterative process and worked on by a team of people representing various departments in the organization.

5. (2 minutes) Ask: In particular, why is planning important to MFIs? Ensure that the responses are linked to the sustainability message. Give as an example: Good planning will allow MFIs to embark on realistic efforts to reach sustainability. Show BP2-O2.

## BUSINESS PLANNING FRAMEWORK

6. (5 minutes) Ask those who have been involved in a business planning process to raise their hands. Follow up by asking a few people to describe the particular process they were involved in.
7. (10 minutes) Explain that they will now take a few moments to think more about the planning process. Divide participants into subgroups of three, made up of those seated next to each other. Explain that they have 10 minutes to write down the main steps/parts of the business planning process. Ask them to think of the major steps they have to complete when doing a business plan and then ask them to try to put the elements in a chronological order (what would they do first, second, and so on). Suggest that they strive for no more than 10 steps to their planning process.

While monitoring the subgroups' progress, try to get them to focus on broad concepts like mission, SWOT, budgeting, objectives, and goals, and not get into any more detail than this.

8. (10 minutes) Process the results in the large group. Ask each triad what things they considered first, next, and so on. Keep the discussion moving. It is not necessary to obtain an exact order to the steps; grouping activities as "first tasks" is fine. Remember that the participants have already discussed the topic for 10 minutes. Try to take as many answers as possible. (A cotrainer can write the **main** ideas on a flipchart as they come up.)

Summarize and acknowledge commonalities and previous knowledge. Ask: What are your comments on the best order to follow for a planning process? Focus the discussion. Note that overall plans often start with a "mission"—what the institution stands for—and end up with a "strategy"—a plan to achieve the mission. Explain that the mission should be internally defined, not defined by someone outside the organization. Also point out that the process is not linear; some activities occur simultaneously, and some activities are continuous, such as market research, examining the competition, assessing institutional resources, and so forth. For example, the mission is reviewed after the market research, and SWOT for feasibility prior to final strategy development.

9. (2 minutes) Referring back to the list, elicit responses by asking how they can group these activities. Try to quickly move the group towards strategic, operational, and financial modeling. If this does not work, then move into the next step immediately—as always, relating to the points on the flipcharts.
10. (5–10 minutes) Explain that first they need to be introduced to some key terms and definitions. Show BP2-O3, Business Planning Terminology. Define the planning terms one by one, emphasizing how they differ, by using the overhead to reveal only the term to be defined and asking participants for some ideas, then revealing the working definition used throughout the course.

11. **OPTIONAL** (10–20 minutes) Bridge activity from local reference points to the course framework. Depending on the group and the terms/processes in general use in the region where the course is being offered, consider taking some time to relate common practices to the definitions above to lead into the framework that will be used in this course, described below.
12. (10–15 minutes) Explain that they will now study the business planning framework and once again see how it compares to the outlines they have just developed or to other frameworks they may be accustomed to in their countries. State that there are many different models available for use in planning. Explain that the approach developed and used in this course is only one approach to business planning. It may have different components or terms, but the framework includes all the major components needed to formulate a general business plan, and also provides extra emphasis and tools specific to microfinance.

Show overhead BP2-O4, Business Planning Framework. Reveal and explain the framework for their planning strategy, and review the components one by one, relating them to participants' lists and experiences. Build on this in the presentation.

Emphasize main ideas, particularly stressing (1) the priority given to markets, (2) the focus on **clients** as the main theme in the business planning approach, (3) planning as an iterative, ongoing process, completed by a task force, and (4) the usefulness of projections and financial modeling in microfinance.

Point out the parallels between strategic components and operational components (for example, markets and clients influence products and services). However, do not go into detail, as this will be done in a later session.

13. (5–10 minutes) Hand out BP2-H1, Business Planning Framework, to participants. Give them a few minutes to review the handout. Facilitate general discussion by asking: What are your reactions to the framework? How can you apply it in your institution? How does this framework compare to your own experiences? Differ from what you are familiar with? Differ from typical NGO approaches? (Answers: emphasis on markets, considers the institution as a whole, provides an ongoing management tool, has a tool specific to microfinance, and so forth.) Take any other questions and comments.

## CONCLUSION

14. (5 minutes) State that this framework provides an outline of the business planning process. It is useful to follow it, and break it down into components, when completing the projections needed for financial modeling in order to complete a business plan for microfinance institutions that will enhance their abilities to be successful, profitable, and sustainable.

Bridge to the next session.

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**Trainer Notes**

At the end of this session, hang up the previously prepared Business Planning Framework (titles and boxes) in a central place where everyone can see it. This flipchart will be posted on the wall for the remainder of the course, so it should be carefully done. To be large enough to be visible, it should be created on multiple sheets of flipchart paper. Use different marker colors for the main headings so that they are easily distinguishable, arrows where appropriate, and so forth.

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## Introduction

Business planning for microfinance institutions can be understood as two closely related processes: strategic planning and operational planning. Strategic planning means articulating broad institutional goals, assessing the institution's performance in achieving its goals, and then selecting a strategy that enhances the institution's ability to expand outreach and achieve (or maintain) profitability. Operational planning involves creating a framework for implementing the strategy, expressed concretely in detailed financial projections.

How a microfinance institution carries out the planning process greatly affects the quality of the plan. Incorporating the perspectives of key stakeholders—such as the institution's board, staff, and clients—helps ensure that the business plan that results identifies the key issues that must be addressed to achieve broad outreach and profitability. Involving those responsible for implementing the plan helps ensure broad endorsement, essential for successful implementation.

The process of developing a business plan, especially creating detailed financial projections, helps an institution to understand the factors that are key in determining its success. These include, for example, the elements that must be considered in designing financial products that both meet clients' needs and lead to profitability, such as the size and term of loans and the effective interest rate. The business plan, and the financial projections that are an integral part of it, become operating tools for the institution's managers. By comparing actual with projected results (performing variance analysis), managers can monitor the institution's progress toward the goals outlined in the plan.

In addition to serving its primary purpose as a management tool, a clear plan with well-thought-out financial projections strengthens a microfinance institution's negotiating position with donors, commercial banks, and other investors. The business plan can also be used to provide information to other external audiences, such as shareholders, clients, and regulatory authorities.

## Introduction to Developing a Strategic Plan

There are many ways to develop a strategic plan. The approach here consists of several steps, all of which keep the clients in the forefront during the planning process:

- Articulating the institution's mission and goals, which express its aspirations and intentions
- Defining the institution's markets and clients to clarify whom it seeks to serve
- Undertaking an environmental analysis to examine key factors in the broader context in which the institution operates
- Performing an institutional assessment to explore key strengths and weaknesses of the institution
- Based on the results of these analyses, developing a strategy that builds on the institution's strengths and develops key areas needing improvement, enabling the institution to better serve its clients and achieve profitability

## Strategic Planning: Development and Implementation Dr. Bonita H. Meleher and Dr. Harold Kerzner

*Excerpt from Chapter 1: The Role of Strategic Planning in the Survival of the Organization*

### 1.0 WHAT IS STRATEGIC PLANNING?

**Strategic planning** is the process of formulating and implementing decisions about an organization's future direction. This process is vital to every organization's survival, because it is the process by which the organization adapts to its ever-changing environment and is applicable to all levels and types of organizations. The formulation process is the process of deciding where you want to go, what decisions must be made, and when they must be made in order to get there. It is the process of defining and understanding the business you are in. The outcome of this process results in the organization doing the right thing by producing goods or services for which there is a demand or need in the external environment. When this occurs, we say the organization has been effective as measured by market response, such as sales and market shares. All organizations must be effective or responsive to their environments to survive in the long run.

The formulation process is performed at the top levels of the organization. Here, top management values provide the ultimate decision template for directing the course of the firm.

Formulation:

- Scans the external environment and industry environment for changing conditions
- Interprets the changing environment in terms of opportunities or threats
- Analyzes the firm's resource base for asset strengths and weaknesses
- Defines the mission of the business by matching environmental opportunities and threats with resource strengths and weaknesses
- Sets goals for pursuing the mission based on top management values and sense of responsibility

Implementation translates the formulated plan into policies and procedures for achieving the grand decision and involves all levels of management in moving the organization toward its mission. The process seeks to create a fit between the organization's formulated goal and its ongoing activities. Because it involves all levels of the organization, it results in the integration of all aspects of the firm's functioning. Middle- and lower-level managers spend most of their time on implementation activities. Effective implementation results in stated objectives, action plans, timetables, policies and procedures, and results in the organization moving efficiently towards its mission.

Strategy must be executed to be effective. Tom Peters reports that the secret to the success of the firms that he and Waterman studied was "Almost invariably mundane execution."

Implementation:

- Translates mission into specific measurable objectives
- Acquires needed resources
- Allocates resources to required activities
- Directs required activities
- Uses control to assure activities achieve objectives

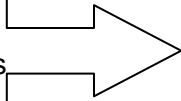
*Trainer Instructions*

- Creates and changes activities as necessary

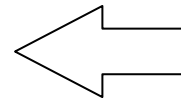
Strategic planning consists of two processes: formulating strategy and implementing strategy. The concept of strategy is not new.

**Formulation of Strategy**

Corporate Environment  
Corporate Resources  
Corporate Responsibilities  
Management Values



**Strategy**



**Implementation of Strategy**

Organizational Structure  
Information Systems  
Reward Systems  
Allocation of Resources  
Leadership

Source: Melcher, Bonita Dr. and Dr. Harold Kerzner. *Strategic Planning: Development and Implementation*. Blue Ridge Summit, PA: TAB Professional and Reference Books, 1988.

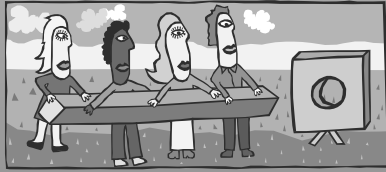
# Overheads

**THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP BUSINESS PLANNING OVERHEADS"**

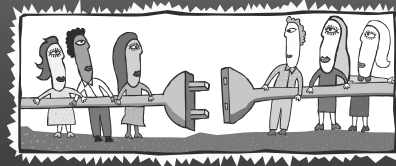


# Planning Helps...

BP2-O1



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



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# Business Planning for Microfinance Institutions

BP2-O2

**BOTH**  
strategic planning  
and operational planning



for achieving outreach  
and  
sustainability

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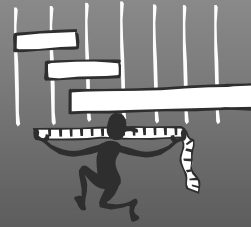
# Business Planning Terminology

## Strategic Planning

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

## Operational Planning

Projects how to pursue the goals

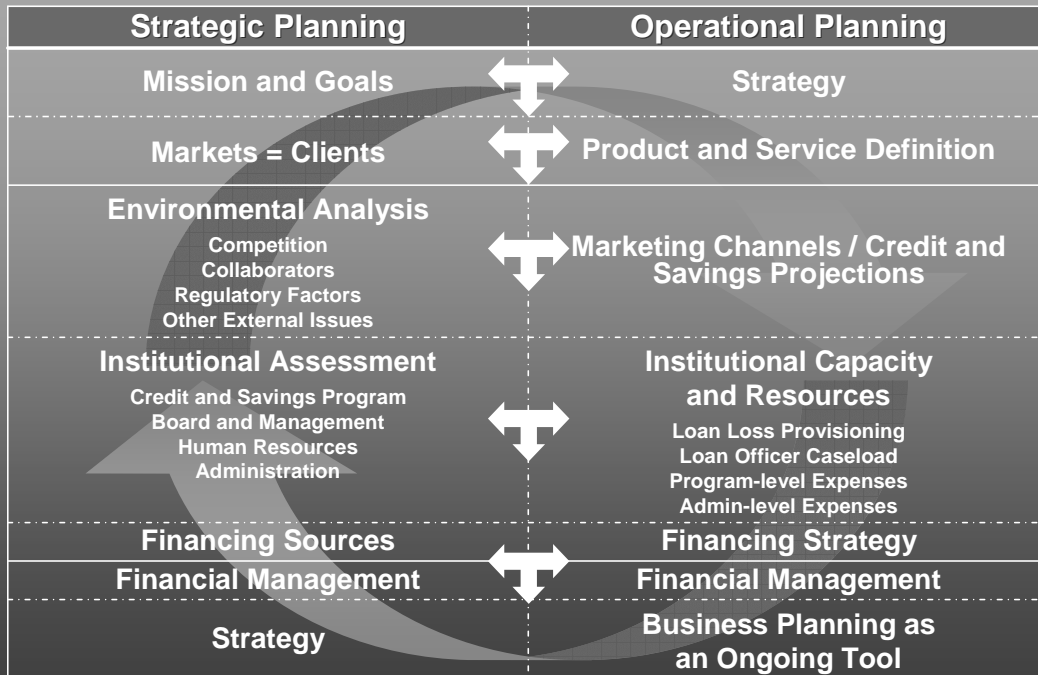


## Financial Projections

Expresses the plan in financial terms



# Business Planning Framework



# Handouts



## Business Planning Framework

Strategic Planning	Operational Planning
Mission and Goals	Strategy
Markets = Clients	Product and Service Definition
<b>Environmental Analysis</b> Competition Collaborators Regulatory Factors Other External Issues	<b>Marketing Channels /Credit and Savings Projections</b>
<b>Institutional Assessment</b> Credit and Savings Program Board and Management Human Resources Administration	<b>Institutional Capacity and Resources</b> Loan Loss Provisioning Loan Officer Caseload Program-level Expenses Admin-level Expenses
Financing Sources	Financing Strategy
Financial Management	Financial Management
Strategy	<b>Business Planning as an Ongoing Tool</b>



# SESSION 3: STRATEGIC PLANNING – MISSION, MARKETS, AND CLIENTS

## Session Summary

**OBJECTIVES:** Participants will be able to:

- State the components of and write a mission statement
- Define market and clients for microfinance
- Identify strategies for planning and apply them to a case study

**TIME:** 120–145 minutes

**SUPPLIES:** LED projector or overhead projector  
Flipchart  
Markers (one for every five participants)  
Masking tape

### TRAINER MATERIALS

BP3-M1 LEDA Case Study Part 4 Discussion Guidelines  
BP3-M2 Technical Notes

### PARTICIPANT MATERIALS

**OVERHEADS:** BP3-O1 Mission Statement

BP3-O1 Locally Provided Examples of Mission Statements—to be generated locally	<b>Optional</b>
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BP3-O2 LEDA's Mission  
BP3-O3 LEDA's Goals  
BP3-O4 At LEDA we serve...  
BP3-O5 Segmenting Markets  
BP3-O6 Effective Segmentation  
BP3-O7 Microfinance Client Traits

**HANDOUTS:** BP3-H1 From Mission Statement to Strategy  
BP3-H2 Markets and Clients – Key Points

**CASE STUDY:** Part 1 LEDA History  
Part 2 Mission and Goals  
Part 3 Clients and Markets  
Part 4 ASSIGNMENT – Clients and Markets

## Session 3: Strategic Planning – Mission, Markets, and Clients

### INTRODUCTION TO STRATEGIC PLANNING

1. (2 minutes) Introduce and explain the session objectives. Refer back to the Framework overhead/handout (BP2-O4/BP2-H1) and point out that the group will now focus on the strategic planning side of the framework. Explain that they will go through each component of the framework, first defining it and then applying it to a case study—LEDA. Remind participants that they have already learned that some of them are familiar with strategic planning and have even participated in strategic planning exercises, (this information comes from the precourse skills audit and the previous session). Now others in the group can learn from their experiences. (Since most of the session involves lecturing, using questions and answers, try to keep the session interactive and lively!)

### MISSION AND GOALS

2. (5 minutes) Ask: What do you do first? (Answer: strategic planning—formulate a strategy.) Review strategic planning, noting that the outcome is a strategy that will then need a plan of implementation (the operational plan). Once again, remind the group that planning is an iterative process and that steps are not necessarily conducted in a linear fashion. However, during the course, the steps will be presented one by one and participants will discuss how they overlap and link to one another!
3. (5 minutes) Referring to the Framework, ask what the first step is. (Answer: Establish the mission!) Follow up by asking what is meant by a mission statement? What are the main elements of a mission statement? What is their mission? Take a few responses and ask for examples of each element. Summarize using BP3-O1 and notes from BP3-H1 as a guide to help participants reach a common understanding about how the term is used in this course. Remind participants that the MFI's mission is its reason for existence!
4. (5 minutes) Write this question and responses on a flipchart: Why is the mission (statement) important? Brainstorm for answers, which might include encouraging stakeholder commitment to and ownership of the organization, providing focus and direction to the organization during implementation, providing long-term commitment or direction to the institution.

Explain that in order for the concept of “mission” to be real within an organization, rather than just words or a catch phrase, it must be **implementable**. Therefore, the mission is the cornerstone of business planning. The purpose of the remainder of the plan is to help the organization achieve its mission; the organization's mission sets the stage for all subsequent activities.

5. **OPTIONAL** (5 minutes) If possible, provide some local examples of mission statements on a slide or overhead for the group’s review and to illustrate the major components. (BP3-O1—**Optional**)
6. (3 minutes) Ask: What are goals and how do goals relate to an MFI’s mission statement? Summarize the discussion by stating that goals are statements that begin to outline **how** an MFI intends to pursue its mission. They are fairly broad statements that highlight what the general plans of the MFI are to achieve its mission, and are often related in terms of outputs or outcomes. The goals will later be broken down into objectives and activities for more specific guidance of implementation and monitoring accomplishments.
7. (5–10 minutes) Ask various participants to describe the mission and goals of their organizations, and to talk about their experiences or thoughts concerning that mission. Ask: Is your organizational mission being fulfilled or experiencing mission drift? Why or why not? Briefly discuss some of the reasons.  
  
Summarize by highlighting qualities of mission statements that help get them fulfilled. Include such concepts as stakeholder understanding of the mission, commitment to success, participatory development, based in reality (not to get donor funds, etc). Have relevant local examples available in case there are none from the group.
8. (3 minutes) Introduce the LEDA Case Study. Show BP3-O2, LEDA’s Mission Statement, and BP3-O3, LEDA’s Goals. Review them with participants and explain that the case study will be dealt with in more detail later in this session.

## MARKETS AND CLIENTS

9. (5 minutes) Ask: After you have defined your mission and goals, what should you focus on next in your strategic planning activities? (Answer: the market—that is, who will buy the services: the clients!) Remind participants that defining a market is one of the first steps they will undertake. Ask if anyone can remember who LEDA’s clients are? Take a few answers and show BP3-O4, “We serve low-income self-employed in urban areas.”  
  
Ask for reactions that lead to the question: Does that tell us enough about who LEDA plans to serve? (Answer should be no, an MFI must have a more specific picture of **who** it is going to serve; the market must be analyzed in more detail.) Ask: What else do you need to know? What might you add to this description to present a clearer picture? Quickly write a few new ideas expressed by the group on the overhead: concentration of clients, where they are, what they need, their gender, types of businesses, and so on.
10. (10 minutes) Refer back to the Framework and explain that we will now look at the most crucial element of our plan—the “who” of the mission statement. Remind participants that in this course approach, they will focus their plan on the market first and build the strategy around it.

Ask: What do you mean by markets? Take a few answers. State there are many definitions that will vary from the economist to the marketer. In this course, they will focus on how the term is used in microfinance. Note that a market is the set of all actual and potential buyers of a product. A potential market is the set of consumers who have some sort of interest in the product. Tell the group that they may choose to define their market narrowly or broadly, bearing in mind different circumstances for each.

Ask: What do we mean by clients? This should equate with the current and potential markets above. Explain that since they are discussing the potential market, they will look in greater depth at the characteristics of these consumers. If necessary, provide some local definitions as examples.

Ask: How do you determine who are the clients in the markets? (Answers: conduct market research, gather information to determine whom the MFI can serve so that it can be profitable and achieve its mission.) Discuss methods that can be used to get the information required. (For example, surveys/focus groups of existing and potential clients, demographic statistics, and so forth.)

11. (5 minutes) Ask the group to briefly discuss why an analysis of markets and clients is important. (Answer: This is a critical element in the MFI's formula for success, because without markets there is no growth, and without satisfied clients there is no institution!)

Explain that through such an analysis, they will be able not only to determine what markets to expand in, but how to tailor products and services to meet client demand. Explain that while markets and clients commonly fit into an environmental assessment in a typical strategic planning process, special emphasis is placed on them in order to underscore their importance to microfinance. Explain that in the "sea of replication" the specifics of markets and the related client needs are often overlooked. The success of their MFIs is directly related to satisfying their clients with products and services that they require, value, and will pay for.

12. (5 minutes) Ask the group to briefly examine a process for analyzing markets and clients, focusing first on markets. Ask: How do you get more detailed information about markets? Introduce the concept of market segmentation and ask participants for definitions.

Summarize the discussion by saying that a market segment is the division of a market into distinct groups of buyers who might call for separate products or marketing mixes, based on their unique characteristics.

Ask: How do you normally segment markets in your institutions? Or, how do you think you can easily segment markets? Take answers, show BP3-O5, and explain its relevance. (For background preparation, see BP3-M2)

Tell participants that the first step in their market analysis will be to **identify** all of the organization's current as well as potential markets, using the criteria just discussed.

13. (5 minutes) Explain that once they have identified markets for analysis, they must determine what information should be gathered about that market, and how it will be gathered. Ask: What might you want to know about a given market? Make a list on a flipchart. Answers should include size, growth potential, breakdown of activity by sector, demand for services, and infrastructure. Explain that if it is a market they are already serving, they will also want to assess client satisfaction with the existing program. Show BP3-O6 and explain that the answers just provided will help to fulfill the requirements for effective segmentation.
14. (5 minutes) Ask: What about your potential market? What specifically might you want to know about your existing or future clients? Briefly discuss some answers and show BP3-O7 as a summary.
15. (5 minutes) Ask the group where and how they would obtain all of this information. Quickly list answers on the flipchart. (Answers should include document research, file reviews, onsite investigation, client/employee interviews, business associations, and so on.) Remind them that sound market research includes talking to existing clients about their satisfaction with the program to help determine what products and services to offer. Market research is an ongoing activity. It takes a great deal of time and is carefully planned. (Refer participants to the CGAP course on Product Development, which deals more at length with market research.) Summarize by saying that to stay competitive, an MFI must always know what its customers think and want and how it can attract new customers.
16. (5 minutes) Ask: Once you have obtained all the necessary information about potential markets and clients, how might you initially decide if it represents a sound opportunity for your organization? (Answer: compare its size and growth potential and expected profits to the MFI's own organizational priorities, including its mission and goals and resources, as well as to other factors, such as competition, client buying power, and so forth.) Stress that this is how markets and clients relate to an MFI's mission and goals, and other components in the strategic planning process. Hand out BP3-H2, Markets and Clients—Key Points.
17. (10 minutes) Reintroduce the LEDA case study. Explain that in a moment they will analyze LEDA's position with regard to markets and clients. Hand out LEDA Case Study Parts 1–3. Give participants time to read the case study on their own. Ask the group if they have questions related to the case.
18. (20 minutes) Divide participants into small groups of about four each. Hand out Case Study Part 4 and ask them to discuss and complete the assignment.
19. (10 minutes) Have participants come together in the large group. Discuss what they found out about LEDA's market and clients. Ask: Who do you think should be LEDA's market? Have participants support their market identification for LEDA through the research done in LEDA Case Study Part 4. Facilitate a discussion on market and client identification. Try to take answers from several groups and

include differences of opinion. Ask if the potential new markets fit with LEDA's missions and goals. (Note: Do not deal with the last question on the worksheet at this point.) Refer to BP3-M1, Case Study Part 4 Discussion Guidelines.

20. (5–10 minutes) Summarize the main points from session discussions: the MFI's mission is its cornerstone and the market is everything! Bridge to the next session by referring to the final question on the Case Study handout mentioned above. Ask: What kind of additional information is required to make final strategy decisions? Take answers and highlight responses that refer to more information on the environment or the institution. Explain that environmental and institutional analyses are the next steps in the strategic planning process.

Review and take any questions before moving on to the next session.

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### Trainer Notes

- When dividing participants into smaller groups, have some fun! Let each group represent a market segment! Start by writing different market segment types on pieces of paper and put them in a paper bag or hat. Then have each participant choose a paper. (The number of papers should equal the total number of participants.) As an example, for groups of 28, have seven market segments: those living in the northeast, living in the city, or living in the south; those who are farmers, retailers, producers, or service-providers. Write each segment type on four pieces of paper and put them into the bag or hat and pass it among the participants. Group together the four who drew the farmer segment, the four who got "living in the south," and so on.
  - Trainers may also want to refer to the *CGAP Appraisal Guide for Microfinance Institutions Resource Manual* and its sections on vision and mission, competition and organizational strengths and weaknesses, and strategy. It can be downloaded from <http://www.cgap.org/p/site/c/template.rc/1.9.2972>.
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## Case Part 4 – Answer Guide

### LEDA Markets and Clients: Assignment Response Guidelines

*For reference when facilitating plenary discussion*

#### **CURRENT MARKET:**

**1. Describe LEDA's current market segment(s).**

Two geographic locations: Brownstown Market and St. Mary.

Economic activities: currently 2/3 commerce and 1/3 retail, artisans, and urban traders

Specifically: 40 percent small-scale commerce in fresh produce, 20 percent small-scale retailers of dry goods, 25 percent shoemakers, 15 percent other production-based businesses.

**2. What is the size of the existing market? What is the potential for growth? What is the estimated demand for services among this population?**

There are 50,000 microentrepreneurs. This number grows by 5–10 percent per year. Of these, 60 percent are believed to desire financial services (i.e., 30,000).

**3. In LEDA's markets, are some business sectors more active than others? Describe the sectors that LEDA might focus on, and explain why.**

Their current clients are 40 percent commerce; another 25 percent are shoemakers. LEDA might focus on these because it can possibly provide specialized products to meet specific needs of these sectors.

**4. Do LEDA's current clients reflect the market identified in its mission and goals?**

Yes to the mission. But since existing clients are unhappy with the products and services. LEDA's goals may be in question.

#### **POTENTIAL NEW MARKETS:**

**1. What are the potential new markets being researched by LEDA? Which of the areas seem most promising?**

East End, nearby, similar to present program

Loganville, a market 40 miles away, on a good road, with a wide variety of economic activities

Mt. Andrews Valley, an isolated area with limited market access

**2. What is attractive about the most promising potential markets?**

East End is replication of present project

Loganville is close to Agora, has a lot of economic activity, there is a central market where clients come, clients speak the national language

**3. What additional information might you need before making a final determination about which markets to expand in?**

The clients' interest in financial services, other potential competition, potential to attract and retain qualified staff, and more broadly, institutional and environmental analyses

## Developing a Strategic Plan

There are many ways to develop a strategic plan. The approach here consists of several steps, all of which keep the clients in the forefront during the planning process:

- Articulating the institution's mission and goals, which express its aspirations and intentions
- Defining the institution's markets and clients to clarify whom it seeks to serve
- Undertaking an environmental analysis to examine key factors in the broader context in which the institution operates
- Performing an institutional assessment to explore key strengths and weaknesses of the institution
- Based on the results of these analyses, developing a strategy that builds on the institution's strengths and develops key areas needing improvement, enabling the institution to better serve its clients and achieve profitability

## Articulating the Mission and Goals

An institution's mission articulates its guiding principles and overall direction. It is an expression of the vision that led to the founding of the institution, a "declaration of organizational purpose." Goals reflect how the institution intends to pursue its mission. A statement of mission and goals generally addresses several key questions:

- What issues is the institution trying to address? (The issues might be the lack of access by the poor to financial services, or the need of a credit union's members for financial services.)
- How does the institution respond to these issues? (The response might be to provide financial services to low-income entrepreneurs or to mobilize deposits from members and then loan a certain percentage of the funds.)
- Who are the intended clients? (The clients might be urban producers and traders, or limited to members of a credit union.)
- What are the institution's core values? (The institution's core values might include enhancing its clients' self-determination, serving as an ongoing financial resource for members, or achieving significant outreach and financial self-sufficiency.)

A microfinance institution's mission and goals underlie and inform all the activities that it undertakes and serve as a source of motivation for the institution's board and staff. The strategy chosen should reflect the institution's mission and further its goals.

## Defining Markets and Clients

Understanding the needs of the clients it seeks to serve helps a microfinance institution develop the capabilities (in products, personnel, and facilities) to serve those clients in ways that expand outreach and enhance profitability. Clients can provide crucial input for the design of new products and feedback on how well existing products and marketing approaches meet their needs.

### **Markets**

As a microfinance institution grows, its clients are likely to become more varied and the institution may find it valuable to divide its current and potential clients into distinct market

segments for analysis. Markets are generally designated by location (for example, a particular urban neighborhood, a semi-rural market town, or the area within a 15-mile radius of a branch office) and then further segmented according to the economic activities within them (such as market vendors, producers, or farmers). The institution chooses which market segments to serve, so that it can ensure that its products and services meet their needs.

Before a microfinance institution enters a new market or decides to expand in an existing market, it is often important to analyze such features of the market as:

- Its size (the number of microentrepreneurs operating in it)
- The projected demand for financial services
- The market penetration that the institution can likely achieve—that is, what share of the microentrepreneurs seeking financial services the institution estimates it will be able to reach
- Key market trends (such as growth in the demand for the goods produced by the entrepreneurs)

Such market analyses can be more or less formal, ranging from informal discussions with current and potential clients to a more formal process of completing a brief market study of each area under consideration.

Once a current or potential market has been evaluated, the institution can decide whether the market represents a good opportunity for expanding its operations and whether more detailed research is warranted on clients' economic and personal traits and on the kinds of financial services that would be most appropriate.

### **Clients**

If a market meets a microfinance institution's initial criteria, the institution may decide to conduct a more detailed analysis to learn more about the entrepreneurs operating there and the kinds of products and services that would best meet their needs. Such an analysis would look at both economic and personal characteristics of current or potential clients.

Key economic traits include:

- The nature of the enterprises
- The demand for specific financial services (credit or savings, working capital or equipment loans)
- Income and assets (of both the businesses and the households)
- Diversity of income sources
- Work experience

Important personal traits include:

- Gender
- Age
- Language and literacy
- Citizenship
- Reputation in the community

An understanding of the traits of clients can help the microfinance institution ensure that its products meet their needs.

## Market Segmentation

### INTRODUCTION

Marketers in both consumer and industrial markets have recognized that they cannot appeal to all buyers in their markets. Instead of trying to compete in an entire market, companies must identify the segments of the market that they can serve best, i.e., target marketing. However, companies have not always had this notion. Marketing has passed through three stages in arriving at this concept of target marketing.

Market segmentation is the division of a market into distinct groups of buyers who might require different products or marketing mixes (Kotler et al, 1994). It is the division of a heterogeneous market, consisting of buyers with different needs and wants, into homogeneous segments of buyers with similar needs and wants. Therefore, the segments are heterogeneous between themselves (i.e., all the segments are different, e.g., one segment all males, one segment all females), but homogeneous within (e.g., within the male segment, all buyers are male; within the female segment, all buyers are female).

Segmentation is important, as buyers have unique needs and wants. In segmenting a market, marketers look for broad classes of buyers who differ in their needs. There is no one right way to segment markets. A marketer has several bases available.

### BASES FOR SEGMENTING CONSUMER MARKETS

#### 1. Geographical segmentation

Segmenting markets on the basis of geography involves dividing the market into different geographical units, e.g., states, regions, countries, where the company pays attention to geographical differences in needs and wants. For example, there may be a greater need for T-shirts in the Philippines all year round than in North America.

#### 2. Demographic segmentation

Demographic segmentation involves dividing the market into groups based on demographic variables such as age, family size and life cycle, occupation, and so forth. It is the most popular basis for segmenting consumer markets because consumer needs often vary closely with demographic variables, and because of the ease of measurement of the variables. Even when other bases are used for segmentation, demographic variables are still used in the description of the segments. For example, you may divide a country into Northern, Southern, Eastern, and Western regions. But you may still describe each of the regions in terms of the demographics of the buyers living there: e.g., age, income, gender, occupation, race, etc.

#### 3. Psychographic segmentation

Using psychographics to segment markets divides buyers into groups based on socioeconomic status, lifestyle, or personality characteristics. Example: dividing a market into leisure-seekers, work-oriented, and family-oriented segments.

#### 4. Behavior segmentation

Behavior segmentation is when buyers are divided into groups based on their product knowledge, usage, attitudes, or responses. Within behavior segmentation, of particular importance is a powerful form of segmentation, benefit segmentation, which groups buyers depending on the various benefits they seek from the product class. For example, you could segment the cereal market based on the benefits sought by cereal buyers:

brand (e.g., Kellogg's), nutrition and health (e.g., Sultana bran), diet (e.g., Special K), taste (e.g., Cocopops for kids), price (e.g., Kellogg's cornflakes), etc. Notice how each segment has particular products or brands that cater to the needs of that particular segment?

## REQUIREMENTS FOR EFFECTIVE SEGMENTATION

Useful market segments must demonstrate the following characteristics:

**Measurability** – The size and purchasing power of the segments must be measurable.

**Accessibility** – It must be possible to reach and serve the segment.

**Substantiality** – The segments must be large or profitable enough.

**Actionability** – The segments must be suitable for the design of effective marketing mix programs.

## TARGET MARKETING

Market segmentation conducted by the company would reveal the various segments the company's market consists of. The company now has to select which segment(s) it wishes to target.

## EVALUATING MARKET SEGMENTS

The first step in evaluating market segments is to gather data on sales, growth, and expected profit for the various segments in order to select segments that have the right size and growth characteristics. Next, the company examines the structural attractiveness of the segments, including: current and potential competitors, substitute products, and power of buyer and suppliers. Finally, the company must consider the segment with regard to its objectives and resources. If a segment is in line with company objectives, the company must still consider if it has the superior skills and resources, in comparison with competition, to succeed in that segment.

## MARKET SELECTION

After evaluating the various market segments, a company must choose one or more of these segments to make up its target market. Therefore, a target market is a set of buyers with common characteristics that a company decides to serve. The company has three market-coverage strategies available to it in selecting target markets.

### 1. Undifferentiated marketing

A company adopting an undifferentiated marketing strategy would ignore differences between market segments, and approach the market as a whole with one market offer. This strategy focuses on common buyer needs rather than what is different, and is designed to appeal to the largest number of buyers. Such a strategy provides cost economies, but difficulties can arise in the development of a product or brand that can satisfy all buyers.

### 2. Differentiated marketing

A company utilizing a differentiated marketing strategy targets several market segments, with separate marketing mixes for each segment. Differentiated marketing has become increasingly popular with companies, e.g., Coles Myer, as it often creates higher sales levels than undifferentiated marketing. However, it also increases costs, as the marketing mix has to be modified in conjunction with different segments' needs, e.g., different products, different advertising.

### 3. Concentrated marketing

A company with a concentrated marketing strategy concentrates on a large share of one or more segments. This strategy can be useful to a company with limited resources. Through this strategy, smaller companies are able to gain a strong market position in the segments they serve, thus providing a way for them to gain a foothold against larger companies with greater resource bases.

When choosing a market-coverage strategy, a company has to consider several factors:

- Company resources
- Product variability
- Product life cycle stage
- Market variability
- Competitors' marketing strategies

## MARKET POSITIONING

Product position is the complex set of perceptions, impressions and feelings that consumers hold for a product, which creates for the product a place in their minds relative to competing products. It is the way consumers define the product on particular salient attributes.

Positioning is unique in that it sometimes is not the *actual* attributes that position a product in the minds of consumers, but the *perceived* attributes. A product can be a high-quality product, but if consumers perceive that it is of poor quality, it will not sell. On the contrary, a poor quality product with high-quality consumer perceptions will sell well.

Positioning is so important to marketers that they do not wish to leave their product's positioning to chance. Instead, they design marketing mixes to create the desired positioning in the minds of their consumers. That is, it is the marketing mix which creates the product position.

### POSITIONING STRATEGIES

Marketers can position products based on several positioning strategies:

- Product attributes
- Usage occasions
- Users
- Against a competitor
- Away from competitors
- Product classes
- A combination of the above approaches

## MEASURING AND FORECASTING DEMAND

### Defining the market

One of the first problems that faces anyone who is trying to forecast the demand for a product is to work out what is meant by the term "market."

A market is the set of all actual and potential *buyers* of a product. An industry, on the other hand, consists of all *sellers* of a product. A *potential* market is the set of consumers who have some sort of interest in the product.

The term “market” will have different meanings to an economist and a marketer. Marketers usually define a market as all the possible buyers of a product, but if you are planning the launch of a new product you may not necessarily wish to target all the potential buyers. Many potential buyers do not in fact purchase the product for many years after the product is launched.

Defining the market is one of the first steps you will undertake in marketing a product. In your assignment, for instance, you must first decide how you wish to define your market. A market can be defined narrowly or broadly. For example, the market for Coca-Cola can be defined broadly as the beverage market, or narrowly as the cola market. There is no single way to define the market. By defining the market broadly, you give yourself a larger group of actual and potential buyers of your product. However, you also have a larger number of competitors to contend with. And vice versa for defining a market narrowly. Hence, you need to take into account your company's resources as well as strategies when deciding how to define the market for your product.

### **Forecasting demand**

Forecasting the demand for a product or service is not a simple task. If the product is to be launched into an established market, it is necessary to consider how the already established competitors might react. Another factor that always provides difficulties for the launch of a new product is that markets are rarely stable. Consumer preferences change. Technological advances and economic variables may intervene.

The most difficult markets in which to forecast demand are those in which the product is entirely unknown to the consumer. For example, when the microwave oven was first launched, everyone already had an oven of some sort. There were various health risks suggested, and consumers needed to learn to cook in a different way. How would you predict this type of market—who would you target the product to? These problems seem easy in retrospect, but at that time, they would have been quite difficult to overcome.

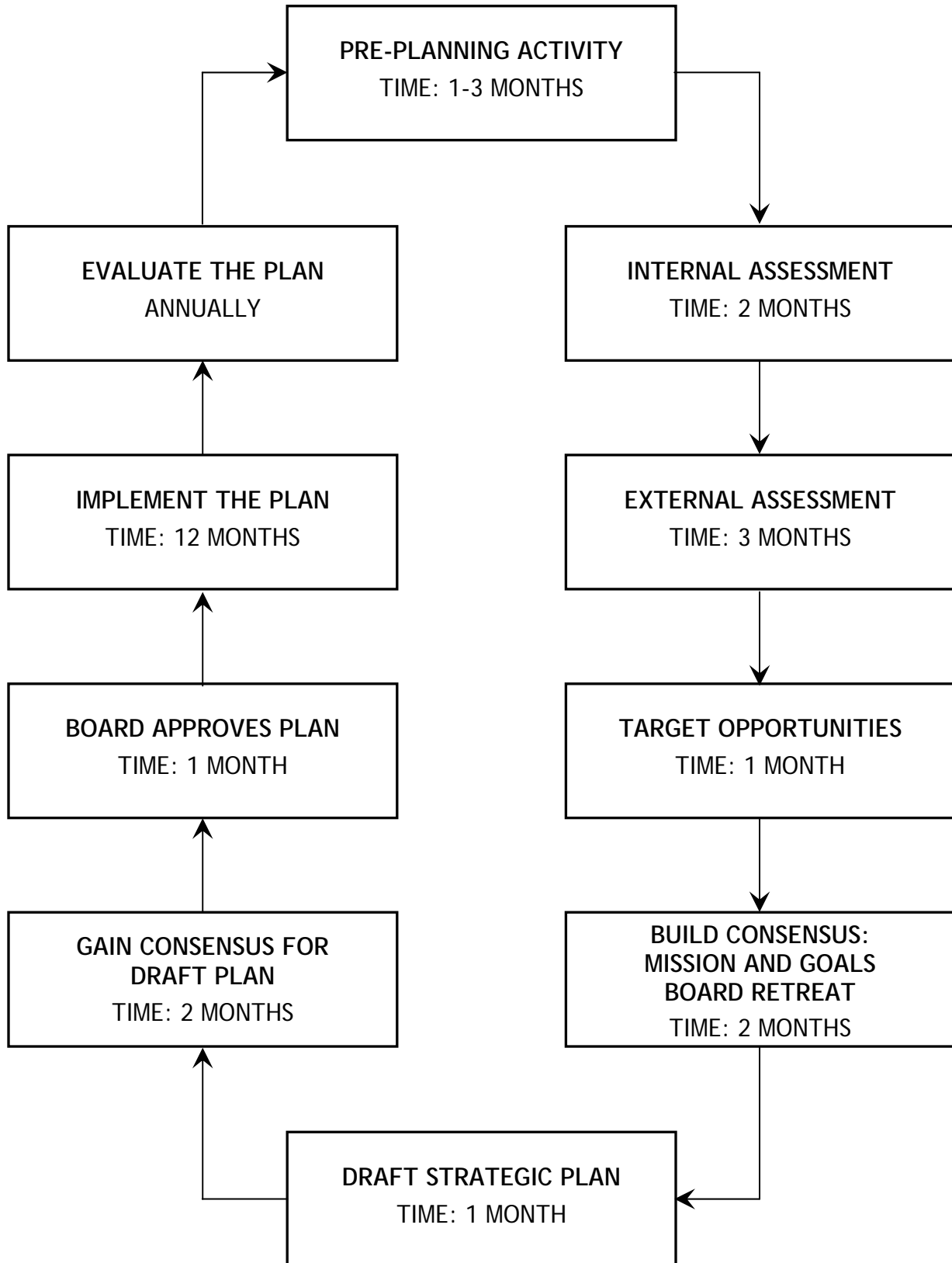
One of the initial decisions that needs to be made in terms of forecasting is the time period over which you are attempting to forecast. Sometimes it is important to have long-range forecasts so that you can set up factories; in other cases production amounts can be altered at relatively small cost and little inconvenience.

When you consider predicting demand, you also need to think about whether the demand will be the same all through the year. If you launch a new ice cream, you could probably predict that demand would be highest when the weather was hottest. How would this affect your forecast?

You also need to consider whether you are going to try to estimate what the demand for a product will be now, under the current circumstances, and what demand may be in the future. Estimating the future demand for a product may involve also estimating what the likelihood of competitors entering the market will be, or what the reactions of current competitors is likely to be.

*Source:* Excerpted from online lecture notes by Sally Joy at Monash University, Australia. Notes are no longer available on the Internet.

### Steps in the Strategic Planning Process



# Overheads

**THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP BUSINESS PLANNING OVERHEADS"**





BP3-O1

## Mission Statement

A declaration which articulates:

**Purpose**

**Values**

**Clients**

**Services Provided**



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BP3-O2

## LEDA's Mission

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

Through

**increased access to lending and savings services in urban areas**

We intend to combine

**cost-efficient methodologies with exemplary customer service**

And become

**a financially self-sustaining institution**



© CGAP/World Bank, 2009



## LEDA's Goals

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



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

At LEDA we serve

**Low-income self-employed  
in urban areas**

# Segmenting Markets

**Geographic**



**Demographic**  
**Psychographic**

**Behavioral**



# Effective Segmentation



**Measurable**

**Substantial**

**Accessible**

**Actionable**



# Microfinance Client Traits

BP3-07

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



- Gender and age
- Family status and structure
- Language and literacy
- Reputation in the community
- Attitude toward product

© CGAP/World Bank, 2009



# Handouts



## From Mission Statement to Strategy

A key to shaping strategic success is clarity of mission. Individuals need to understand what business the company is in and how its values drive that business. Without such understanding, employees will not develop much commitment or loyalty to the organization and its success.

A mission statement provides a sense of purpose and incorporates a vision of future accomplishment. With specific reference to:

**PURPOSE** – What is the institution’s purpose?

**VALUES** – Why is this purpose important? What beliefs guide the MFI’s behavior/attitude?

**SERVICES PROVIDED** – What will the institution DO to fulfil this purpose?

**CLIENTS** – Who does the institution serve?

**BENEFITS** – How will the organization benefit its stakeholders?

Strategic planning is more than just an envisioning process. To accomplish anything, you need a clear vision of the desired outcomes. It requires the setting of clear goals and objectives during specified periods of time in order to reach the planned future state. Targets must be realistic, objective, and attainable.

Goals are broad statements of intent that provide guidance as to how the institution plans to pursue its mission. They are outcome- or output-related. They represent ideals, which are the institution’s commitment to a desired future state or condition. Goals represent the organization’s desired destination; the objectives are the strategic steps required to reach that destination. The timeframe for a strategic planning process is normally 3–5 years, so the goals must reflect this timeframe and allow for continued efforts on the part of the organization over this period.

The goals should address opportunities that will allow the organization to position itself for the future. Once the goals are articulated, a plan of action is required to move toward desired outcomes. This plan of action is composed of supporting objectives and action agendas that define what must be done, when it must be done, who is responsible for doing it, and who will verify the completion of the tasks. Together these elements compose the “strategy” in the strategic plan. They answer the question of how the organization gets from the “here and now” to the “there and future.”

The objectives are specific, measurable accomplishments within a given timeframe. They operationalize a goal. The objectives are sequential and provide the milestones that will permit the organization to determine if the process is on track or if it has derailed at some point.

An institution’s mission and goals should guide the institution’s performance. They reflect the market and other environmental and institutional issues examined. The strategy defined should reflect the institution’s mission and further its goals.



# Markets and Clients – Key Points

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# SESSION 4: STRATEGIC PLANNING – ENVIRONMENTAL ANALYSIS, INSTITUTIONAL ASSESSMENT, AND STRATEGY

## Session Summary

**OBJECTIVES:** Participants will be able to:

- Identify environmental opportunities and threats
- Identify institutional strengths and weaknesses
- Identify objectives and activities for LEDA
- Design a strategy for LEDA

**TIME:** 175–185 minutes

**SUPPLIES:** Flipchart  
Markers  
LED projector  
Masking tape  
Blu Tak/sticky stuff  
Paper of five *different* colors (20–30 pieces each of four colors and 30 pieces of white)

### TRAINER MATERIALS

BP4-M1 Assignment ANSWERS: Environmental Analysis and Institutional Assessment

BP4-M2 Technical Notes: Analyzing the Environment

### PARTICIPANT MATERIALS

**OVERHEADS:** BP4-O1 Environmental Analysis  
BP4-O2 Institutional Assessment  
BP4-O3 Elements of Environmental Analysis  
BP4-O4 Elements of Institutional Assessment  
BP4-O5 Defining Strategy  
BP4-O6 Choosing a Strategy  
BP4-O7 Setting Objectives and Defining Activities  
BP4-O8 For Example

**HANDOUTS:** BP4-H1 Environmental Analysis – Key Points  
BP4-H2 Institutional Assessment – Key Points  
BP4-H3 Defining Strategy  
BP4-H4 Strategic Planning Action Plan

*Trainer Instructions*

- CASE STUDY:** Part 5 Environmental Analysis  
Part 6 Institutional Assessment  
Part 7 ASSIGNMENT – Environmental Analysis and Institutional Assessment  
Part 8 Summary of LEDA Strategic Analysis  
Part 9 ASSIGNMENT – Strategy  
Part 10 Strategy and Operational Plan

**PREPARED FLIPCHARTS:**

- Exercise Instructions—color-coded
- Environment (title only)
- Institution (title only)

## Session 4: Strategic Planning – Environmental Analysis, Institutional Assessment, and Strategy

### INTRODUCTION TO ENVIRONMENTAL ANALYSIS AND INSTITUTIONAL ASSESSMENT

1. (3 minutes) Refer participants to the Business Planning Framework on the wall and bridge to discussing environmental analysis and institutional assessment as the next step in the course. Ask for a brief explanation of what the two are. Summarize by saying that the group must look both inside and outside the MFI and consider what is going with regard to its plans.
2. (5 minutes) Ask if anyone knows of a common way to examine the environment and institution. Elicit the answer “SWOT analysis” (**strengths, weaknesses, opportunities, threats**). Facilitate a brief discussion to clarify what a SWOT analysis is and how and why it is normally conducted. Explain that participants will spend the rest of this session practicing SWOT analysis.
3. (4 minutes) Ask: What is an environmental analysis, and why would an MFI conduct one? (Answer: an assessment of the context in which an MFI operates, to gauge how foreseeable **external challenges** will affect its capacity to achieve its goals.) Stress that an environmental analysis identifies the opportunities and threats posed by the environment that may affect the program, its clients, and the organization itself. Summarize using BP4-O1.
4. (4 minutes) Ask: What do you understand by the term “institutional assessment?” (Answers: the internal examination of the institution/organization; the evaluation of the strengths and weakness of the MFI with regard to its resources, the markets, clients, and environmental factors determined in the previous steps.) Summarize, using BP4-O2.
5. (5 minutes) Ask the group to think more deeply about these challenges— environmental opportunities and threats, and institutional strengths and weaknesses. State that they are going to complete an exercise that will help them sort through their SWOT! Explain that they will have an opportunity to do a SWOT analysis for an MFI, based on their experiences. Let them know that this exercise can also be replicated in their boardrooms, where it may prove very useful!

Discuss the process by giving some examples. Explain that they will begin the exercise with something they know. Ask participants where markets and clients fit in to the picture. Explain that, as previously discussed, markets are part of the environment—external to the institution! They were discussed separately because of their importance to the business of microfinance. Follow up by asking for an example of market- and client-related opportunities and threats. Remind the group that these will need to be analyzed during their planning activities. Prompt them to think of an example from their own MFIs.

Take two pieces of different-colored A4 paper. On one color, write one suggested client and market opportunity, and on the other, one threat that was mentioned. Post them on the wall. Remember to write large letters and use few words.

Explain that the group will be divided in two, with half working on identifying environmental opportunities and threats, and the other half identifying institutional strengths and weaknesses. Each person will write one opportunity and one threat **or** one strength and one weakness. All of the papers will be posted on the walls.

On a flipchart, write the color code for the exercise—for example, blue stands for environmental opportunity, pink for threat, green for institutional strength, and red for weakness. (Alternatively, hand out paper that is labelled similarly. Also write on the flip chart: WRITE ONE IDEA PER PIECE OF PAPER—WRITE BIG AND CLEAR.

6. (10 minutes) Split the large group in half; with one trainer working with each group. One group will focus on environmental analysis, the other on institutional assessment.

Each member of the environmental analysis subgroup should receive a blue sheet of A4 paper. Ask group members to **individually** write down one example of an environmental opportunity that might be open to an MFI. After five minutes, distribute the pink piece of paper. Ask each to write one example of an environmental threat that an MFI might face on this sheet. Remind them to use large letters and few words so that their cards can be easily read by others. Ask them also to think of examples from their own MFIs.

At the same time that the environmental analysis subgroup members are receiving their two pieces of paper, the institutional assessment subgroup should get colored sheets that represent "strength" and "weakness." Have the individual subgroup members write down one example each, on the appropriate color of paper, of an MFI's strength and how it might choose to exploit that, and of one weakness that an MFI might possess and need to address.

Because the directions may be easily confused, both trainers should be actively involved, directions must be clear, and the color-coded flipchart should be clearly visible to all.

7. (7 minutes) With the subgroups still separated, tell participants that they will now share their ideas and try to categorize them while doing so. Have each trainer separately take a few papers (five or ten of each color) at random from one subgroup and post them on the wall, creating a storyboard. Since the exercise will generate some noise in the room, try to post the papers on walls that are as far apart as possible.

Ask that subgroup if any of the concepts are similar or fit together. Arrange those papers under one another. Then ask for a volunteer to organize 10 more pieces of paper (participants should offer ideas that have not yet been mentioned), read them aloud, and post them, with related concepts underneath each other. Ask another subgroup member to take 10 more and repeat the process.

Be sure to keep this exercise moving—do not let it get bogged down in a lot of discussion.

Remind participants/volunteers that everything does not have to fit into one of the four categories—there is an option for an “other/miscellaneous” category! Also note that opportunities/threats or strengths/weaknesses may be listed under the same category. This presents an opportunity when processing to remind participants that each situation is unique: a strong board, for example, may present problems for some MFIs, while for others it is a strength!

8. (5 minutes) Once the papers have been organized into groups, ask participants to supply a title for each group. For example, write “Markets and Clients” in large letters on white paper and post above the samples you wrote and put up earlier. Do the same for the other concept groupings.
9. (5 minutes) Reconvene the large group. Ask participants to go look at the other subgroup’s list, posted on the wall, for five minutes. While the groups are looking at the storyboards, the trainers should quickly write the concept group titles (the terms on the white papers) as a list on separate flipcharts, with one titled “Environment” and the other “Institution.”
10. (5 minutes) Ask all group members to return to their seats. First review the Environment flipchart. Review the concept groupings, which may include the following: funding environment, government policies and regulations, demand for services, natural factors, economic environment, political environment, competitors and collaborators, and markets and clients. Ask if the participants would like to include any other categories or add other significant opportunities and threats to the wall cards.

To summarize, show and explain BP4-O3, and remind participants that an opportunity for one MFI may be a threat for another—that is why categories can have both.

11. (5 minutes) Next, review the Institution flipchart. Acknowledge the categories and be sure they include or relate to the following: credit and savings products, board issues, management issues, legal structure, human resources, ownership, administration, financing, financial management, and so on. Ask if the participants would like to include any other categories or add other significant strengths and weaknesses to the wall cards.

Show and explain BP4-O4 to summarize the discussion.

12. (5 minutes) Ask the participants for their final comments on and personal experiences with environmental analysis and institutional assessment. Distribute BP4-H1 and H2.
13. (5 minutes) Ask: How does analyzing the environment and institution in these categories fit into our strategic planning process? Facilitate discussion on how this step in strategic planning relates to previous steps by identifying how the

environment or institution will hinder or facilitate the organization's ability to achieve its mission, reach identified clients, and be profitable. Note that it may become apparent at some point that the organization might need to review its mission, based on the information gathered during the market research, environmental analysis, and institutional assessment. Point out that this is why planning is called an iterative, ongoing process!

14. (5 minutes) Ask the group about obstacles they foresee that would make it difficult to carry out these assessments, and what they can do to overcome the difficulties.
15. (5–10 minutes) Say: Let us apply the techniques of SWOT analysis to LEDA and see how they rate! Hand out BP4-H3 (Case Study Parts 5 and 6, Environmental Analysis and Institutional Assessment, respectively). Allow a few minutes for individual reading.

16. (20 minutes) Hand out BP4-H4, the exercise in Case Study Part 7. Ask the group to divide themselves into subgroups of four and complete the activity.

Choose a method of dividing the large group that ensures each subgroup has two people who worked on Environment and two who worked on Institution in the previous activity. For example, have the group who worked on the Environment flipchart line up across from the group who worked on the Institution one, and choose two from each line to work together. Monitor groups as they work on the exercise.

17. (8 minutes) Reconvene the large group. Facilitate a discussion on the priorities identified for LEDA, as noted in the subgroup activity. Stay focused on the Priority areas—remember that the participants have already discussed this for 20 minutes.

18. (8 minutes) Ask: Once opportunities and threats, and strengths and weaknesses are identified, what can you do about them? (Answers may include maximizing opportunities, overcoming threats, and turning potential threats into opportunities. Accentuate the positive, eliminate the negative.) Ask for examples and be prepared to provide examples of a local organization overcoming its weaknesses, turning threats into opportunities, and so on.

Ask and discuss what the implications for LEDA are, in terms of its previously defined mission and targeted market, and the development of its strategy.

19. (5 minutes) Summarize and bridge to the next section. Take remaining questions. Ask: What is your next step, now that you have examined your external and internal environments? (Answer: LEDA has significant information, so it may begin to develop a strategy for planning its operations.) Remind participants that things change—information must be constantly gathered, analyzed, and incorporated into the planning process!

## STRATEGY

20. (5 minutes) Refer to the Framework and review where the group has been and is now. Ask: What is a strategy? What are its components? How is it developed? How is it used?

Explain that developing a strategy involves examining the information and making choices about how they will accomplish their mission. It outlines clear objectives and activities needed to achieve the MFI's goals.

21. (5 minutes) Put up overhead BP4-O5, Defining Strategy, and give a brief lecture on the topic.
22. (8 minutes) Ask participants what they should consider when choosing a strategy. (Some possible questions: How does the market affect your choices? How do clients? Environmental opportunities and threats? Institutional strengths and weaknesses?) Take some answers, discuss, and summarize the main points, using BP4-O6.

Explain that a strategy should include what products to offer in which markets (responding to and based on assessment of markets and clients as well as other environmental issues), and which areas of institutional capacity must be improved in order to succeed (based on institutional assessment). Tell the group that it is critical to compare and contrast information across categories. For example, what if a certain market looks very appealing but is targeted for aggressive expansion by a competitor? Also point out that the strategy must ultimately enable the institution to reach its mission and goals.

23. (5 minutes) Ask: How are strategies actually expressed? Explain that one way is to clearly define objectives and activities for each mission goal for each area of operational planning. A strategy boils down to a list of **actions** that the MFI needs to perform in order to achieve its goals and mission. Use BP4-O7 and BP4-O8 to explain this concept. Hand out BP4-H5. Point out the difference between goals and objectives by stressing that objectives **operationalize** the goals and are articulated as **specific** and **measurable** statements.
24. (15–20 minutes) Hand out BP4-H6 (Case Study Part 8: Summary of LEDA Strategic Analysis) and explain that it presents a summary of the strategic analysis for LEDA, based on the information gathered to date. Hand out BP4-H7 (Case Study Part 9) and have each participant try to write a strategy for LEDA, explaining that they might need information from Case Study Parts 1–8 to best define their strategy. (This also can be done in pairs or triads if it seems appropriate for the group.)

Explain the goal/objective/activity approach, using the example that is filled in on the assignment sheet for Case Study Part 9 and on BP4-O8. Explain that these are the goals that were established in the Mission and Goals step of the planning process, but now they are adding objectives and activities within each goal. The

part of the strategy they now are developing answers the question of what LEDA needs to **do** in order to achieve its goals!

25. *(10 minutes)* Facilitate a discussion on the strategy assignment. Take some responses; ask for group comments, common responses, differences, and so forth. Acknowledge that all are right answers, and this is indeed the process necessary to undertake in their own MFIs in order to implement the strategic planning process. Hand out BP4-H8 (Case Study Part 10) and explain that these are the objectives and activities that LEDA chose.
26. *(7 minutes)* As a review, ask participants to summarize the steps (and their purposes) in the strategic planning process as discussed so far. Summarize all topics related to building a strategy and ask for any questions on the strategic planning process. Remind the group that they have experienced in a very abbreviated form the steps they should take to develop a strategic plan. Remind participants that a strategic plan is not accomplished in a day—research and analysis take time!
27. *(10 minutes)* Have the group take a few moments to think about how they can institute strategic planning back in their institutions. Hand out BP4-H9, Strategic Planning Action Plan. Have participants begin to complete the forms. Give them only 5–10 minutes, then tell them to think about it more and complete it overnight.

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### **Trainer Notes**

In the original course, the next session goes into Operational Planning and introduces the Microfin model. Trainers using these sessions on introduction to business planning and strategic planning as part of another course will need to make an appropriate bridge to whatever sessions they have planned next.

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## Assignment ANSWERS: Environmental Analysis and Institutional Assessment

*For use in facilitating group discussion*

ENVIRONMENTAL ANALYSIS	
OPPORTUNITIES	THREATS
<p><b>Competition</b> LEDA is one of strongest; interest rates of competition are comparable with ours.</p>	<p>Several other smaller, newer institutions; two of these work in the same city as us; they <b>both have ambitious expansion strategies</b>; many other institutions are considering starting financial services.</p>
<p><b>Collaborators</b> We refer clients to a training institute; FNB provides loan collection and savings services for our clients; we receive TA from Freedom, Int'l; we have good donor relations, but donations are becoming limited due to our profitability.</p>	
<p><b>Regulatory Factors</b> Government policies not yet specific for microfinance, but recent interest in informal sector; recent legislation for NBFI; <b>NBFI status being pursued by LEDA.</b></p>	
<p><b>Macroeconomic Factors</b> <b>Inflation stable at 10%</b>; high incidence of poverty in areas where LEDA works; economic growth averaging 2% per year.</p>	
INSTITUTIONAL ASSESSMENT	
STRENGTHS	WEAKNESSES
<p><b>Credit and Savings Program</b></p>	<p><b>Clients not satisfied with our current product.</b></p>
<p><b>Board/Management Issues</b> Executive Director well regarded; he is a strong leader; board member involved with NBFI legislation.</p>	<p>Executive Director has limited financial skills.</p>
<p><b>Human Resource Management</b> Staff are competent and dedicated; well-informed about organizational policies; good staff training.</p>	<p><b>Salaries are low and staff are expressing dissatisfaction</b>; limited internal promotion possibilities.</p>
<p><b>Administration</b> Annual audit; have identified a potential MIS; LEDA has personnel policies, organigram, and operating procedures.</p>	<p>Weak internal controls; <b>their only MIS is a spreadsheet</b>; operating procedures are out of date.</p>
<p><b>Financial Management</b> Financial Manager is competent.</p>	<p>Accountant is weak analyzing financial data.</p>

## Analyzing the Environment

A microfinance institution assesses the context in which it operates through an environmental analysis to gauge how foreseeable external challenges will affect its capacity to achieve its goals. External factors can prove to be either opportunities or threats—opportunities if the institution can position itself to take advantage of changes in the environment, threats if the changes jeopardize its ability to pursue its goals in the way it had planned. By anticipating the effects of external factors, the institution can better position itself to take advantage of its environment.

An environmental analysis looks at four factors:

- Competition
- Collaborators
- Regulatory factors
- Other external elements

### **COMPETITION**

Competition may be increasing significantly in the markets where a microfinance institution operates. Conversely, an absence of strong competitors might give the institution an opportunity to solidify its market position. If competition is a significant factor, the institution might choose to carry out a careful review of its current and potential competitors, including:

- Other microfinance institutions
- Moneylenders
- Informal credit schemes
- Clients' suppliers
- Formal financial institutions

### **COLLABORATORS**

The kinds of collaboration that a microfinance institution forms will depend on its needs. If it seeks broad-based institutional strengthening, an affiliation with an international network that provides technical assistance and training could be an important relationship. If legislation prevents an institution from offering savings products, it might choose to collaborate with a local bank that can provide such services. An institution might also collaborate with local government officials or with local institutions offering services that complement its own.

### **REGULATORY FACTORS**

Regulatory policies can play an important part in shaping a microfinance institution's environment. For example, restrictive interest rate ceilings can impair an institution's ability to charge an effective interest rate sufficient to cover its full costs. By contrast, central bank policies that allow a range of licensed financial intermediaries, with capital reserve requirements matched to institutions' scale, can encourage the development of microfinance institutions. Other policies may affect a microfinance institution's clients, such as regulations on land ownership, registration requirements for microenterprises, and price controls on agricultural products.

### **OTHER EXTERNAL ELEMENTS**

A country's general economic and political conditions have a significant effect on the informal financial sector and therefore on microfinance institutions and their clients. A high inflation

rate, civil unrest, and natural disasters can pose serious threats to a microfinance institution's operations, while a stable economic and political situation provides a positive environment for an institution's development. Other significant external elements include foreign exchange rates, currency convertibility, national poverty levels, and transportation and communication infrastructure.

## **Performing an Institutional Assessment**

The institutional capacity of a microfinance institution is the most crucial factor in its ability to achieve its goals. So every institution should undertake a thorough assessment of where its strengths lie, where it has significant weaknesses, and where it should focus institutional development efforts. This institutional assessment is generally carried out after the market study and the environmental analysis, so that an institution can evaluate its strengths and weaknesses in the light of its ability to meet its clients' needs in the context in which it operates.

There are many ways to evaluate an institution's resources and capabilities. In the method proposed here, the institution assesses its performance in key areas of operations through questions whose answers will help show whether it is following the kinds of practices shown to be most effective for microfinance institutions.

Six areas of operations are reviewed:

- Credit and savings program
- Board and management issues
- Human resource management
- Administration
- Financing
- Financial management

### **CREDIT AND SAVINGS PROGRAM**

- Are the products appropriate for the market segments that the institution seeks to reach?
- How good is portfolio quality, as measured by the default rate and portfolio at risk?
- Is there a clear pattern of significant growth and increasing profitability?
- Is there a high rate of client retention?
- Are clear and appropriate credit policies and procedures in place?
- Does the institution monitor loan officer productivity (such as the number of active clients per loan officer)?
- Do credit staff maximize their time with clients relative to the time they spend on administrative work?

### **BOARD AND MANAGEMENT ISSUES**

- Does the board provide vision and policy leadership?
- Does it ensure that the institution's financial resources are prudently managed by monitoring investment and operating performance?
- Does it provide ongoing guidance and advice to the executive director?
- Do board members provide expertise in such key areas as banking, law, and accounting?

## *Trainer Instructions*

- Are the roles and responsibilities of the board and management clearly defined so as to prevent inappropriate intrusion by the board into operational details?
- Does the board participate in setting performance targets and monitoring progress toward them?
- If the institution is considering formalization, has the board evaluated the opportunities and risks associated with the different options available (box 2.1)?
- Are the board and the executive director effective at mobilizing funds from domestic and international sources for concessional and commercial debt and for grants?
- Does the executive director provide leadership in implementing the institution's mission and goals?
- Does the executive director solicit and use inputs from staff at all levels?
- Does the executive director have the necessary skills and knowledge (such as a strategic perspective, management skills, knowledge of credit and finance, and fundraising ability)?

### **HUMAN RESOURCE MANAGEMENT**

- Is there an organization chart, and are there job descriptions for all positions?
- Are the positions of credit manager and finance manager filled by qualified staff?
- Are staff recruited and trained to ensure the appropriate skills? (For example, do credit staff have good communication skills, a basic knowledge of credit, and good business sense?)
- Is the level of administrative staffing sufficient but not financially burdensome? In particular, does the institution have a strong finance and accounting team and management information system (MIS) capability?
- Is staff turnover minimal?
- Are incentive systems designed to hold staff accountable and to reward them for good performance?
- As greater operational scale is reached, is compensation becoming more competitive with market rates?
- Is staff training a serious priority for the institution? What percentage of the total budget does staff training represent?
- Is there a clear pattern of promotion from within?
- Are performance evaluations based on mutually developed and agreed upon objectives?

### **ADMINISTRATION**

- Does the management information system produce accurate, timely, and comprehensive reports for accounting and loan tracking?
- Are appropriate reports provided to the different levels of users (board, management, staff) within the organization?
- Do portfolio reports provide an immediate assessment of the status of every loan?
- Is the chart of accounts appropriate to the institution's needs? (For example, does it track income and expenses by branch, and does it separate grant income from earned income?)
- Does the institution regularly assess whether its management information system is sufficient for its needs today and over the medium term?

- Does the institution periodically review its fixed asset base to ensure that it is not becoming obsolete?
- Is there a formal, comprehensive system of internal controls in place to prevent corruption and the misuse of funds?
- Is a formal audit performed by a reputable accounting firm each fiscal year?

#### **FINANCING**

- Is the institution able to mobilize the amounts and types of funding it needs for its current and planned operations?
- Is the mix of funding sources appropriate? (For example, is there an increasing reliance on earned income relative to grants?)
- How much priority does management place on moving away from dependence on subsidized funding?

#### **FINANCIAL MANAGEMENT**

- Is reliable information available for assessing the institution's current financial position, including trends in its performance indicators?
- Are budgets and cash flow projections prepared and reviewed regularly?
- Does the institution conduct periodic analysis comparing projected with actual performance (variance analysis)?
- Do financial statements present an accurate picture of the institution? (For example, are loan loss reserves sufficient to cover projected defaults, are assets valued conservatively, and are nonperforming loans regularly written off?)
- Do key staff have good financial management skills?
- Does the institution have a well-thought-out investment management approach?
- Is the institution moving steadily toward full, subsidy-adjusted profitability?

The purpose of the environmental analysis and institutional assessment is to provide a microfinance institution with a clear idea of where it needs to focus its attention in order to meet its clients' needs and enhance its profitability. By systematically developing the information needed to assess past trends and current performance, the analyses lay the groundwork for determining what kind of strategy will enable the institution to achieve its goals.

## **Choosing a Strategy**

A microfinance institution chooses its strategy for expansion on the basis of the information and perspectives developed in the first four steps of the strategic planning process. Having articulated its mission and goals, defined which markets and clients to target, forecast what favorable and unfavorable external conditions it is likely to face, and gauged its strengths and weaknesses, the institution is ready to decide on a strategy for providing the right products in the appropriate markets in a cost-efficient manner.<sup>8</sup>

The process of identifying a strategy has three parts:

- Choosing what products to offer in what markets
- Deciding which areas of the institution need to be strengthened to ensure that it can provide the chosen products in the selected markets

- Determining clear objectives and activities for implementing the product, market, and institutional development goals

### **PRODUCT AND MARKET OPTIONS**

An institution can pursue expansion by offering existing or new products in current or new markets. The four possible combinations of these elements represent four options of increasing complexity. A microfinance institution's strategy must reflect which option it will pursue first and in what sequence it might add others.

#### ***Market penetration***

If current products are commensurate with projected client needs and current markets offer the potential for significant expansion, the appropriate strategy would be to expand existing products in existing markets.

#### ***Product development***

If current markets offer the potential for significant expansion but existing products cannot meet projected client needs, the strategy should be to enhance current products or develop new products for expansion in existing markets.

#### ***Market diversification***

If existing products can meet projected client demand but current markets do not offer sufficient growth potential, the appropriate strategy would be to enter new markets with the current products.

#### ***Product development and market diversification***

If existing products are insufficient to meet projected client needs and current markets are insufficient to achieve sustained profitability, a microfinance institution must determine which of the first three options to pursue initially and in what order product and market expansion should be pursued.

### **INSTITUTIONAL DEVELOPMENT**

To implement an expansion strategy, a microfinance institution will probably need to strengthen certain areas of its operations, as identified by the institutional assessment. In building on its strengths and addressing the areas needing improvement, the institution should focus on the factors that are essential to effective and profitable performance in the current and projected environment. And the institution will have to choose which activities it will not undertake, because taking on too much could prevent it from implementing any of the desired improvements.

### **OBJECTIVES AND ACTIVITIES**

Once a microfinance institution has chosen its strategy for expansion and identified the areas requiring strengthening, it is often helpful to develop objectives and activities for implementing the strategy. Objectives are articulated as specific and measurable statements. They operationalize the goals and can be used to determine if the process is on track.

Objectives can be articulated for each area of operational planning:

- Products and services
- Marketing channels
- Institutional resources and capacity
- Financing
- Financial management

For each objective, activities should be outlined on the basis of the findings of the strategic planning process—the activities the institution intends to undertake to implement its plan. Through financial modeling, the institution can assess how realistic the strategy is by analyzing whether the mix of proposed activities is financially achievable in the projected time frame.

The strategic planning process culminates in the task of developing and articulating the strategy. The strategy provides the key reference point for operational planning, serving as the link between the two parts of the business planning process. A microfinance institution should review its operational decisions in the light of whether they reflect its strategy and move it further toward its objectives.



# Overheads

**THE COMPLETE SET OF OVERHEADS IS IN A SEPARATE POWERPOINT FILE ENTITLED "CGAP BUSINESS PLANNING OVERHEADS"**



# Environmental Analysis

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

## OPPORTUNITIES

Can we take advantage of the external changes in environment?

## THREATS

Will environmental changes jeopardize our ability to pursue our goals?

# Institutional Assessment

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

## STRENGTHS

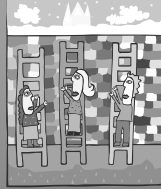
Where are our strengths and how can we capitalize on them?

## WEAKNESSES

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

# Elements of Environmental Analysis

Competition



Collaborators

Regulatory factors and government policies

Other external elements



# Elements of Institutional Assessment



Organizational Structure

Credit and savings program

Board and management issues

Administration

Human resource management



Financing

Financial management

# Defining Strategy

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



Derived from comparing:

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

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# Choosing a Strategy

Product and Market Options



Environmental Conditions

Maximize opportunities,  
overcome threats

Institutional Development

Build on strengths



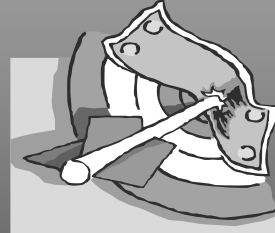
Improve weaknesses

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## Setting Objectives

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



## Defining Activities

- States specifically HOW objectives will be obtained
- Identifies what the MFI must DO to implement the objective

## For Example

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

#### Objective A:

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

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

# Handouts



## Environmental Analysis – Key Points

Environmental Analysis is the process of examining foreseeable external variables and how they affect an organization's capacity to achieve its goals. The most frequently used method to begin this process is the SWOT (strengths, weaknesses, opportunities, threats) analysis. We must begin to look for opportunities and threats in the environment: How can we take advantage of the external challenges in our environment? How might environmental issues jeopardize our ability to pursue our goals? Once these opportunities and threats are identified, we must develop a plan to capitalize on the opportunities and overcome the threats!

Some issues that need to be examined are:

### **Market**

- Who are our clients? What do they want? How do we keep them?
- Who are our potential clients? How do we attract them?

### **Competition**

- Other specialized financial institutions
- Informal credit schemes
- Retail suppliers
- Formal commercial or development banks

### **Collaborators**

- Strategic partners
- Consultants and other technical assistance providers
- Institutions with complementary services

### **Regulatory Factors and Other Government Policies**

- National interest rate policies
- Capital reserve requirements
- Business registration policies
- Legal system

### **Other External Elements**

- General economic conditions (for example, inflation)
- General political conditions
- Infrastructure
- Natural conditions



## Institutional Assessment – Key Points

Here we look at the strengths and weaknesses of the organization itself, by asking crucial questions: Can we meet the needs of our clients with our given resources? What are our strengths and how can we capitalize on them? What are our weaknesses and where do we focus development efforts to transform them into strengths? The following points are a good place to begin:

### **Loan and savings program**

- Appropriate products
- Portfolio quality
- Pattern of significant growth and increasing profitability
- Client retention
- Appropriate and clear loan policies and procedures
- Monitoring for loan officer productivity

### **Board and management issues**

- Vision and policy leadership
- Prudent financial management
- Guidance and oversight for manager
- Clear roles and responsibilities of board and management
- Effective mobilization of funds: grants and loans from all sources

### **Human resource management**

- Organizational chart and job descriptions
- Appropriate recruitment and training
- Sufficient administrative staffing
- Strong finance and accounting team
- Strong MIS department
- Minimal staff turnover
- Good incentive plan and competitive compensation for staff
- Regular performance evaluations

### **Administration**

- Strong MIS systems that produce accurate, timely, and comprehensive MIS reports
- Portfolio reports for immediate assessment of every loan
- Appropriate reports to different levels: board, management, staff
- Appropriate chart of accounts
- Adequate fixed assets
- Formal comprehensive system of internal controls
- Formal external audit by reputable firm

### **Financing**

- Ability to mobilize amounts and types of funding needed
- Increasing reliance on earned income (relative to grants)
- Priority and ability to become independent and profitable

### **Financial management**

- Accurate financial information (for example, financial statements, ratios)
- Regular review of budgets and cash flow projections
- Key staff with good financial management skills
- Strategy for investment management
- Moving steadily towards profitability



## Defining Strategy

A strategy is a means of addressing critical issues during the period covered by the plan in order to achieve program goals. A way to decide on objectives and activities needed to provide the right products in the appropriate markets in a cost-efficient manner in order to achieve the goals of the MFI.

### The strategy should be derived from comparing:

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

### The strategy should address:

- What products to offer in which markets
- Favorable and unfavorable external conditions likely to be faced
- What areas of institutional capacity are key to success
- Objectives and activities to be undertaken

## CHOOSING A STRATEGY

### Product and Market Options

- Market penetration (use current product in current market)
- Product development (create new product for the current market)
- Market diversification (use current product in a new market)
- Product development and market diversification (create new product for a new market)

### Environmental Issues (external conditions the MFI is likely to face)

- Maximize opportunities
- Overcome threats
- Turn threats into opportunities

### Institutional Development

- Foundation: efficient operations
- Build on strengths
- Improve weaknesses
- Prioritize factors essential to effective and profitable performance under period of business plan

### Objectives and Activities for Each Goal

- Objectives for each area of operational planning:
  - Products and services
  - Marketing channels
  - Institutional resources and capacity
  - Financing
  - Financial management
- Implementable activities for each key objective



## Strategic Planning Action Plan

Take a few moments to think about Strategic Planning in your institution. You may have a plan that is well used already, you may have one that has been “shelved,” or you may need one. Perhaps the guide below will help you to organize your thoughts! Use additional sheets as necessary.

Who will be on the task force?						
	What we have	Accurate? Current?	What we need	How we will get it	Anticipated obstacles	Plans to overcome obstacles
<b>Mission</b>						
<b>Market Research</b>						
<b>Environmental Analysis – Competition Collaborators Regulation/Policies Macroeconomics</b>						
<b>Institutional Assessment – Credit/Savings Ops Human Resources Board &amp; Mgmt Administration Financing</b>						
<b>Strategy – Objectives and Activities</b>						



# **SESSION 5: COURSE EVALUATION AND CLOSURE**

## **Session Summary**

**OBJECTIVES:** By the end of the session, participants will be able to provide feedback on the course logistics, content, methods, and facilitation.

**TIME:** 30 minutes

**SUPPLIES:** Certificates

### **TRAINER MATERIALS**

BP5-M1 Wallet-sized Business Planning Framework

### **PARTICIPANT MATERIALS**

**HANDOUTS:** BP5-H1 Business Planning for Microfinance Institutions Course Evaluation

## **Session 5: Course Evaluation and Closure**

### **COURSE EVALUATION**

1. (20 minutes) Ask participants to take 20 minutes to complete the course evaluation and distribute BP5-H1.

### **CLOSING REMARKS/CERTIFICATES**

2. (5 minutes) Course organizers and/or facilitators should give closing remarks and thank the participants for attending.
3. (5 minutes) Award certificates, photos, and wallet frameworks as prepared.
4. (1 minute) Close the workshop.

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### **Trainer Note**

Preparation before class: you may choose to have prepared laminated, wallet-sized framework based on the picture included in BP5-M1.

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# Wallet-sized Business Planning Framework

BUSINESS PLANNING FRAMEWORK	
Strategic Planning	Operational Planning
Mission and Goals	Strategy
Markets = Clients	Product and Service Definition
<b>Environmental Analysis</b> Competition Collaborators Regulatory Factors Other External Issues	<b>Marketing Channels /                      Credit and Savings                      Projections</b>
<b>Institutional                      Assessment</b> Credit & Savings Program Board and Management Human Resources Administration	<b>Institutional Capacity                      and Resources</b> Loan Loss Provisioning Loan Officer Caseload Program-level Expenses Admin-level Expenses
Financing Sources	Financing Strategy
Financial Management	Financial Management
Strategy	<b>Business Planning as                      an Ongoing Tool</b>



# Handouts



# Business Planning for Microfinance Institutions

## Course Evaluation

*(Please use a pen.)*

Please rate by circling one number and comment on the following:

1 = Poor 2 = Fair 3 = Average 4 = Good 5 = Excellent



Content	1	2	3	4	5
Comments:					

Methods	1	2	3	4	5
Comments:					

Length of Course	1	2	3	4	5
Comments:					

Trainers & Support People	1	2	3	4	5
Comments:					

Feedback specifically for \_\_\_\_\_

Feedback specifically for \_\_\_\_\_

Facilities/Logistics during Course	1	2	3	4	5
Comments:					

Precourse Logistics— Organization/Communication/ Travel	1	2	3	4	5
Comments:					

The course would have been more effective if:

Any Other Comments (use additional paper as necessary)

# Case Study



# Case Study

## LEDA

### Case Study Part 1: LEDA History

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

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

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

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

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



# Case Study

## Case Study Part 2: Mission and Goals

### Mission Statement

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

### Goals

What we want to achieve in the next five years:

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



# Case Study

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

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

A study of all existing clients shows that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Case Study

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

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

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

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

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



# Case Study

## Case Study Part 5: Environmental Analysis

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

### Competition:

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

### Collaborators:

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

### Regulatory Factors:

- Financial institutions' policies and practices do not explicitly exclude small and microenterprises, but have been primarily focused on medium and large businesses and on the larger-scale development projects supported by the government.
- Government policies have overlooked the microenterprise sector of the economy, focusing instead on larger-scale "reform" initiatives and major infrastructure programs. In the past two years, under a new minister of finance, interest has been generated in addressing the needs of the informal sector, in particular by providing financial services.

### *Case Study Part 5: Environmental Analysis*

- Recent legislation authorized a new type of legal structure: a “nonbank financial institution” (NBFI). The legislation allows an NBFI to collect savings from its clients and from the general public. The minimum capital requirement is S. 500,000 and NBFIs must keep 25 percent of deposits in reserve. LEDA has applied for NBFI status, which will most likely become effective in the last quarter of 2001.

#### **Macroeconomic Context:**

- The inflation rate has been approximately 10 percent in 2000. In the past three years it has not exceeded 12 percent. Expectations are that inflation will range between 8 percent and 10 percent for the next three to five years.
- Poverty levels are particularly high in the western region of Liberty, where LEDA operates, and especially in the capital city of Agora. Many of LEDA’s current clients are in one of the poorest neighborhoods. In rural areas, subsistence farming provides a minimum livelihood for most families, but not much more.
- The Gross Domestic Product (GDP)—currently S. 500 per capita—has been slowly growing, but is still substantially below the levels required under a 1997 World Bank restructuring program. Economic growth has averaged 2 percent annually over the last five years.
- An increasing percentage of the population, especially low-income families, has been migrating to the cities. Single-parent, woman-headed households are on the rise.

# Case Study

## Case Study Part 6: Institutional Assessment

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

- As identified in the client research, LEDA's current loan product is not adequately responding to client needs.
- Portfolio quality is good but could be stronger, with portfolio at risk at 10.9 percent and defaults at 1.3 percent. LEDA hopes to continue to steadily improve its performance over the next five years and to reach financial sustainability in 2005.
- LEDA's staff is generally competent and dedicated. Twenty-four of 36 staff members are loan officers. However, nine of the loan officers have been with LEDA less than one year. All staff members are well-informed about organizational policies, thanks to a strong emphasis on staff training.
- The executive director has been in place for 18 months and is very highly regarded by both board and staff. Trained as a sociologist, his particular strengths are leadership and development of staff skills. He is a persuasive spokesperson for the institution, but his financial skills are limited.
- LEDA's financial manager is very competent at overseeing operations and managing information, although reports are about one month late. However, he could be stronger at analyzing financial data, drawing conclusions, and making sound recommendations, especially as LEDA converts to an NBF.
- LEDA is audited annually by a reputable firm in compliance with donor requirements. Recent "management letters," while generally praising LEDA's fiscal stewardship, have mentioned the lack of thorough internal control procedures within the growing institution.
- Most program staff members have low salaries, and loan officers are particularly vocal about their limited pay and increasing workload. They are also frustrated by a lack of internal promotion opportunities, and discouraged by the high salaries of the head office staff.
- In general, LEDA has limited contact with other microenterprise institutions. It does, however, have a key board member who was involved with important legislation that authorized the creation of nonbank financial institutions.
- Loans are currently tracked on a simple loan tracking program installed in 1996, but with the increasing client base, the system is getting increasingly difficult to maintain. Staff have researched computerized systems: A local consulting firm has developed a solid system for another MFI that could be adapted to LEDA's needs. The cost is likely to be in the range of S. 50,000 for customization and setup, with an annual maintenance contract of S. 3,000 (at S.250 per month).
- LEDA has personnel policies, an organigram, and operating policies and procedures. However, these materials have not been revised to consistently respond to changes in the growing institution.
- LEDA implements a systematic annual planning process, incorporates its objectives into its monitoring system, and has been reasonably successful at attaining targets, although it did not reach its expansion goals as originally anticipated and has had no long-term plan.

*Case Study Part 6: Institutional Assessment*

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

# Case Study

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

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

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

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

# Case Study

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

### Markets and Clients

#### FINDINGS

##### Brownstown Market:

- 4,200 clients as of 12/00 (60% commerce, 40% production)
- Estimated demand for financial services: 20,000

##### St. Mary:

- 2,800 clients as of 12/00 (60% commerce, 40% production)
- Estimated demand for financial services: 10,000

##### For these existing markets:

- Client retention rate: 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> loans – 70%; subsequent cycles – 50%
- Major findings of client surveys: (1) clients want greater amounts and more flexible terms for loans; (2) clients are interested in expanded savings services

##### East Side:

- Approximately 70% of the entrepreneurs interviewed expressed an interest in market-priced sources of financial services
- Estimated number of businesses/demand for credit: Commerce – 8,000/5,600; Production – 3,000/2,100

##### Loganville:

- Within a 10-mile radius there are approximately 6,000 households, most of which are involved in a wide variety of income-generating activities

##### Mt. Andrew's Valley:

- 60% of the 3,000 households in this isolated valley are involved in small-scale, seasonal activities

##### All areas:

- Strong seasonal demand exists for client products in the months of October through December and lower demand each April through June
- Most adults had participated in rotating credit and savings associations

#### IMPLICATIONS

- New market(s) will be needed in order to have access to more than 23,000 new clients

- Current product should be redesigned to respond better to client needs and to increase retention rate
- Consideration of how to offer savings services is important

- East Side is promising market for expansion

## Environmental Analysis

### FINDINGS

#### Competition:

- 6 other MFIs in country with more than 3,000 clients, of which 2 also operate in Agora
- Both MFIs operating in Agora offer similar products and services, though in different areas of the city, with effective interest rates comparable to those of LEDA's; each has about 5,000 clients
- Commercial banks are paying 8% on passbook savings and an average of 12% on term deposits

#### Collaborators:

- Liberty National Bank provides savings although clients are not satisfied with level of service
- North American NGO (Freedom International) provides periodic technical assistance and training

#### Regulatory Factors:

- New legislation authorizes new legal structure, "nonbank financial institution" (NBFI), allowing collection of savings from clients & other depositors
- LEDA has applied for the NBFI status, expected to become effective in the last quarter of 2001

#### Macroeconomic Context:

- Inflation rate: 10% in 2000; projected to be 8–10% for next 3–5 years

### IMPLICATIONS

- Competition not currently a significant factor, though MFIs operating in Agora should be monitored, especially their choice of markets—if they enter LEDA's markets, competition could be serious
- Review of pricing structure may be appropriate (see below)

- LEDA must learn from experience with LNB in order to provide adequate services
- Current TA needs are being met

- NBFI structure offers opportunity for LEDA to respond to clients' interest in savings, and provide additional source of lending funds

- Inflation stable, but effect should be factored into loan amounts

## Institutional Assessment

### FINDINGS

#### Credit & Savings Program:

- In 2000, portfolio at risk > 30 days has been 10.9%; default rate 1.3%
- LEDA's current loan product not responding to client needs, as evidenced by low retention and client feedback
- Effective interest rate is higher than potential competitors'
- Strong interest by clients in expanded savings services

#### Board/Management Issues:

- Strong, involved board brings useful skills and perspectives although some members are not performing well
- Executive director has strong management and funds mobilization skills, but could improve financial skills (see below)

#### Human Resources:

- Staff has required skills, though significant percentage of field officers are new to LEDA
- Program staff salaries are relatively low; loan officers are especially vocal about increasing workload and limited pay
- Admin staff salaries are high relative to country statistics on comparable jobs

#### Administration:

- Loans tracked on old software program—system increasingly strained

#### Financing:

- Good relationships with commercial and concessional sources
- Strong indications for substantial funding for next 2 years

#### Financial Management:

- LEDA is improving its financial sufficiency and plans to be fully sustainable in 2005
- Financial reports generally not available until one month later than desired
- Executive director and finance manager must strengthen analytic skills

### IMPLICATIONS

- With continued rapid growth, delinquency needs to be controlled
- Need to redesign loan product but likely not necessary to introduce additional products; review pricing structure to lower effective interest rate is important
- NBFBI will respond to client demand for savings services

- Board training and rotation problems must be addressed

- Importance of ongoing staff training
- Review of compensation structure may be needed

- Need to explore new MIS

- Must continue to build on relationships with funders

- Must continue to monitor profitability
- Financial management training must be provided to senior staff



# Case Study

## Case Study Part 9: ASSIGNMENT – Strategy

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

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

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

**Activities:**

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

Objective B:

**Activities:**

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

Objective A:

**Activities:**

Objective B:

**Activities:**

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

Objective A:

**Activities:**

Objective B:

**Activities:**

# Case Study

## Case Study Part 10: Strategy and Operational Plan

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

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

Our credit product will be redesigned to meet the needs of repeat clients, with the aim of increasing client retention. We will become a nonbank financial institution (NBFI) by the end of 2001 and will begin mobilizing savings from our clients. Ongoing staff training, a review of staff compensation levels, and MIS development will also be pursued.

By the end of the year 2005, we aim to have at least 20,000 active clients and to be fully profitable after adjustments for subsidies.”

### Objectives and Activities

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

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

**Activities:**

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

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

**Activities:**

- Complete transformation to NBFI effective by end of FY 2001
- Develop savings product parameters for passbook savings and term deposits
- Train staff to implement program
- Educate clients about pending savings services

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

Objective A: Expand market penetration in Brownstown Market and St. Mary areas, and open new branch in East Side

**Activities:**

- Market redesigned product in current market areas
- Open a new branch in East Side late in FY 2001

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

Objective A: Achieve financial self-sufficiency

**Activities:**

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

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

**Activities:**

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

Objective C: Increase institutional capacity to meet expansion goals

**Activities:**

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

Objective D: Increase capacity to effectively and efficiently track portfolio information

**Activities:**

- Continue research on new MIS: develop detailed user specifications; select loan tracking system; install new system in 1<sup>st</sup> quarter of 2001